Senate Counsel, Research, and Fiscal Analysis

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Senate

State of Minnesota

TO: Members of the Senate Tax Committee

FROM: Jo Anne Zoff Sellner, Senate Counsel (651/296-3803) JZS

DATE: April 20, 2005

RE: Bills to be Heard April 20, 2005

S.F. No. 584 (Olson)

This bill allows a credit against income tax equal to 75 percent of the amount contributed to a school tuition organization. The maximum credit for any taxable year is the lesser of $1,000 or the taxpayer's tax liability for that year. A "school tuition organization" is defined to mean a charitable nonprofit 501(c)(3) organization that provides tuition assistance to low-income students in kindergarten through grade 12. The organization must be certified by the Commissioner of Education as meeting the criteria, and the commissioner is required to maintain a list of school tuition organizations that would qualify. The organization must allocate at least 85 percent of its annual revenue for education scholarships or tuition grants to children to allow them to attend any qualified school of their parent's choice. The scholarships or grants may be given only to students from families with incomes that are less than the statewide median family income for their family size. The organization may not restrict the availability of scholarships or grants to students of a particular school, and it may not charge a fee to students or parents in order to be considered for a scholarship or grant. "Qualified school" is defined to mean a kindergarten, elementary, or secondary school in which the students will fulfill the state's compulsory attendance law, and that is not operated for profit. Taxpayers are not allowed to claim deductions or exemptions for the contributions for which a credit is claimed.

S.F. No. 1175 (Moua)

This bill increases from 50 percent to 100 percent the amount of the charitable contributions over $500 that are deductible for nonitemizers. The bill also provides that the full amount of the charitable contribution deduction is excluded from the alternative minium taxable income.

S.F. No. 1382 (Pappas)

This bill provides an income tax credit equal to 30 percent of the expense incurred by a taxpayer for payment of tuition and fees for postsecondary education for qualifying employees. Qualifying employees include employees who worked at least 30 hours per week at a pay rate of less than $12.00 per hour. Postsecondary education means programs for which payment qualifies as education assistance under the Internal Revenue Code, but does not include programs leading to a law, business, medical, or other advanced academic or professional degree.

S.F. No. 1888 (Pappas)

This bill provides an income tax credit equal to the amount of qualified higher education expenses for an eligible student. The maximum credit is $500 for each of the first two years of the student's postsecondary education. Eligible student includes the taxpayer, spouse, or dependent of the taxpayer. The student must be a resident of Minnesota, a graduate of a Minnesota high school, or a recipient of a Minnesota GED in 2005 or later, and an enrolled full-time student in an eligible Minnesota postsecondary institution. Qualifying higher education expenses means tuition and fees paid during the taxable year to an eligible institution by a taxpayer on behalf of an eligible student for the student's first two years of postsecondary education, reduced by refunds of tuition and fees received from the institution, and the amount of any Hope Scholarship Credit or Lifetime Learning Credit received by the student for the same year. The amount of the credit is phased out according to the income of the taxpayer. For single taxpayers, the credit is reduced by ten percent for every $500 by which the taxpayer's federal adjusted gross income exceeds $25,000. For married taxpayers, it is reduced by ten percent for every $1,000 by which the taxpayer's federal adjust gross income exceeds $50,000. If the amount of the credit exceeds the taxpayer's tax liability, the excess is refundable.

S.F. No. 558 (Ortman)

This bill extends the education tax credit to include tuition expenses for a child attending an elementary or secondary school in Minnesota or the surrounding states. The bill also modifies the income limitations that apply to the credit. Under current law, the credit begins to phase out at $33,500 and is eliminated for incomes that exceed $37,500. The maximum credit under current law is $1,000 per qualifying child and $2,000 per family. This bill maintains the $1,000 per qualifying child limit, but eliminates the per family limit and modifies the income limitation by beginning the phase out at a level equal to 250 percent of the federal poverty guidelines.

S.F. No. 516 (Sams)
S.F. No. 1247 (Ortman)

These bills provide a dairy investment credit for amounts expended for expenses incurred for qualifying investments in dairy operations. Qualifying expenditures are defined to mean expenses incurred for acquisition, construction, or improvement of buildings or facilities, or the acquisition of equipment used for dairy animal housing, confinement, feeding, milk production, and waste management. For qualifying expenditures up to $500,000 the credit is equal to ten percent of the expenditures. The percentage of the applicable credit is reduced by one percent for each additional $100,000 of expenditures, so that for expenditures between $900,000 and $1,000,000, the credit is $74,000 plus one percent of the amount of qualifying expenditures between $900,000 and $1,000,000. For investments of $1,000,000 or more, the credit is $75,000. If the credit exceeds the taxpayer's tax liability, the excess may be carried to each of the 15 succeeding taxable years.

JZS:dv

Agenda #1

Senators Olson, Kierlin and Neuville introduced--

S.F. No. 584: Referred to the Committee on Taxes.

A bill for an act

relating to taxation; income; allowing a credit for contributions to school tuition organizations; amending Minnesota Statutes 2004, section 290.01, subdivisions 19a, 19b; proposing coding for new law in Minnesota Statutes, chapter 290.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2004, section 290.01, subdivision 19a, is amended to read:

Subd. 19a. [ADDITIONS TO FEDERAL TAXABLE INCOME.] For individuals, estates, and trusts, there shall be added to federal taxable income:

(1)(i) interest income on obligations of any state other than Minnesota or a political or governmental subdivision, municipality, or governmental agency or instrumentality of any state other than Minnesota exempt from federal income taxes under the Internal Revenue Code or any other federal statute; and

(ii) exempt-interest dividends as defined in section 852(b)(5) of the Internal Revenue Code, except the portion of the exempt-interest dividends derived from interest income on obligations of the state of Minnesota or its political or governmental subdivisions, municipalities, governmental agencies or instrumentalities, but only if the portion of the exempt-interest dividends from such Minnesota sources paid to all shareholders represents 95 percent or more of the exempt-interest dividends that are paid by the regulated investment company as defined in section 851(a) of the Internal Revenue Code, or the fund of the regulated investment company as defined in section 851(g) of the Internal Revenue Code, making the payment; and

(iii) for the purposes of items (i) and (ii), interest on obligations of an Indian tribal government described in section 7871(c) of the Internal Revenue Code shall be treated as interest income on obligations of the state in which the tribe is located;

(2) the amount of income taxes paid or accrued within the taxable year under this chapter and income taxes paid to any other state or to any province or territory of Canada, to the extent allowed as a deduction under section 63(d) of the Internal Revenue Code, but the addition may not be more than the amount by which the itemized deductions as allowed under section 63(d) of the Internal Revenue Code exceeds the amount of the standard deduction as defined in section 63(c) of the Internal Revenue Code. For the purpose of this paragraph, the disallowance of itemized deductions under section 68 of the Internal Revenue Code of 1986, income tax is the last itemized deduction disallowed;

(3) the capital gain amount of a lump sum distribution to which the special tax under section 1122(h)(3)(B)(ii) of the Tax Reform Act of 1986, Public Law 99-514, applies;

(4) the amount of income taxes paid or accrued within the taxable year under this chapter and income taxes paid to any other state or any province or territory of Canada, to the extent allowed as a deduction in determining federal adjusted gross income. For the purpose of this paragraph, income taxes do not include the taxes imposed by sections 290.0922, subdivision 1, paragraph (b), 290.9727, 290.9728, and 290.9729;

(5) the amount of expense, interest, or taxes disallowed pursuant to section 290.10;

(6) the amount of a partner's pro rata share of net income which does not flow through to the partner because the

partnership elected to pay the tax on the income under section 6242(a)(2) of the Internal Revenue Code; ~~and~~

(7) 80 percent of the depreciation deduction allowed under section 168(k) of the Internal Revenue Code. For purposes of this clause, if the taxpayer has an activity that in the taxable year generates a deduction for depreciation under section 168(k) and the activity generates a loss for the taxable year that the taxpayer is not allowed to claim for the taxable year, "the depreciation allowed under section 168(k)" for the taxable year is limited to excess of the depreciation claimed by the activity under section 168(k) over the amount of the loss from the activity that is not allowed in the taxable year. In succeeding taxable years when the losses not allowed in the taxable year are allowed, the depreciation under section 168(k) is allowed; and

(8) the amount of the deduction under section 170 of the Internal Revenue Code that represents contributions to a school tuition organization for which a credit is claimed under section 290.0676.

