

February 15, 2021

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of S.F. 570 (Eichorn), As Proposed to be Amended (SCS0570A-1)

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
	(000's)			
K-12 Education Credit	(\$9,500)	(\$9,700)	(\$9,900)	(\$10,200)
Reduced Education Subtraction	<u>\$800</u>	<u>\$800</u>	<u>\$800</u>	<u>\$800</u>
General Fund Total	(\$8,700)	(\$8,900)	(\$9,100)	(\$9,400)

Effective beginning in tax year 2021.

EXPLANATION OF THE BILL

Current Law: A taxpayer is allowed a refundable income tax credit equal to 75% of eligible education expenses for a qualifying child in kindergarten through 12th grade. The maximum credit is \$1,000 for each child. Eligible expenses include fees for instruction outside the regular school day or school year, expenses for textbooks or instructional materials, and transportation costs paid to others. Tuition is not an eligible expense.

The maximum credit is phased out beginning at household income of \$33,500. For taxpayers with one child, the maximum credit is reduced by one dollar for every four dollars of household income over \$33,500. For taxpayers with two or more children, the maximum credit is reduced by two dollars for every four dollars of household income over \$33,500. The phase-out range is increased by \$2,000 for each additional child. The income thresholds are not indexed for inflation. Household income includes income from all sources, both taxable and nontaxable.

Proposed Law: The bill would phase out the credit based on adjusted gross income over: 1) The current thresholds or 2) the income eligibility guidelines for the federal reduced school lunch program as of July 1 of the tax year, whichever is greater. The income guideline for reduced-price lunches is 185 percent of the federal poverty guidelines, which are based on family size and adjusted annually for inflation. For the 2020-21 school year, the income eligibility guideline for a family of four is \$56,758. It is increased by \$8,288 for each additional family member. In determining the credit, a household would include the taxpayer (and spouse for married joint returns) plus any dependents, as defined in the Internal Revenue Code.

The current definition of household income is repealed.

REVENUE ANALYSIS DETAIL

- The estimate is based on a sample of 2018 income tax returns.
- If in effect in tax year 2018, the bill would increase total K-12 education credits by about \$9.0 million. The average credit would increase from \$284 to about \$368.

REVENUE ANALYSIS DETAIL (Cont.)

- About 15,900 returns would newly qualify for the credit, and 800 returns would receive an increased credit.
- The education subtraction was reduced by the amount of expenses which would now qualify for the K-12 education credit.
- A marginal rate of 6% was applied to the reduced subtractions.
- Consumer price index projections from IHS Markit's November 2020 forecast were used to project credit growth.
- Tax year impacts were allocated to the following fiscal year.

Number of Taxpayers: Around 16,700 returns would be newly eligible or receive an increased credit.

Minnesota Department of Revenue
Tax Research Division
[https://www.revenue.state.mn.us/
revenue-analyses](https://www.revenue.state.mn.us/revenue-analyses)