



**INDIVIDUAL INCOME TAX  
CORPORATE FRANCHISE TAX  
K-12 Scholarship Donation Credit**

June 16, 2020

	<b>Yes</b>	<b>No</b>
<b>DOR Administrative Costs/Savings</b>	X	

Department of Revenue  
Analysis of S.F. 13 (Chamberlain), 1<sup>st</sup> Special Session

	<b>Fund Impact</b>			
	<u><b>F.Y. 2020</b></u>	<u><b>F.Y. 2021</b></u>	<u><b>F.Y. 2022</b></u>	<u><b>F.Y. 2023</b></u>
	(000's)			
Equity and Opportunity in Education Credit				
Individual Income Tax	\$0	\$0	(\$20,100)	(\$20,100)
Corporate Franchise Tax	<u>\$0</u>	<u>(\$1,900)</u>	<u>(\$6,400)</u>	<u>(\$6,400)</u>
Total	\$0	(\$1,900)	(\$26,500)	(\$26,500)
Equity and Opportunity Credit Addback				
Individual Income Tax	\$0	\$0	\$1,500	\$1,500
Corporate Franchise Tax	<u>\$0</u>	<u>\$0</u>	<u>\$100</u>	<u>\$100</u>
Total	\$0	\$0	\$1,600	\$1,600
General Fund Total	\$0	(\$1,900)	(\$24,900)	(\$24,900)

Effective beginning with tax year 2021.

**EXPLANATION OF THE BILL**

The bill allows taxpayers to claim a credit against the individual income tax or corporate franchise tax equal to 70% of the amount donated to a “qualified foundation” or a “qualified public school foundation.” A qualified foundation is a 501(c)(3) charitable organization formed for the primary purpose of providing scholarships for tuition or transportation to qualified nonpublic schools, among other requirements. A qualified public school foundation is a foundation formed for the purpose of supporting public schools or school districts in Minnesota where at least 30% of students qualify for reduced price lunches. In either case, the foundation must be approved by the Commissioner of Revenue and must meet other criteria.

The bill caps the total credits at \$26.5 million per year. To receive the credit, a taxpayer must apply to the Commissioner of Revenue for a tax credit certificate. The certificates are to be made available on a first-come, first served basis.

The maximum credit per tax year is:

- \$21,000 for married joint filers for a donation of \$30,000
- \$10,500 for other individual filers for a donation of \$15,000
- \$105,000 for corporate filers for a donation of \$150,000.

The credit is nonrefundable but may be carried forward for up to five years.

A qualified foundation or public school foundation may award scholarships to eligible students to pay tuition or transportation to a qualified school. Eligible students include students in households whose annual income is not more than twice the income standard for reduced lunches under the National School Lunch Program (\$96,940 for a family of four in the 2020-21 school year).

A student with a disability is also eligible if the student also meets one of the following criteria: attended a school in the semester preceding receipt of a qualified scholarship, is younger than seven years of age and not enrolled in kindergarten or first grade in the preceding semester, has previously received a qualified scholarship, or has lived in Minnesota for less than a year.

Since a taxpayer may claim a federal deduction for contributions to a qualified foundation or qualified public school foundation, the amount of the donation must be added back to the taxpayer's federal taxable income on the taxpayer's Minnesota income or corporate franchise tax return.

## **REVENUE ANALYSIS DETAIL**

- Arizona allows a similar credit against its individual income tax, corporate income tax, and insurance premium tax. The credit is equal to 100% of the amount of the donation up to a maximum amount. For calendar years 2015 through 2017, the Arizona Department of Revenue reported an average of \$66.9 million in donations from 94,200 individuals and \$21.5 million in donations from 61 corporations.
- Based on the number of credits in Arizona, after adjusting for population size, per capita income, and other factors, it is expected that the demand for the proposed credit will exceed the maximum of \$26.5 million per year.
- The amount deducted federally for the donation must be added back to Minnesota taxable income. For the corporate tax, an average apportionment factor of 20% is assumed before application of the 9.8% tax rate. For individuals, a marginal rate of 7.5% is assumed.
- Growth in personal income from the April 2020 IHS Markit forecast is used to calculate the yearly change in donations.
- For individual income tax credits, tax year impact was allocated to the following fiscal year. For corporate franchise tax credits, tax year impact was allocated 30/70 to fiscal years.

**Number of Taxpayers:** Unknown.

Minnesota Department of Revenue  
Tax Research Division  
[https://www.revenue.state.mn.us/  
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