Sec. 2. Minnesota Statutes 2004, section 290.01, subdivision 19b, is amended to read:

Subd. 19b. [SUBTRACTIONS FROM FEDERAL TAXABLE INCOME.] For individuals, estates, and trusts, there shall be subtracted from federal taxable income:

(1) interest income on obligations of any authority, commission, or instrumentality of the United States to the extent includable in taxable income for federal income tax purposes but exempt from state income tax under the laws of the United States;

(2) if included in federal taxable income, the amount of any overpayment of income tax to Minnesota or to any other state, for any previous taxable year, whether the amount is received as a refund or as a credit to another taxable year's income tax liability;

(3) the amount paid to others, less the amount used to claim the credit allowed under section 290.0674, not to exceed

$1,625 for each qualifying child in grades kindergarten to 6 and $2,500 for each qualifying child in grades 7 to 12, for tuition, textbooks, and transportation of each qualifying child in attending an elementary or secondary school situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a resident of this state may legally fulfill the state's compulsory attendance laws, which is not operated for profit, and which adheres to the provisions of the Civil Rights Act of 1964 and chapter 363A. For the purposes of this clause, "tuition" includes fees or tuition as defined in section 290.0674, subdivision 1, clause (1). As used in this clause, "textbooks" includes books and other instructional materials and equipment purchased or leased for use in elementary and secondary schools in teaching only those subjects legally and commonly taught in public elementary and secondary schools in this state. Equipment expenses qualifying for deduction includes expenses as defined and limited in section 290.0674, subdivision 1, clause (3). "Textbooks" does not include instructional books and materials used in the teaching of religious tenets, doctrines, or worship, the purpose of which is to instill such tenets, doctrines, or worship, nor does it include books or materials for, or transportation to, extracurricular activities including sporting events, musical or dramatic events, speech activities, driver's education, or similar programs. For purposes of the subtraction provided by this clause, "qualifying child" has the meaning given in section 32(c)(3) of the Internal Revenue Code;

(4) income as provided under section 290.0802;

(5) to the extent included in federal adjusted gross income, income realized on disposition of property exempt from tax under section 290.491;

(6) to the extent included in federal taxable income, postservice benefits for youth community service under section 124D.42 for volunteer service under United States Code, title 42, sections 12601 to 12604;

(7) to the extent not deducted in determining federal

taxable income by an individual who does not itemize deductions for federal income tax purposes for the taxable year, an amount equal to 50 percent of the excess of charitable contributions allowable as a deduction for the taxable year under section 170(a) of the Internal Revenue Code over $500<u>, but excluding contributions to a school tuition organization in excess of $500 that are used to claim the credit allowed in section 290.0676</u>;

(8) for taxable years beginning before January 1, 2008, the amount of the federal small ethanol producer credit allowed under section 40(a)(3) of the Internal Revenue Code which is included in gross income under section 87 of the Internal Revenue Code;

(9) for individuals who are allowed a federal foreign tax credit for taxes that do not qualify for a credit under section 290.06, subdivision 22, an amount equal to the carryover of subnational foreign taxes for the taxable year, but not to exceed the total subnational foreign taxes reported in claiming the foreign tax credit. For purposes of this clause, "federal foreign tax credit" means the credit allowed under section 27 of the Internal Revenue Code, and "carryover of subnational foreign taxes" equals the carryover allowed under section 904(c) of the Internal Revenue Code minus national level foreign taxes to the extent they exceed the federal foreign tax credit;

(10) in each of the five tax years immediately following the tax year in which an addition is required under subdivision 19a, clause (7), an amount equal to one-fifth of the delayed depreciation. For purposes of this clause, "delayed depreciation" means the amount of the addition made by the taxpayer under subdivision 19a, clause (7), minus the positive value of any net operating loss under section 172 of the Internal Revenue Code generated for the tax year of the addition. The resulting delayed depreciation cannot be less than zero; and

(11) job opportunity building zone income as provided under section 469.316.

Sec. 3. [290.0676] [CREDIT FOR CONTRIBUTIONS TO SCHOOL

TUITION ORGANIZATIONS.]

<u>Subdivision 1.</u> [DEFINITIONS.] <u>(a) For purposes of this section, the following terms have the meanings given.</u>

<u>(b) "School tuition organization" means a charitable nonprofit organization that is exempt from federal taxation under section 501(c)(3) of the Internal Revenue Code, maintains funds separate from funding for other activities for the distinct purpose of providing tuition assistance to low-income students in kindergarten through grade 12, and certified by the commissioner of education as meeting the criteria of this section. The commissioner of education must maintain a list of school tuition organizations, and make the list available on the Department of Education's Web site and by other means. To qualify as a school tuition organization, the charitable organization:</u>

<u>(1) must allocate at least 85 percent of its annual revenue for education scholarships or tuition grants to children to allow them to attend any qualified school of their parents' choosing;</u>

<u>(2) may only award scholarships or grants to students from families with incomes less than the statewide median family income for their family size;</u>

<u>(3) must not restrict the availability of scholarships or grants to students of one single school; and</u>

<u>(4) may not charge a fee of any kind to students or parents of students under consideration for a scholarship or grant.</u>

<u>(c) "Statewide median family income" means median income determined by the commissioner for the calendar year preceding the beginning of the school year for which the scholarships or grants are made.</u>

<u>(d) "Liability for tax" means the tax imposed under this chapter for the taxable year reduced by the sum of the nonrefundable credits allowed under this chapter.</u>

<u>(e) "Qualified school" means a kindergarten, elementary, or secondary school, wherein a resident of this state may legally fulfill the state's compulsory attendance laws, and which is not</u>

operated for profit.

Subd. 2. [CREDIT ALLOWED.] A taxpayer is allowed a credit against the tax due under this chapter equal to 75 percent of the amount contributed to a school tuition organization. The maximum credit allowed in a taxable year is the lesser of $1,000 or the taxpayer's liability for tax for the taxable year. The credit may not be claimed for contributions designated for the use of a specific student.

Subd. 3. [NONRESIDENTS AND PART-YEAR RESIDENTS.] For a nonresident or part-year resident, the credit must be allocated based on the percentage calculated under section 290.06, subdivision 2c, paragraph (e).

[EFFECTIVE DATE.] This section is effective for taxable years beginning after December 31, ~~2003~~ 2005.

MINNESOTA · REVENUE

INDIVIDUAL INCOME TAX
Credit for Contributions to "School Tuition Organizations"

April 19, 2005

	Yes	No
Separate Official Fiscal Note Requested	X	
Fiscal Impact		
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 584 (Olson) / H.F. 1858 (Sykora)

	Fund Impact			
	F.Y. 2006	F.Y. 2007	F.Y. 2008	F.Y. 2009
		(000's)		
General Fund	$0	($5,500)	($11,100)	($13,600)

Assumed effective beginning with tax year 2006.

EXPLANATION OF THE BILL

The proposed law creates a nonrefundable income tax credit for individuals who make contributions to school tuition organizations (STOs) that in turn provide scholarships and grants to students attending kindergarten, elementary or secondary schools. The STO must allocate at least 85% of its annual revenue to scholarships or grants for children to allow them to attend any qualified school of their parents' choosing. It is assumed the credit is not available to corporations. Since a deduction for such a contribution already exists under IRC section 170, there will be an addition to federal taxable income on the Minnesota return for taxpayers who itemize their deductions. The students must come from families with incomes less than the statewide median family income. The credit would be equal to 75% of the contribution and has a maximum of $1,000 per tax return.

Note: The proposal as introduced is effective beginning with tax year 2004. For purposes of this analysis, the proposal is assumed effective beginning with tax year 2006.

REVENUE ANALYSIS DETAIL

- It is not known how many STOs will be established to take advantage of this credit and how effective they will be at encouraging contributions.

REVENUE ANALYSIS DETAIL (Continued)

- The experience of the state of Arizona which has had a somewhat similar program since 1998 was used as a starting point for the analysis. The cost of their private school credit program has been as follows:
    - 1998 - $ 1,816,299
    - 1999 - $13,706,611
    - 2000 - $17,542,662
    - 2001 - $24,865,295
    - 2002 - $26,169,177
    - 2003 - $29,063,443
- The 2004 population estimates for Minnesota and Arizona are 5.10 million and 5.74 million respectively. The Minnesota to Arizona percentage of 88.9% was used as an adjustment.
- The Minnesota credit is 75% of the contribution. In Arizona the percentage is 100%. It was assumed that the lower Minnesota percentage would make it slightly less likely that contributions would be made. The percentage used was 90% of 75% or 67.5%.
- The maximum credit per taxpayer in Minnesota is $1,000. The Arizona maximum credit per individual return is $500 for a single filer and $625 for a jointly filed return. The estimate was increased by 20% to reflect the higher maximums.
- In Minnesota, the income of the family of the recipient of the scholarship or grant must be below the statewide median income. In Arizona, there is no income limitation. The estimate was reduced by 10% because of the income limitation.
- The 2001-02 private school enrollment rates for Minnesota and Arizona are 10.6% and 4.6% respectively. The Minnesota to Arizona percentage is 230.4%. Because of the higher tendency to use private schools in Minnesota, the estimate was increased by 50%.
- It was assumed that the certification requirement for the STO and the requirement that no specific student could be designated as the recipient of the scholarship or grant could reduce the cost of the proposal by about 25%.
- The estimate was reduced because taxpayers who itemize will have an add-back on their Minnesota return. It was assumed that 50% of the credit would be taken by itemizers and that a marginal tax rate of 6% would apply.
- A 2% growth rate was assumed.
- In light of Arizona's experience, participation was phased in at 25% the first year, 50% the second year, and 60% the third year.

Number of Taxpayers Affected: Unknown.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

sf0584(hf1858)_1/cej

Handout #1

About KidsFirst Scholarship Fund—Hearing on S.F. 584

KidsFirst Scholarship Fund was established in 1998 to enable low-income parents in the Minneapolis/St. Paul area the opportunity to obtain private school education for their children. In the 2004-05 school year KidsFirst served 630 students in the metro area. These students attended 91 different schools, which charged tuitions averaging $3,355.

KidsFirst provides partial tuition grants for students in grades K-8. The fund pays 75% of tuition, to a maximum of $1,700 per year to qualified applicants. Eligibility for grants is based solely on financial need—receiving families must have income less than 250% of the federal poverty guideline indexed for family size. Winners are drawn by lottery.

During the 2004-2005 application period over 1,500 applications were received for the 125 new scholarships. This results in 1 of every 12 children who apply being awarded a scholarship. Each year students who receive scholarships for the first time must have spent their last academic year in a public school. Therefore, of the 630 students receiving scholarships in 2004-05, 125 had spent their previous year in a public school.

In 2004-05 KidsFirst created a total savings to the State of Minnesota General Fund of $4,576,950 (630 recipients x $7,265 the average total state aids amount for school year 2002-2003, MDE data). New savings from the 125 new recipients who opted out of public school beginning in school year 2004-05 KidsFirst Scholarship recipients created a savings of $908,125 (125 x $7,265).

Agenda #2

Senators Ortman, Scheid, Sams, Wiger and Rest introduced--

S.F. No. 558: Referred to the Committee on Taxes.

A bill for an act

relating to education; authorizing an education tax credit for tuition expenses for certain school attendance; eliminating the family cap on the education tax credit; amending Minnesota Statutes 2004, section 290.0674, subdivisions 1, 2.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2004, section 290.0674, subdivision 1, is amended to read:

Subdivision 1. [CREDIT ALLOWED.] An individual is allowed a credit against the tax imposed by this chapter in an amount equal to 75 percent of the amount paid for education-related expenses for a qualifying child in kindergarten through grade 12. For purposes of this section, "education-related expenses" means:

(1) fees or tuition for instruction by an instructor under section 120A.22, subdivision 10, clause (1), (2), (3), (4), or (5), or a member of the Minnesota Music Teachers Association, and who is not a lineal ancestor or sibling of the dependent for instruction outside the regular school day or school year, including tutoring, driver's education offered as part of school curriculum, regardless of whether it is taken from a public or private entity or summer camps, in grade or age appropriate curricula that supplement curricula and instruction available during the regular school year, that assists a dependent to improve knowledge of core curriculum areas or to expand

knowledge and skills under the graduation rule under section 120B.02, paragraph (e), clauses (1) to (7), (9), and (10), and that do not include the teaching of religious tenets, doctrines, or worship, the purpose of which is to instill such tenets, doctrines, or worship;

(2) expenses for textbooks, including books and other instructional materials and equipment purchased or leased for use in elementary and secondary schools in teaching only those subjects legally and commonly taught in public elementary and secondary schools in this state. "Textbooks" does not include instructional books and materials used in the teaching of religious tenets, doctrines, or worship, the purpose of which is to instill such tenets, doctrines, or worship, nor does it include books or materials for extracurricular activities including sporting events, musical or dramatic events, speech activities, driver's education, or similar programs;

(3) a maximum expense of $200 per family for personal computer hardware, excluding single purpose processors, and educational software that assists a dependent to improve knowledge of core curriculum areas or to expand knowledge and skills under the graduation rule under section 120B.02 purchased for use in the taxpayer's home and not used in a trade or business regardless of whether the computer is required by the dependent's school; and

(4) the amount paid to others for <u>tuition and</u> transportation of a qualifying child attending an elementary or secondary school situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a resident of this state may legally fulfill the state's compulsory attendance laws, which is not operated for profit, and which adheres to the provisions of the Civil Rights Act of 1964 and chapter 363A.

For purposes of this section, "qualifying child" has the meaning given in section 32(c)(3) of the Internal Revenue Code.

[EFFECTIVE DATE.] <u>This section is effective for taxable years beginning after December 31, 2004.</u>

Sec. 2. ~~Minnesota Statutes 2004, section 290.0674,~~

subdivision 2, is amended to read:

Subd. 2. [LIMITATIONS.] (a) For claimants with income not greater than ~~$33,500~~ 250 percent of the federal poverty guidelines, the maximum credit allowed is $1,000 per qualifying child ~~and $2,000 per family. No credit is allowed for education-related expenses for claimants with income greater than $37,500~~. The maximum credit per child is reduced by $1 for each $4 of household income over ~~$33,500, and the maximum credit per family is reduced by $2 for each $4 of household income over $33,500~~ 250 percent of the federal poverty guidelines, but in no case is the credit less than zero.

For purposes of this section "income" has the meaning given in section 290.067, subdivision 2a. In the case of a married claimant, a credit is not allowed unless a joint income tax return is filed.

(b) For a nonresident or part-year resident, the credit determined under subdivision 1 and the maximum credit amount in paragraph (a) must be allocated using the percentage calculated in section 290.06, subdivision 2c, paragraph (e).

[EFFECTIVE DATE.] This section is effective for taxable years beginning after December 31, 2004.

MINNESOTA·REVENUE

INDIVIDUAL INCOME TAX
K-12 Education Credit

February 3, 2005

	Yes	No
Separate Official Fiscal Note Requested		
Fiscal Impact		
DOR Administrative Costs/Savings		

Preliminary Analysis

Department of Revenue
Analysis of S.F. 558 (Ortman), As Proposed to be Amended

	Fund Impact			
	F.Y. 2006	**F.Y. 2007**	**F.Y. 2008**	**F.Y. 2009**
	(000's)			
General Fund	($12,200)	($12,900)	($13,500)	($14,200)

Effective beginning with tax year 2005.

EXPLANATION OF THE BILL

Minnesota income tax statutes allow taxpayers a refundable credit on their income tax returns for some school expenses for students in kindergarten through 12th grade. If an expense is not used for the credit, then the expense might possibly be used as a subtraction on the return. The statutes impose income limits, expense limits, and limits on the types of expenses that can be used for the credit or the subtraction. The following five types of expenses are authorized under both current law and the proposed law for both the credit and the subtraction: fees for enrichment programs, fees for individual instruction, cost of required school materials, some transportation expenses, and hardware and educational software for personal computers. Under both current law and the proposal, expenses for religious materials and instruction are not eligible for the credit or for the subtraction. The proposed law authorizes additional expenses for the credit and eliminates some of the limits that are in current law. **As proposed to be amended**, the credit would begin to phase out at 185% of the federal poverty guidelines instead of at 250% of the guidelines.

