

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX CORPORATE FRANCHISE TAX Lifelong Learning Accounts Credit

April 14, 2008

Preliminary Analysis

Department of Revenue
Analysis of H.F. 2779 (Paulsen), 1st Engrossment

	Yes	No
DOR Administrative Costs/Savings	X	

Fund Impact

<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
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(000's)

General Fund

----- (Unknown) -----

Effective beginning with tax year 2008.

EXPLANATION OF THE BILL

The bill establishes a new “Lifelong Learning Account” program. Lifelong learning accounts may be established on behalf of any employee in the state. Money deposited into individual lifelong learning accounts may be used only to pay qualifying education expenses (as defined in Section 529 of the Internal Revenue Code) incurred by or on behalf of the account owner. The Department of Employment and Economic Development (DEED) would be responsible for encouraging lower-income and lower-skilled healthcare, hospitality, and technology industry workers to participate in the program. DEED would also be responsible for encouraging the establishment of lifelong learning accounts in diverse geographic and economic areas. Employees who contribute to their own individual account and employers who make matching contributions are eligible for tax credits.

Employees who contribute to an individual account would be eligible for a refundable tax credit equal to 50% of the contributions made during the tax year. The maximum credit is \$1,000 for a married couple filing a joint return and \$500 for all other returns. Amounts funded with matching payments by employers do not qualify for this credit. An individual who is claimed as a dependent or qualifying child on someone else's tax return is not eligible for the credit.

An employer may claim a tax credit equal to matching payments made to an individual lifetime learning account for an employee. The maximum tax credit is limited to \$500 per year for each employee on whose behalf qualified matching contributions are made. If the amount of the credit exceeds the employer's tax liability, the excess may be carried over for 15 years.

An individual making a nonqualified withdrawal from a lifelong learning account is subject to a tax equal to the greater of 25% of the withdrawal or the tax credit claimed on contributions. A nonqualified withdrawal is any withdrawal that is not used to pay for qualified higher education expenses or contributed to another lifelong learning account within 60 days.

REVENUE ANALYSIS DETAIL

- Nationally, there are several local/regional and industry-specific lifelong learning account pilot programs in operation, but no statewide programs have been implemented.
- According to the Council for Adult and Experiential Learning (CAEL), in 2006, the active participant savings rate averaged about \$25 per month with a one-to-one employer or third party match. In 2006, when the employer or third party match was three-to-one, the average employee contributions were \$39.75 per month
- According to the U.S. Department of Labor, Bureau of Labor Statistics, 49% of all workers had access to work related education assistance programs in 2006.
- Presumably this program is intended to encourage workers who are not currently enrolled in qualifying education programs to seek out opportunities for additional education and/or retraining. The Minnesota State Demographic Center estimates that the number of Minnesotans between the ages of 25 and 64 in the workforce in 2010 will be 2,489,810. Demographic Center data projected that 2,335,390 Minnesotans between the ages of 25 and 64 were in the workforce in 2005. In 2006, 160,566 individuals over the age of 25 were enrolled in post-secondary educational institutions in Minnesota according to the Minnesota Office of Higher Education; this is roughly 7% of the projected workforce.
- The revenue impact of the credits would depend upon the extent to which eligible employers and employees participated in the program. At this time, there is not sufficient information available on which to base an estimate of what the participation would be.

Number of Taxpayers: Unknown

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy