

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX CORPORATE FRANCHISE TAX Education Donation Credit

March 16, 2011

Preliminary Estimates

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 641 (Senjem) / H.F. 1059 (Loon)

	Fund Impact			
	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>
	(000's)			
Credit	(\$63,500)	(\$88,500)	(\$116,800)	(\$123,200)
Addition to Taxable Income	<u>\$5,000</u>	<u>\$7,000</u>	<u>\$9,200</u>	<u>\$9,700</u>
General Fund Net Impact	(\$58,500)	(\$81,500)	(\$107,600)	(\$113,500)

Effective for taxable years beginning after December 31, 2010.

EXPLANATION OF THE BILL

This bill would allow taxpayers to claim a credit against the individual income tax or corporate franchise tax for a donation made to a qualifying education foundation for “equity and opportunity in education” grants. The credit is equal to 80% of the amount donated.

The maximum annual credit is \$20,000 for married-joint filers, \$10,000 for other individual filers, and \$100,000 for corporations.

A taxpayer must apply to the Commissioner of Revenue for an equity and opportunity in education tax credit certificate.

In order to be eligible for a grant, a student must be a member of a household whose total annual income during the year does not exceed one and a half times the income standard used to qualify for a reduced price meal under the National School Lunch Program. The income limit is 185% of the federal poverty level, or \$40,793 for a family of four during the 2009 – 2010 school year. One and a half times this level would be \$61,190 for a family of four.

The bill specifies the qualifications and responsibilities for an eligible foundation and the qualifications for students and schools to receive an equity and opportunity in education grant.

For the purposes of filing Minnesota taxes, the taxpayer is required to add back to their federal taxable income the amount deducted federally for their donation to a qualified foundation for which the credit is received.

REVENUE ANALYSIS DETAIL

- Arizona has a similar credit in which individuals are allowed a 100% credit up to \$1,000. The 100% credit is also available to corporations, but it is subject to a \$14.4 million limit on total donations.
- The basis for this analysis is data from the Arizona Department of Revenue for fiscal year 2009. In fiscal year 2009 Arizona reported \$50,853,086 in donations from 73,391 individuals and \$10,494,506 in donations from 98 corporations.
- Minnesota's population is 80% of Arizona's population. This ratio is used to scale the number of individuals who would participate in the program.
- Minnesota's per capita personal income is 126% of Arizona's per capita incomes. This ratio is used to scale the average individual donation. Due to differences in the maximum credit allowed between current Arizona law and the bill, the average individual donation amount was then doubled to estimate Minnesota individual donations.
- In Arizona, corporate donations are 21% of individual donations. This ratio is applied to the estimated Minnesota individual donations. Due to differences between current Arizona law and the bill, the result was increased by 50% to estimate Minnesota corporate donations.
- The amount deducted federally for the donation must be added to taxable income. For the corporate tax, an average apportionment factor of 20% is assumed before application of the 9.8% tax rate. A marginal individual rate of 7% is assumed.
- Growth in personal income from the February 2011 GII forecast is used to calculate the yearly change in donations.
- Tax year impact was allocated to the following fiscal year.
- This estimate assumes that the program will not reach full implementation and participation until fiscal year 2014. Therefore, the estimate for fiscal year 2012 is reduced by 40% and the estimate for fiscal year 2013 is reduced by 20%.

Number of Taxpayers: An estimated 60,000 individual filers and 150 corporate filers.

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