The following list is a summary of the changes that would occur under the proposed law:

	Current Law	Proposed Law
Tuition expense eligibility	Subtraction only	Credit and subtraction
Maximum credit	$1,000 per child, $2,000 per family	$1,000 per child, No family limit
Beginning credit phase out income	$33,500	185% of the federal poverty guidelines
Maximum income for credit	$37,500	$4,000 plus 250% of the federal poverty guidelines

Note: The federal poverty guidelines are based on family size. Therefore, it appears that the maximum income for the credit would vary with size of family. For a family of two or three, it was estimated that, for 2005, the maximum income under the proposal would be lower than under current law by about $10,000 and $4,000 respectively.

REVENUE ANALYSIS DETAIL

- This preliminary analysis is based on information developed for the 2004 revenue analysis for H.F. 2772 (Knoblach) / S.F. 2702 (Ortman). Adjustments were made for the differences between the current bill and last year's bill.
- An estimate for 185% of the 2005 federal poverty guideline was made for a family of four. The family of four estimate of $35,575 was used in making the adjustment.
- A 5% annual growth rate over the base year was assumed.
- The costs for a particular tax year are reflected in the following fiscal year.

Number of Taxpayers:

A total of 61,300 returns claimed the K-12 education credit for tax year 2003. The number of returns that would claim the credit for tuition expenses and the change in number of claimants due to the change in the maximum income were not estimated for this preliminary analysis.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

sf0558_2/cej

Handout #~~001~~

MINNESOTA · REVENUE

Julianne Ortman

INDIVIDUAL INCOME TAX
K-12 Education Credit

	Yes	No
Separate Official Fiscal Note Requested		
Fiscal Impact		
DOR Administrative Costs/Savings		

March 31, 2004

Department of Revenue
Analysis of S.F. 2702 (Ortman), Delete-All Amendment (A04-1184)

	Revenue Gain or (Loss)			
	F.Y. 2004	F.Y. 2005	F.Y. 2006	F.Y. 2007
		(000's)		
Credit	$0	($9,040)	($9,490)	($9,970)
Subtraction	$0	$440	$460	$490
General Fund Total	$0	($8,600)	($9,030)	($9,480)

Assumed effective beginning with tax year 2004.

EXPLANATION OF THE BILL

Current Law: The Minnesota income tax statute allows taxpayers to take a refundable credit on their income tax returns for some school expenses for students in kindergarten through 12th grade. If an expense is not used for the credit, then the expense might possibly be used as a subtraction on the return. The statute imposes income limits, expense limits, and limits on the types of expenses that can be used for the credit or the subtraction. The following five types of expenses are authorized under current law for both the credit and the subtraction: fees for enrichment programs, fees for individual instruction, cost of required school materials, some transportation expenses, and hardware and educational software for personal computers. Tuition expenses are eligible for the subtraction, but expenses for religious materials and instruction are not eligible for the credit or for the subtraction.

The credit is equal to 75% of eligible expenses. The maximum credit is $1,000 per child and $2,000 per family. The maximum credit is phased out for household income between $33,500 and $37,500, so that no credit is available for taxpayers with income over $37,500.

Proposed Law: The proposed law authorizes tuition expenses for the credit and eliminates the maximum credit per family.

March 31, 2004

REVENUE ANALYSIS DETAIL

- Census data for 2000 provided information about the number of students enrolled in private schools by income level in Minnesota. Using this data along with tuition information obtained from the Minnesota Independent School Forum, the likely distribution of tuition by income level was approximated by assuming participation rates and averages. This tuition expense information was input into a K-12 credit model which was developed. The family credit limit was eliminated from the model, but all other parameters were input as under current law. The resulting credit was reduced by 19% to account for the likelihood that some of the families that would claim the tuition credit under the proposal are already claiming the credit for currently-authorized expenses.

- Those claiming a tuition credit under the proposed law would no longer be eligible to claim a tuition subtraction. The expenses that would no longer be taken for the subtraction were estimated based on the estimate of the tuition credit. Five percent of those expenses were used as the estimate of the tax savings on the subtraction.
- For tax year 2002 the following costs for the provisions of the bill would be as follows:

o Credit	$8,200,000
o Subtraction	(400,000)
Net	$7,800,000

- A 5% annual growth rate over the base year was assumed.
- The costs for a particular tax year are reflected in the following fiscal year.

Number of Taxpayers: An estimated 6,500 returns would claim the credit for tuition expenses.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

hf2772(sf2702)_2.doc/cc cej

Handout #1

Minnesota Families can Take Credit for Learning

State offers Tax Incentives for Investing in Your Child's School Supplies, Music Lessons, Computer Equipment, Tutoring and other Enhancements

Moderate and low income households with children in K-12 schools may not realize they are eligible to claim a refundable tax credit for their investment in their child's learning. The **Education Tax Credit and Deduction** are a unique provision of Minnesota's tax law, designed to encourage parents to be active participants in decisions about their children's learning. Families who file the simple, one-page form when they file their state income tax can return valuable resources to families for basic educational supplies and services.

All families with dependent children in grades K-12 are eligible for the Education Tax Deduction, regardless of income *even if they do not itemize elsewhere on their tax return.* For each child in grades K-6, families may take a deduction of up to $1625 per child; up to $2500 may be claimed for each child in grades 7-12. Families must be able to provide receipts for such expenses, if the Minnesota Department of Revenue requests them. In addition to educational supplies, music lessons, tutoring and computer hardware and software, private school tuition is an eligible expense for filers using the Education Tax Deduction.

Families earning less than $37,500 qualify for the Education Tax Credit whether or not they itemize and whether or not they have paid taxes on income. The credit allows families to claim 75% or every dollar spent on eligible goods and services. The amount of credit for families earning between $33,500 and $37,500 is determined on a sliding scale, with families at the ceiling eligible for a credit up to $500 per child. The Education Tax Credit *may no be used toward the cost of private school tuition.*

Eligible items for the tax credit include non-religious textbooks music, and other subjects. Purchase or rental of musical instruments used for class during the school day can be claimed, as can transportation, and admissions/fees for school trips, and school transportation expenses for which families pay a non-family member

Some after-school enrichment programs also qualify for the credit and deduction: Instructor fees paid to a qualified instructor for music and dance lessons, academic tutoring, science exploration, and study habits coaching – even summer school classes used to fulfill normal school year class requirements – are allowed to the same extent as expenses paid during the normal school day.

TAX EXPENDITURE SUMMARY LIST

		Year Enacted	Fiscal Year Impact 2004	2005	2006	2007
INDIVIDUAL INCOME TAX						
Federal Exclusions						
1.01	Employer-Provided Meals and Lodging	1933	$5,900,000	$6,100,000	$6,300,000	$6,600,000
1.02	Housing Allowances for Ministers	1945	4,300,000	4,500,000	4,700,000	5,000,000
1.03	Employer-Provided Dependent Care	1982	5,900,000	6,300,000	6,600,000	7,000,000
1.04	Employee Awards	1987	1,000,000	1,100,000	1,200,000	1,400,000
1.05	Employer Pension Plans	1933	510,600,000	546,500,000	575,000,000	617,900,000
1.06	Contributions by Employers for Medical Insurance Premiums and Medical Care	1933	599,700,000	646,900,000	695,600,000	765,200,000
1.07	Employer-Paid Accident and Disability Premiums	1955	16,700,000	17,400,000	18,800,000	19,800,000
1.08	Employer-Paid Group Term Life Insurance Premiums	1933	13,300,000	14,000,000	14,400,000	15,100,000
1.09	Employer-Paid Transportation Benefits	1985	26,400,000	26,700,000	26,900,000	27,700,000
1.10	Cafeteria Plans	1975	102,700,000	111,100,000	116,600,000	127,300,000
1.11	Medical Savings Accounts	1997	200,000	200,000	200,000	200,000
1.12	Employer-Provided Adoption Assistance	1997	500,000	500,000	500,000	600,000
1.13	Employer-Provided Educational Assistance	1979	5,600,000	5,800,000	6,000,000	6,400,000
1.14	Miscellaneous Employee Fringe Benefits	1985	43,000,000	44,400,000	46,500,000	49,500,000

		Year Enacted	Fiscal Year Impact 2004	2005	2006	2007
1.15	Income Earned Abroad by U.S. Citizens and Foreign Housing Costs	1933	15,900,000	17,500,000	18,500,000	20,400,000
1.16	Certain Allowances for Federal Employees Abroad	1945	1,400,000	1,600,000	1,900,000	2,200,000
1.17	Benefits and Allowances to Armed Forces Personnel	1933	6,800,000	6,900,000	7,000,000	7,300,000
1.18	Veterans' Benefits	1933	17,100,000	17,400,000	17,700,000	18,300,000
1.19	Military Disability Pensions	1933	300,000	300,000	300,000	300,000
1.20	Workers' Compensation Benefits	1933	42,300,000	44,000,000	45,000,000	47,500,000
1.21	Special Benefits For Disabled Coal Miners	1971	*	*	*	*
1.22	Social Security Benefits	1939	152,100,000	156,300,000	160,500,000	166,000,000
1.23	Medicare Benefits	1965	127,000,000	136,600,000	147,400,000	162,200,000
1.24	Foster Care Payments	1983	3,300,000	3,700,000	4,000,000	4,500,000
1.25	Public Assistance	1933	17,300,000	17,800,000	18,900,000	19,400,000
1.26	Scholarship and Fellowship Income	1955	12,100,000	12,400,000	12,700,000	12,900,000
1.27	Education Savings Accounts	1998	3,100,000	3,700,000	4,400,000	5,100,000
1.28	Qualified Tuition Plans	1997	400,000	500,000	700,000	900,000
1.29	Certain Agricultural Cost-Sharing Payments	1979	300,000	300,000	300,000	300,000
1.30	Discharge of Indebtedness Income for Certain Farmers	1987	1,100,000	1,100,000	1,100,000	1,100,000
1.31	Investment Income on Life Insurance and Annuity Contracts	1933	130,600,000	136,000,000	139,200,000	146,100,000
1.32	Interest on Minnesota State and Local Government Bonds	1933	54,800,000	56,400,000	58,100,000	59,900,000
1.33	Capital Gains on Home Sales	1998	104,900,000	109,900,000	113,200,000	119,100,000

		Year Enacted	Fiscal Year Impact 2004	2005	2006	2007
1.34	Capital Gains at Death	1933	150,400,000	164,800,000	177,100,000	186,700,000
1.35	Capital Gains on Gifts	1933	20,100,000	21,700,000	23,000,000	24,900,000
1.36	Permanent Exemptions from Imputed Interest Rules	1985	1,600,000	1,600,000	1,600,000	1,700,000
1.37	Like-Kind Exchanges	1933	2,700,000	2,700,000	2,700,000	2,800,000
1.38	Special Rules for Magazine, Paperback, and Record Returns	1979	*	*	*	*
1.39	Energy Conservation Subsidies Provided by Public Utilities	1993	100,000	100,000	100,000	100,000
Federal Deductions						
1.40	Accelerated Depreciation	1959	33,100,000	33,900,000	45,000,000	51,500,000
1.41	Expensing Depreciable Business Property	1983	17,400,000	19,800,000	12,500,000	1,000,000
1.42	Excess of Percentage Over Cost Depletion	1933	400,000	400,000	400,000	400,000
1.43	Five-Year Amortization of Business Organizational and Start-Up Costs	1977	3,200,000	3,200,000	3,200,000	3,300,000
1.44	Expensing of Research and Development Costs	1955	300,000	400,000	400,000	400,000
1.45	Expensing of Magazine Circulation Expenditures	1951	100,000	100,000	100,000	100,000
1.46	Expensing of Exploration and Development Costs	1933	*	*	*	*
1.47	Cash Accounting and Expensing for Agriculture	1933	8,600,000	8,600,000	8,600,000	8,600,000
1.48	Expensing of Multiperiod Timber Growing Costs	1933	500,000	500,000	500,000	600,000
1.49	Special Rules for Mining and Solid Waste Reclamation Reserves	1985	*	*	*	*

		Year Enacted	Fiscal Year Impact 2004	2005	2006	2007
1.50	Cash Accounting Other than Agriculture	1933	2,800,000	2,800,000	2,800,000	2,900,000
1.51	Installment Sales	1933	2,700,000	2,700,000	2,700,000	2,800,0[illegible]
1.52	Completed Contract Rules	1933	200,000	200,000	200,000	200,000
1.53	Employee Stock Ownership Plans	1975	1,400,000	1,500,000	1,600,000	1,800,000
1.54	Individual Retirement Accounts	1975	86,500,000	101,600,000	112,300,000	124,100,000
1.55	Keogh Plans	1963	27,700,000	29,100,000	31,100,000	33,300,000
1.56	Self-Employed Health Insurance	1987	21,900,000	23,700,000	25,500,000	26,900,000
1.57	Interest on Student Loans	1998	5,200,000	5,800,000	6,200,000	6,800,000
1.58	Higher Education Tuition Expenses	2001	17,900,000	19,200,000	19,200,000	0
1.59	Teacher Classroom Expenses	2002	1,100,000	0	0	0
1.60	Per Diem Amounts Paid to State Legislators	1959	*	*	*	*
1.61	Clean-Fuel Vehicles	1993	100,000	100,000	*	
Federal Personal Deductions						
1.62	Additional Standard Deduction for the Elderly and Blind	1987	12,300,000	12,600,000	12,600,000	13,600,000
1.63	Medical and Dental Expenses	1933	39,200,000	43,500,000	50,500,000	52,900,000
1.64	Real Estate Taxes	1933	99,500,000	109,300,000	126,100,000	129,800,000
1.65	Other Taxes	1933	10,400,000	11,100,000	12,500,000	12,900,000
1.66	Home Mortgage Interest	1933	330,100,000	356,800,000	414,400,000	426,800,000
1.67	Charitable Contributions	1933	143,600,000	154,200,000	172,300,000	181,500,000
1.68	Casualty and Theft Losses	1933	900,000	900,000	900,000	900,000

		Year Enacted	Fiscal Year Impact 2004	2005	2006	2007
Minnesota Subtractions						
1.69	K-12 Education Expenses	1955	13,200,000	13,800,000	14,600,000	15,300,000
1.70	Charitable Contributions for Nonitemizers	1999	4,200,000	4,400,000	4,400,000	4,500,000
1.71	Income of the Elderly or Disabled	1988	1,200,000	1,100,000	1,000,000	900,000
1.72	Small Ethanol Producers	2000	*	*	*	*
1.73	Disposition of Farm Property	1985	100,000	100,000	100,000	100,000
Preferential Computations						
1.74	Five-Year Averaging of Lump Sum Distributions	1975	300,000	300,000	300,000	300,000
1.75	Active Duty Military Personnel	2001	7,600,000	5,800,000	5,800,000	5,800,000
Credits						
1.76	Credit for Income Tax Paid to Other States	1959	66,800,000	70,800,000	75,000,000	79,500,000
1.77	Credit for Income Tax Paid by a Nonresident Partner	2000	200,000	200,000	200,000	200,000
1.78	Marriage Credit	1999	54,100,000	57,600,000	63,300,000	66,000,000
1.79	Credit for Long-Term Care Insurance	1997	6,200,000	6,500,000	6,900,000	7,200,000
1.80	Employer Transit Pass Credit	2000	*	*	*	*
1.81	Child and Dependent Care Credit	1977	15,200,000	15,400,000	15,500,000	15,700,000
1.82	Working Family Credit	1991	130,600,000	134,500,000	141,600,000	145,800,000
1.83	Credit for K-12 Education Expenses	1997	16,600,000	17,400,000	18,300,000	19,200,000

