

March 12, 2024

| | | |
|----------------------------------|------------|-----------|
| | Yes | No |
| DOR Administrative Costs/Savings | | X |

Department of Revenue
Analysis of S.F. 4552 (Dornink)

| | 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 | (\$1,800) | (\$1,800) | (\$1,800) |

Effective beginning with tax year 2024.

EXPLANATION OF THE BILL

Current Law: Taxpayers are permitted an income tax credit equivalent to 75% of eligible educational expenses for a qualifying dependent in kindergarten through 12th grade; the maximum credit is \$1,500 for each qualifying child. The maximum credit is phased out beginning at adjusted gross income of \$73,760 in 2024. The threshold is adjusted annually for inflation.

For taxpayers with one child, the maximum credit is reduced by one dollar for every four dollars of adjusted gross income over \$73,760. For taxpayers with two or more children, the maximum credit is reduced by two dollars for every four dollars of adjusted gross income over \$73,760. The phase-out threshold is increased by \$3,000 for each additional child.

Proposed Law: The bill will expand the credit to include expenses related to career and technical education programs. Eligible expenses include expenses for participation in a student organization that is a component of the program curriculum, and equipment that is required for participation in the program. The bill also broadens the definition of transportation expenses to include transportation outside regular school hours that are directly related to the qualifying child's participation in the program.

REVENUE ANALYSIS DETAIL

- The estimate is based on the Perkins V State Performance Report, published January 23, 2024 by the Minnesota Department of Education, and information from individual income tax returns.
- According to the Perkins V State Performance Report, there were approximately 203,050 children enrolled in a career and technical education (CTE) program in 2023.
- An estimated 10.25% of school-aged dependents will be eligible for the current education credit in tax year 2023. This estimate assumes that 5% of children enrolled in a CTE program would be eligible for the expanded credit under the bill.
- The average K-12 education credit is about \$173 per child in tax year 2023. It is assumed that the average credit would be \$173 for each newly eligible child enrolled in a CTE program. An average of one eligible child per return is assumed.

REVENUE ANALYSIS DETAIL (Cont.)

- Projected growth is estimated at 1.42% per year, based on the average growth in the number of children enrolled in CTE programs between 2021-2023.
- Tax year impacts were allocated to the following fiscal year.

Number of Taxpayers: About 10,300 returns would have an average credit of \$173 in tax year 2024.

Minnesota Department of Revenue
Tax Research Division
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sf4552 education credit expansion / mas ct