

March 10, 2021

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 1317 (Keeler) / S.F. 1577 (Kunesh)

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
		(000's)		
General Fund	(\$1,300)	(\$1,300)	(\$1,300)	(\$1,400)

Effective beginning with tax year 2021.

EXPLANATION OF THE BILL

Current Law: Under federal law, a deduction is allowed for educator expenses incurred by K-12 educators for classroom materials. The deduction is limited to \$500 for married joint returns where both spouses are eligible educators and \$250 for all other filers.

Proposed Law: The bill would create a refundable credit for Pre-K and K-12 educators who have expenses for classroom materials. A Pre-K educator is an individual who works in a school, Head Start program, or licensed child-care center who works with children older than 3 but not in kindergarten.

The credit is equal to 25% of a taxpayer’s eligible education expenses and is reduced by 3% of adjusted gross income over the phase-out threshold. The threshold is \$80,000 for married joint filers and \$40,000 for all other filers. The phase-out thresholds are not indexed for inflation.

The maximum credit is \$250, or \$500 for married joint filers where both spouses are eligible educators. The credit is apportioned to part-year residents based on the percentage of their income attributed to Minnesota.

REVENUE ANALYSIS DETAIL

- The estimate is based on a stratified random sample of tax year 2018 income tax returns.
- In 2018, about \$14.9 million in deductions were claimed across 58,000 returns for the federal educator expense deduction.
- Data from the Economic Policy Institute found that the average teacher in Minnesota spent about \$375 of their own money on classroom supplies during the 2011-2012 school year, indexed to tax year 2018 dollars.
- Returns claiming the maximum deduction were assumed to have \$375 of expenses. If both spouses claimed the maximum subtraction, expenses were assumed to be \$700.
- The estimate was increased by 5% to account for Pre-K educators. This is based on the percent of Pre-K educators from the Minnesota Education Statistics Summary published by the Minnesota Department of Education in 2019, increased to account for child care centers and non-public school teachers.

REVENUE ANALYSIS DETAIL (Cont.)

- A growth rate of 2% was assumed based on inflation and the growth rate of teachers in Minnesota between 2011 and 2020.
- Tax year impacts are allocated to the following fiscal year.

Number of Taxpayers: About 14,500 returns would be eligible for the credit in 2021. The average credit would be approximately \$90.

Minnesota Department of Revenue
Tax Research Division
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hf1317(sf1577)_1 Educator Expense Credit / ct