		Year Enacted	Fiscal Year Impact 2004	2005	2006	2007
1.84	Enterprise Zones Employer Tax Credits	1983	200,000	200,000	200,000	200,000
1.85	Enterprise Zones Construction Financing Credit	1983	100,000	*	0	0
CORPORATE FRANCHISE TAX						
Exempt Organizations						
2.01	Credit Unions	1937	6,200,000	6,500,000	6,800,000	7,100,000
2.02	Insurance Companies	1989	27,100,000	29,500,000	29,000,000	28,000,000
Federal Exclusions						
2.03	Permanent Exemptions from Imputed Interest Rules	1985	*	*	*	*
2.04	Investment Income on Life Insurance and Annuity Contracts	1933	4,500,000	4,600,000	4,700,000	4,800,000
2.05	Like-Kind Exchanges	1933	4,500,000	4,700,000	4,800,000	4,900,000
2.06	Special Rules for Magazine, Paperback, and Record Returns	1979	*	*	*	*
Federal Deductions						
2.07	Accelerated Depreciation	1959	53,700,000	59,100,000	63,700,000	71,500,000
2.08	Expensing Depreciable Business Property	1983	2,700,000	2,600,000	1,900,000	*
2.09	Excess of Percentage Over Cost Depletion (Mining Occupation Tax)	1989	200,000	200,000	200,000	200,000
2.10	Amortization of Organizational and Start-Up Costs	1955	100,000	100,000	100,000	100,000
2.11	Expensing of Research and Development Costs	1955	15,000,000	17,200,000	18,800,000	19,800,000
2.12	Expensing of Magazine Circulation Expenditures	1951	100,000	100,000	100,000	100,0

		Year Enacted	Fiscal Year Impact 2004	2005	2006	2007
2.13	Expensing of Exploration and Development Costs	1967	800,000	600,000	800,000	900,000
2.14	Cash Accounting and Expensing for Agriculture	1933	700,000	700,000	700,000	700,000
2.15	Expensing of Multiperiod Timber Growing Costs	1933	800,000	900,000	900,000	1,000,000
2.16	Special Rules for Mining and Solid Waste Reclamation Reserves	1987	100,000	100,000	100,000	100,000
2.17	Cash Accounting Other than Agriculture	1933	100,000	100,000	100,000	100,000
2.18	Installment Sales	1933	2,200,000	2,200,000	2,200,000	2,200,000
2.19	Completed Contract Rules	1933	600,000	600,000	600,000	600,000
2.20	Charitable Contributions	1933	9,100,000	9,900,000	9,700,000	9,400,000
2.21	Employee Stock Ownership Plans	1975	2,800,000	2,800,000	2,900,000	3,000,000
2.22	Capital Construction Funds of Shipping Companies	1987	*	*	*	*
2.23	Clean-Fuel Vehicles	1993	100,000	100,000	*	*
Apportionment						
2.24	Weighted Apportionment	1939	89,200,000	97,000,000	95,300,000	92,200,000
2.25	Throwback Sales	1973	15,300,000	16,700,000	16,400,000	15,800,000
2.26	Single-Factor Apportionment for Mail Order Companies	1985	2,500,000	2,700,000	2,700,000	2,600,000
Minnesota Subtractions						
2.27	Dividend Received Deduction	1947	89,000,000	96,800,000	95,100,000	92,000,000
2.28	Foreign Source Income	1988	69,700,000	75,800,000	74,500,000	72,000,000

		Year Enacted	Fiscal Year Impact 2004	2005	2006	2007
2.29	Job Opportunity Building Zone Income	2003	0	100,000	300,000	400,000
2.30	Biotechnology and Health Sciences Industry Zone Income	2003	0	*	0	0
2.31	Small Ethanol Producers	2000	200,000	200,000	200,000	200,000
2.32	Disposition of Farm Property	1985	*	*	*	*
Credits						
2.33	Research and Development Credit	1981	21,200,000	23,100,000	22,700,000	22,000,000
2.34	Credit for Tax Paid to Other States	1999	0	0	500,000	2,000,000
2.35	Employer Transit Pass Credit	2000	900,000	1,000,000	1,000,000	1,000,000
2.36	Job Opportunity Building Zones Jobs Credit	2003	0	0	1,000,000	1,600,000
2.37	Enterprise Zones Employer Tax Credits	1983	300,000	300,000	100,000	100,000
2.38	Enterprise Zones Construction Financing Credit	1983	100,000	*	0	0
ESTATE TAX						
Preferential Valuation						
3.01	Special Use Valuation	1979	200,000	200,000	200,000	200,000
Exclusions						
3.02	Life Insurance Proceeds	1979	7,700,000	8,200,000	8,800,000	9,400,000
3.03	Annuities	1979	*	*	*	*
3.04	Social Security Benefits	1979	*	*	*	*
Deductions						
3.05	Marital Deduction	1979	82,500,000	93,400,000	105,900,000	120,000,000
3.06	Charitable Gifts	1979	24,100,000	24,700,000	25,400,000	26,000,000

		Year Enacted	Fiscal Year Impact 2004	2005	2006	2007
GENERAL SALES AND USE TAX						
Exemptions - Particular Goods and Services						
4.01	Food Products	1967	505,000,000	519,600,000	533,400,000	547,800,000
4.02	Clothing and Wearing Apparel	1967	434,200,000	460,400,000	487,200,000	515,800,000
4.03	Drugs and Medicines	1967	225,700,000	252,400,000	280,700,000	310,700,000
4.04	Medical Devices	1967	9,400,000	10,200,000	11,300,000	12,800,000
4.05	Prescription Eyeglasses	1967	21,500,000	22,900,000	24,400,000	26,000,000
4.06	Baby Products	1967	800,000	800,000	800,000	800,000
4.07	Feminine Hygiene Items	1981	3,300,000	3,400,000	3,400,000	3,400,000
4.08	Caskets and Burial Vaults	1967	5,700,000	5,800,000	5,800,000	5,900,000
4.09	Publications	1967	53,300,000	54,900,000	56,800,000	58,800,000
4.10	Textbooks Required for School Use	1973	10,100,000	10,600,000	11,100,000	11,600,000
4.11	Personal Computers Required for School Use	1994	600,000	600,000	600,000	700,000
4.12	Motor Fuels	1967	347,300,000	342,200,000	352,300,000	365,100,000
4.13	Residential Heating Fuels	1978	94,200,000	97,400,000	100,500,000	104,200,000
4.14	Residential Water Services	1979	11,200,000	11,700,000	12,100,000	12,500,000
4.15	Sewer Services	1967	26,700,000	27,700,000	28,700,000	29,700,000
4.16	Used Manufactured Homes	1984	700,000	700,000	800,000	800,000
4.17	Selected Services	1967	1,730,600,000	1,866,200,000	2,012,200,000	2,154,400,000
4.18	YMCA, YWCA, and JCC Membership Dues	1987	2,500,000	2,600,000	2,700,000	2,700,000
4.19	Cross Country Ski Passes for Public Trails	1988	*	*	*	*
4.20	Admission to the Minnesota Zoo	2001	300,000	300,000	300,000	300,000

		Year Enacted	Fiscal Year Impact 2004	2005	2006	2007
4.21	Personal Property Brought into Minnesota	1967	8,500,000	8,600,000	8,800,000	9,000,000
4.22	*De Minimis* Use Tax Exemption for Individuals	1996	6,600,000	7,000,000	7,500,000	8,000,000
4.23	Capital Equipment	1984	193,600,000	204,600,000	221,100,000	234,400,000
4.24	Accessory Tools	1973	7,400,000	8,400,000	8,700,000	8,900,000
4.25	Special Tooling	1984	4,600,000	5,200,000	5,400,000	5,600,000
4.26	Telecommunications Equipment	2001	46,600,000	47,400,000	48,300,000	49,300,000
4.27	Resource Recovery Equipment	1984	*	2,100,000	400,000	*
4.28	Used Motor Oil	1988	300,000	300,000	300,000	300,000
4.29	Taconite Production Materials	1971	*	*	*	*
4.30	Wind Energy Conversion Systems	1992	900,000	1,300,000	1,700,000	1,800,000
4.31	Air Cooling Equipment	1992	200,000	200,000	500,000	100,000
4.32	Energy Efficient Products	2001	500,000	600,000	100,000	
4.33	Airflight Equipment	1967	25,100,000	23,300,000	21,700,000	18,900,000
4.34	Large Ships	1992	200,000	200,000	200,000	200,000
4.35	Repair and Replacement Parts for Ships and Vessels	1990	100,000	100,000	100,000	100,000
4.36	Light Rail Transit Vehicles	2001	3,600,000	900,000	100,000	100,000
4.37	Petroleum Products Used by Transit Systems	1992	800,000	800,000	800,000	800,000
4.38	Petroleum Products Used in Passenger Snowmobiles	1993	*	*	*	*
4.39	Ski Area Equipment	2000	200,000	200,000	300,000	300,000
4.40	Logging Equipment	1984	800,000	800,000	800,000	800,000
4.41	Farm Machinery	1981	22,900,000	23,100,000	23,200,000	23,400,0[illegible]

