MINNESOTA · REVENUE

INDIVIDUAL INCOME TAX
CORPORATE FRANCHISE TAX
Equity and Opportunity in Education Tax Credit

March 19, 2008

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 2951 (Larson)/ H.F. 3586 (Thissen)

	Fund Impact			
	F.Y. 2008	**F.Y. 2009**	**F.Y. 2010**	**F.Y. 2011**
		(000's)		
Credit	$0	($9,000)	($10,000)	($10,000)
Add-Back to Taxable Income	$0	$270	$300	$300
General Fund Net Impact	$0	($8,730)	($9,700)	($9,700)

Effective for taxable years beginning after December 31, 2007, and before January 1, 2013.

EXPLANATION OF THE BILL

Current Law: Under current law, there is no provision for an "Equity and Opportunity in Education Tax Credit."

Proposed Law: A new nonrefundable credit called the "Equity and Opportunity in Education Tax Credit" would be established. An individual or corporation would be allowed a credit against the individual income tax or corporate franchise tax due. The amount of the credit would be equal to the amount donated to a "qualified foundation" as defined. The maximum credit would be $10,000 for individual filers, $20,000 for married filing joint filers, and $100,000 for corporate filers. In addition, the proposal limits the total statewide credit available for any taxable year to $10,000,000. In order to receive the credit, the taxpayer must apply to the Commissioner of Revenue for an "equity and opportunity in education tax credit certificate." These certificates would be issued by the commissioner on a first-come, first-served basis. Because donations such as these are already deductible on federal income tax returns for both individuals and corporations, the amount deducted, if attributable to donations made to a qualified foundation, would have to be added to federal taxable income on the Minnesota return. The federal deductibility of the donation coupled with the Minnesota credit of 100% of the donation could result in the taxpayer coming out financially ahead by making a donation as compared to not making a donation.

In addition to the tax provisions, the proposal mentions several responsibilities that must be met by the Commissioner of Revenue. Among those are the requirements that the commissioner develop certain standardized forms, publish on the department's website information about qualified foundations, and deny foundations the right to participate for failure to comply with the requirements spelled out in the proposal.

EXPLANATION OF THE BILL (Continued)

The proposal also mentions several responsibilities that must be met by qualified foundations. These include having a section 501(c)(3) designation from the I.R.S, notifying the commissioner of its intent to participate in the program, providing receipts to contributors, and numerous other responsibilities that demonstrate the foundations' qualifications to participate in the program.

Several terms are defined in the proposal:

- An "eligible student" must be a Minnesota resident and come from a household whose income is no greater than two times the federal poverty guideline. (The 2008 federal poverty guideline for a family of four is $21,200.)
- A "qualified school" must be operated in Minnesota and must have at least 15% of its enrollment be eligible students.
- A "qualified grant" is a grant from a qualified foundation made to either (1) a qualified school, (2) the parents or guardians of an eligible student, or (3) a program in support of a qualified school's educational mission.

REVENUE ANALYSIS DETAIL

- A somewhat similar program has been in place in Pennsylvania since 2001. In the Pennsylvania program, which is for corporations, the credit is equal to 75% of the donation, except that the credit is equal to 90% of the donation if the donation is made for two consecutive years. Since the inception of the program, the Pennsylvania legislature has increased the annual appropriation from $30,000,000 to $75,000,000 which was put in place in July of 2007. The maximum corporate credit was increased from $100,000 to $200,000.
- In light of the success of the Pennsylvania program and the possibility of a taxpayer coming out financially ahead by making a donation, it is likely that the taxpayers will take full advantage of this new nonrefundable education credit. The one thing that could delay the time at which the full $10,000,000 credit would be used is the time it would take to implement all of the requirements of the proposal. For purposes of this analysis, it was assumed that the participation rate would be 90% for the first year and 100% thereafter.
- Due to the requirement that federal taxable income be increased by the amount of the credit, the impact of the proposal was reduced by 3%. The 3% assumes 80% of the credit would be claimed by corporations and 20% by individuals. For the corporate tax, an average apportionment factor of 20% is assumed before application of the 9.8% rate. The average individual tax rate is about 7%.
- Tax year impact was allocated to the following fiscal year.

Number of Taxpayers: Unknown.

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