



**INDIVIDUAL INCOME TAX
Education Credit and Subtraction
For Pre-Kindergarten**

March 4, 2019

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 1573 (Anderson, P.)

	Fund Impact			
	F.Y. 2020	F.Y. 2021	F.Y. 2022	F.Y. 2023
	(000's)			
Pre-Kindergarten Credit	(\$2,200)	(\$2,200)	(\$2,200)	(\$2,200)
Pre-Kindergarten Subtraction	(\$1,800)	(\$1,800)	(\$1,800)	(\$1,800)
General Fund Total	(\$4,000)	(\$4,000)	(\$4,000)	(\$4,000)

Effective beginning tax year 2019.

EXPLANATION OF THE BILL

Current Law: The Minnesota education expense subtraction and credit apply to qualifying children in kindergarten through 12th grade only. Private school tuition is a qualifying expense for the subtraction, but does not qualify for the credit.

Proposed Law: The proposal would allow expenses incurred in prekindergarten educational programs, including fees charged for enrollment, to qualify for both the education subtraction and credit. Such programs include (1) those run by school districts, (2) preschools, nursery schools and early childhood development programs licensed by the Department of Human Services and holding current accreditation, (3) Montessori programs, and (4) child care programs provided by family day care providers as long as the provider holds a current early childhood development credential approved by the Commissioner of Human Services. Expenses used to claim the dependent care credit could not be used to claim the education subtraction or credit.

REVENUE ANALYSIS DETAIL

- K-12 education credits totaled \$10.8 million on 42,300 returns in tax year 2017. Subtractions for education expenses totaled \$239.4 million on 206,500 returns.
- Data from Minnesota tax returns and the U.S. Census Bureau is the basis for this analysis.
- It was assumed that filers with dependents aged 3 to 4 would have eligible prekindergarten expenses.
- There are about 69,500 children between the ages of 3 and 4 enrolled in school of some kind in Minnesota, based on 2017 estimates from the Census Bureau. There are about 916,100 children age 5 to 17 enrolled in school.
- The proposal would increase the number of children eligible for the credit and subtraction by about 8%.

REVENUE ANALYSIS DETAIL (Cont.)

- The cost of pre-kindergarten programs varies widely, but most eligible taxpayers are assumed to receive the maximum subtraction or credit. Assuming that most taxpayers have one eligible child of pre-kindergarten age, the average subtraction would be \$1,625 and the average credit would be \$1,000. Taxpayers in the income phase-out range would receive an average credit of \$500.
- A marginal tax rate of 7% was used to estimate the fiscal impact of the subtraction.
- No growth is assumed since the K-12 credit and subtraction have not grown over the past five years.
- Tax year impacts were allocated to the following fiscal year.

Number of Taxpayers: About 3,200 additional taxpayers would be eligible for the credit and 15,700 additional taxpayers would be eligible for the subtraction in tax year 2019.

Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx