

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Universal Tuition Credit

March 8, 2007

Department of Revenue
Analysis S.F. 195 (Ortman) / H. F. 704 (Kohls)

	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>
		(000's)		
General Fund	(\$376,250)	\$0	\$0	\$0

Effective for tax year 2006 only.

EXPLANATION OF THE BILL

The bill would allow a refundable income tax credit equal to qualified education expenses, up to a maximum of \$1,000 per eligible beneficiary. Qualified beneficiaries include the taxpayer, the taxpayer's spouse, and the taxpayer's dependent child. Qualified education expenses include fees paid to a Minnesota public school for all-day kindergarten, tuition paid to an elementary or secondary school in Minnesota, and tuition paid to an eligible postsecondary institution. Eligible postsecondary institutions include those in Minnesota and in states with which Minnesota has tuition reciprocity agreements. The full credit is allowed for students attending the eligible schools, with no apportionment for nonresidents.

REVENUE ANALYSIS DETAIL

- According to the Minnesota Department of Education, during 2006 there were an estimated 4,707 students enrolled in all-day everyday kindergarten programs at public schools for which their families pay an additional fee.
- According to 2000 Census data, there were 98,360 students enrolled in private elementary and secondary schools in Minnesota in 2000. This number was adjusted for 2006 to reflect declining enrollment rates reported by the Minnesota State Demographic Center.
- According to the Minnesota Office of Higher Education (OHE), there were 364,905 students enrolled in undergraduate and graduate programs in the state in 2005. This number was adjusted for 2006 to reflect increasing enrollment. Because the credit is not apportioned for nonresidents, it was assumed that all students attending postsecondary institutions in Minnesota would be eligible for the credit.
- Of the total, 78% of these students were undergraduates and 22% were graduate students. Of the undergraduates, 67% attend school full-time and 33% attend school part-time. Of the graduate students, 54% attend school full-time and 46% attend school part-time.

REVENUE ANALYSIS DETAIL (Continued)

- According to OHE, there were 23,152 Minnesota residents enrolled in public postsecondary schools in other states qualifying for tuition reciprocity in 2005. Also according to OHE, in 2004 there were 533 Minnesota residents who attended private postsecondary institutions in these states. The numbers were adjusted for 2006 to reflect increased enrollment. (**Note:** As written, the bill would also allow the refundable credit for all students attending these schools in other states, but that was not included in the estimate.)
- All estimates were adjusted to account for students that would not be eligible for the full \$1000 credit.
- Because the credit is retroactive to tax year 2006, it is assumed that refunds would be paid in fiscal year 2008.

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