

March 6, 2024

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of S.F. 3473 (Kunesh) As Proposed to be Amended (SCS3473A-2)

	Fund Impact			
	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>
			(000's)	
General Fund	\$0	(\$18,400)	(\$18,400)	(\$18,400)

Effective beginning with tax year 2024.

EXPLANATION OF THE BILL

Current Law: A federal deduction is allowed for certain classroom expenses of elementary and secondary school teachers. An eligible educator includes a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during a school year.

The maximum deduction is \$300 in tax year 2024, adjusted annually for inflation. It is an “above-the-line” deduction, meaning that it is an adjustment to adjusted gross income. A taxpayer does not have to itemize deductions to claim the deduction.

Proposed Law: The bill would create a refundable income tax credit for an eligible educator with expenses that qualify for the federal deduction, regardless of whether the taxpayer claimed the deduction. The maximum credit is \$300 (\$600 in the case of a married joint return if both spouses are eligible educators). Those amounts would not be adjusted for inflation.

An “eligible educator” includes an educator who qualifies for the federal deduction or an eligible pre-kindergarten teacher, defined as an individual whose primary job is working directly with children over the age of three and not yet enrolled in kindergarten, who is an employee of a school, Head Start program, or a licensed childcare center.

For nonresidents and part-year residents, the credit would be allocated based on the share of the taxpayer’s income that is taxable to Minnesota.

REVENUE ANALYSIS DETAIL

- The estimate is based on information from tax returns that claimed the educator expense deduction in 2018 through 2021.
- About 56,100 full-year residents are expected to qualify for the credit, based on the average federal deductions claimed in tax years 2018 through 2021.
- An additional 3,000 nonresidents and part-year residents are expected to qualify. They are assumed to receive a 50% credit on average.

REVENUE ANALYSIS DETAIL (Cont.)

- The estimate was increased by 8% to account for pre-kindergarten educators. About 3,900 pre-kindergarten educators are expected to qualify.
- No growth is assumed since there is no clear trend in the number of educator expense deductions since 2018.
- Tax year impacts were allocated to the following fiscal year.

Number of Taxpayers: About 63,000 educators would receive the credit in 2024.

Minnesota Department of Revenue
Tax Research Division
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sf3473(hf4016) educator expense credit / mas