		Year Enacted	Fiscal Year Impact 2004	2005	2006	2007
4.42	Repair and Replacement Parts for Farm Machinery	1985	8,100,000	8,300,000	8,400,000	8,600,000
4.43	Petroleum Products Used to Improve Agricultural Land	1985	*	*	*	*
4.44	Farm Conservation Program Items	1991	500,000	400,000	500,000	500,000
4.45	Used Farm Tires	1994	*	*	*	0
4.46	Horses	1994	1,300,000	1,400,000	1,400,000	1,500,000
4.47	Prizes at Carnivals and Fairs	1999	600,000	600,000	600,000	600,000
4.48	Television Commercials	1999	1,200,000	1,200,000	1,300,000	1,300,000
4.49	Advertising Materials	1973	6,300,000	6,500,000	6,800,000	7,100,000
4.50	Court Reporter Documents	1997	300,000	300,000	300,000	300,000
4.51	Patent, Trademark, and Copyright Drawings	2000	100,000	100,000	100,000	100,000
4.52	Packing Materials	1973	*	*	*	*
4.53	Property for Business Use Outside Minnesota	1967	*	*	*	*
4.54	Automatic Fire-Safety Sprinkler Systems	1992	800,000	800,000	700,000	700,000
4.55	Building Materials for Residences of Disabled Veterans	1971	*	*	*	*
4.56	Chair Lifts, Ramps, and Elevators in Homesteads	1989	*	*	*	*
4.57	Ambulances Leased to Licensed Ambulance Services	1990	*	*	*	*
4.58	Firefighter Personal Protective Equipment	1994	700,000	700,000	800,000	800,000

		Year Enacted	Fiscal Year Impact 2004	2005	2006	2007
4.59	Parts and Accessories to Make Motor Vehicles Handicapped Accessible	1993	800,000	800,000	900,000	900,000
4.60	Maintenance of Cemetery Grounds	2000	*	*	*	
4.61	Price Reduced by Value of Trade In	1967	6,900,000	7,300,000	7,700,000	8,000,000
Exemptions - Sales to Particular Groups						
4.62	Local Governments	1967	71,200,000	73,300,000	75,700,000	78,200,000
4.63	Nonprofit Organizations	1967	51,500,000	53,500,000	56,300,000	59,400,000
4.64	Hospitals and Outpatient Surgical Centers	1967	53,700,000	57,600,000	61,800,000	66,200,000
4.65	Certain Purchases by Ambulance Services	2001	100,000	100,000	100,000	100,000
4.66	Veterans' Organizations	1980	300,000	300,000	300,000	300,000
4.67	Construction Materials for Low-Income Housing	2001	800,000	400,000	400,000	400,000
4.68	Biosolids Processing Equipment	1998	800,000	600,000	600,000	600,000
4.69	Metropolitan Public Safety Radio Systems	1997	300,000	800,000	*	0
4.70	Job Opportunity Building Zones	2003	1,400,000	3,000,000	2,800,000	3,300,000
4.71	Biotechnology and Health Sciences Industry Zone	2003	0	1,000,000	0	0
4.72	Enterprise Zone Construction Materials	1983	*	*	0	0
4.73	Biomass Electrical Generating Facility	1999	200,000	*	0	0
4.74	Walker Art Center	2003	800,000	600,000	0	0
4.75	Hydroelectric Generating Facility	2002	100,000	*	0	0

		Year Enacted	Fiscal Year Impact 2004	2005	2006	2007
Exemptions - Sales by Particular Groups						
4.76	Isolated or Occasional Sales	1967	27,500,000	28,500,000	29,500,000	30,500,000
4.77	Institutional Meals	1967	40,500,000	41,700,000	42,900,000	44,200,000
4.78	Fundraising Sales by Nonprofit Organizations	1985	7,900,000	8,200,000	8,400,000	8,700,000
4.79	Candy Sales by Certain Organizations	1984	*	*	*	*
4.80	Minnesota Amateur Sports Commission Events	1994	*	*	*	*
4.81	Admission to Charitable Golf Tournaments	1994	*	*	*	*
4.82	Admission to School-Sponsored Events	1985	1,000,000	1,000,000	1,000,000	1,100,000
4.83	Admission to Artistic Events	1980	5,000,000	5,100,000	5,200,000	5,300,000
4.84	Sacramental Wine Sold by Religious Organizations	1991	*	*	*	*
Reduced Sales Price						
4.85	New Manufactured Homes	1984	3,500,000	3,600,000	3,700,000	3,800,000
Reduced Rates						
4.86	Tax Paid to Other States	1967	6,200,000	6,300,000	6,400,000	6,600,000
MOTOR VEHICLE SALES TAX						
Exemptions						
5.01	Gifts Between Individuals	1971	19,100,000	19,900,000	20,600,000	21,500,000
5.02	Vehicles Acquired by Inheritance	1971	2,700,000	2,800,000	2,900,000	3,100,000
5.03	Vehicles of Persons Moving into Minnesota	1971	8,600,000	8,900,000	9,100,000	9,400,000
5.04	Transfers Between Joint Owners	1971	3,500,000	3,700,000	3,800,000	4,000,000

		Year Enacted	Fiscal Year Impact 2004	2005	2006	2007
5.05	Transfers in Divorce Proceedings	1974	400,000	400,000	400,000	400,000
5.06	Sales to Disabled Veterans	1971	*	*	*	*
5.07	Corporate and Partnership Transfers	1975	500,000	500,000	500,000	600,000
5.08	Transit Vehicles	2001	3,700,000	3,800,000	3,900,000	4,000,000
5.09	Town Road Maintenance Vehicles	1998	700,000	800,000	800,000	800,000
5.10	Bookmobiles	1994	*	*	*	*
5.11	Ambulances Purchased by Private Ambulance Services	1990	400,000	400,000	400,000	400,000
5.12	Ready-Mixed Concrete Trucks	1998	700,000	700,000	700,000	800,000
5.13	Vehicles Used in Automotive Training Programs	1988	100,000	100,000	100,000	100,000
5.14	Vehicles Donated to Exempt Organizations	1997	100,000	100,000	100,000	100,000
5.15	Trucks, Buses, and Vans Purchased by Charities	2000	1,400,000	1,500,000	1,500,000	1,600,00
Reduced Purchase Price						
5.16	Price Reduced by Value of Trade in	1971	83,800,000	86,300,000	88,900,000	91,600,000
5.17	Handicapped-Accessible Modifications	1992	200,000	300,000	300,000	300,000
Preferential Computations						
5.18	Flat Taxes on Older Cars and Collector Vehicles	1985	30,000,000	31,200,000	32,500,000	33,800,000
Credit						
5.19	Credit for Taxes Paid to Other States	1971	2,700,000	2,800,000	2,800,000	2,900,000

		Year Enacted	Fiscal Year Impact 2004	2005	2006	2007
HIGHWAY FUELS EXCISE TAXES						
Exemptions						
6.01	Transit Systems	1977	3,000,000	3,000,000	3,000,000	3,000,000
6.02	Motor Vehicles Not Requiring Registration (Special Fuels)	1951	600,000	600,000	600,000	600,000
6.03	Ambulance Services	2001	100,000	100,000	100,000	100,000
6.04	Reciprocal Agreements for Out-of-State Purchases	1961	*	*	*	*
ALCOHOLIC BEVERAGE TAXES						
Exemptions						
7.01	Consumer Purchases Made Out of State	1947	100,000	100,000	100,000	100,000
7.02	Home Production and Use	1957	*	*	*	*
7.03	Sales to Food Processors and Pharmaceutical Firms	1988	*	*	*	*
7.04	Consumption on Brewery Premises	1941	*	*	*	*
7.05	Wine for Sacramental Purposes	1937	*	*	*	*
7.06	Shipments of Wine for Personal Use	1993	*	*	*	*
Credit						
7.07	Credit for Small Brewers	1985	300,000	300,000	300,000	300,000

		Year Enacted	Fiscal Year Impact 2004	2005	2006	2007
CIGARETTE AND TOBACCO TAXES						
Exemption						
8.01	Consumer Purchases Made Out of State	1949	3,400,000	3,500,000	3,500,000	3,600,000
MORTGAGE REGISTRY TAX						
Exemptions						
9.01	Agricultural Loans	2001	2,000,000	2,000,000	2,000,000	2,000,000
9.02	Government Housing Programs	2001	100,000	100,000	100,000	100,000
DEED TRANSFER TAX						
Exemptions						
10.01	Deeds Partitioning Property of Co-Owners	1984	*	*	*	*
10.02	Deeds of Distribution by Personal Representatives	1975	*	*	*	*
10.03	Deeds for Cemetery Lots	1961	100,000	100,000	100,000	100,000
10.04	Exchange of Permanent School Fund Lands	1991	*	*	*	*
10.05	Mortgage or Lien Foreclosure Sales	1993	1,800,000	1,800,000	1,900,000	2,000,000
10.06	Decree of Marriage Dissolution	1997	100,000	100,000	100,000	100,000

	Year Enacted	Fiscal Year Impact 2004	2005	2006	2007
LAWFUL GAMBLING TAXES					
Exemptions					
11.01 Bingo at Certain Organizations	1985	*	*	*	*
11.02 Bingo at Fairs and Civic Celebrations	1984	*	*	*	*
11.03 Infrequent Bingo Occasions	1984	*	*	*	*
11.04 Smaller Raffles	1984	*	*	*	*
11.05 Raffles by Certain Organizations	1984	*	*	*	*
11.06 Lawful Gambling Under Certain Conditions	1986	1,100,000	1,100,000	1,100,000	1,100,000
Credit					
11.07 Credit for Certain Raffles	2000	*	*	*	*
INSURANCE PREMIUMS TAXES					
Exemptions					
12.01 Fraternal Benefit Societies	1907	4,800,000	5,100,000	5,400,000	5,700,000
12.02 Farmers' Mutual and Township Mutual Fire Insurance Companies (Fire Marshal Tax)	1915	300,000	300,000	300,000	300,000
12.03 Minnesota Comprehensive Health Insurance Plan Premiums	1976	1,900,000	2,100,000	2,200,000	2,300,000

		Year Enacted	Fiscal Year Impact 2004	2005	2006	2007
Exemption/Reduced Rate						
12.04	Health Maintenance Organizations and Nonprofit Health Service Plan Corporations	1971	70,800,000	61,000,000	65,100,000	69,200,000
Reduced Rates						
12.05	Smaller Mutual Property and Casualty Insurance Companies	1988	8,800,000	9,400,000	9,900,000	10,300,000
Credit						
12.06	Credit for Guaranty Association Assessments	1994	700,000	1,300,000	2,800,000	4,800,000
LOCAL PROPERTY TAX						
Exemptions						
13.01	Exempt Real Property	1851	862,100,000	940,800,000	1,021,600,000	1,110,300,000
13.02	Limited Market Value	1993	95,600,000	95,600,000	86,000,000	77,400,000
13.03	Improvements to Older Homes	1993	8,000,000	7,100,000	6,400,000	5,700,000
Preferential Valuations						
13.04	Classification System	1913	N/A	N/A	N/A	N/A
13.05	Green Acres Treatment of Agricultural Land	1967	27,000,000	31,000,000	35,700,000	41,100,000
13.06	Open Space Property	1969	4,600,000	5,200,000	6,000,000	6,800,000
13.07	Metropolitan Agricultural Preserves Land	1980	2,400,000	2,700,000	3,000,000	3,300,0
13.08	Tax Increment Financing	1947	266,100,000	273,900,000	281,600,000	290,300,000

		Year Enacted	Fiscal Year Impact 2004	2005	2006	2007
Preferential Computation						
13.09	Auxiliary Forest Tax	1927	100,000	100,000	100,000	100,000
Credits						
13.10	Taconite Homestead Credit	1969	10,300,000	11,000,000	11,800,000	12,600,000
13.11	Power Line Credit	1979	100,000	100,000	100,000	100,000
13.12	Metropolitan Agricultural Preserves Credit	1980	300,000	300,000	300,000	300,000
13.13	Conservation Tax Credit	1986	200,000	200,000	200,000	200,000
AIRFLIGHT PROPERTY TAX						
Preferential Computation						
14.01	Commuter Airlines	1969	100,000	100,000	100,000	100,000
Preferential Valuation						
14.02	Certain Airlines	1987	700,000	700,000	700,000	700,000
MOTOR VEHICLE REGISTRATION TAX						
Exemptions						
15.01	Local Government Vehicles	1921	6,100,000	6,300,000	6,400,000	6,500,000
15.02	School Buses	1933	400,000	400,000	400,000	400,000
15.03	Nonresident Military Personnel	1967	100,000	100,000	100,000	100,000
15.04	Medal of Honor Recipients and Former Prisoners of War	1983	100,000	100,000	100,000	100,000

		Year Enacted	Fiscal Year Impact 2004	2005	2006	2007
15.05	Disabled Veterans	1941	*	*	*	*
15.06	Nonprofit Charities	1987	*	*	*	*
15.07	Driver Education Programs at Nonpublic High Schools	1990	*	*	*	*
15.08	Commercial Driving Schools	1999	*	*	*	*
15.09	Ambulances Owned by Private Ambulance Services	1990	100,000	100,000	100,000	100,000
Preferential Computation						
15.10	Privately-Owned Buses Used for Student Transportation	1971	300,000	300,000	300,000	300,000
AIRCRAFT REGISTRATION TAX						
Exemption						
16.01	Civil Air Patrol Aircraft	1957	*	*	*	*
Preferential Computation						
16.02	Maximum Tax for Agricultural Aircraft	1999	*	*	*	*

*Less Than $50,000

RISEN CHRIST CATHOLIC SCHOOL PROFILE
2003/2004

Enrollment: 370 students, K-8

Population:

African American:	37%
Asian:	04%
Caucasian:	16%
Hispanic:	30%
Multi-Racial:	10%
Native American:	01%
Other:	02%

Religion:

Catholic:	47%*
Other Christian:	50%*
Non-Christian:	03%*

Free/ Reduced Lunch:	67%
ELL or LEP:	30%

03/04 annual tuition: $1750.00
Per pupil cost to educate: $5400.00
Percentage of families on tuition assistance: 76%
Average annual income for a family of four receiving tuition assistance: $26,230.00
Median income of families applying for tuition assistance: $24,000.00
Average amount of financial assistance awarded: $875.00

Average Daily Attendance: 95.5% (2002/2003 school year)

MN Basic Skills Test Pass Rates:

	Reading	Math
2002	84%	84%
2003	86%	73%
2004	Tests administered in February- results posted in April	

Parents overwhelmingly report one of these two as the primary reasons for selecting Risen Christ School for their children:

- Strong academics
- Physical and emotional safety

* Family-reported information. This information is requested, but not required on the registration form. Some families choose not to respond.

Eligibility criteria do not require that a school actually offer the lunch program. Requests for such information want to know what number of students or what percentage of the student population would be eligible to receive the benefit if the school did offer it.

There are nine different ways to calculate the eligibility of students for the school lunch program -- any ONE of these factors will qualify a student as eligible. A student qualifies as "eligible" if he/she comes from a family which:

1. Has a family income level that meets these NSLP criteria:

Eligibility Income Guidelines: Free and Reduced Price Meals 7/1/05 - 6/30/06		
Household Size	**Reduced Price Meals Annual Income**	**Free Meals Annual Income**
1	$17,705	$12,441
2	$23,736	$16,679
3	$29,767	$20,917
4	$35,798	$25,155
5	$41,829	$29,393
6	$47,860	$33,631
7	$53,891	$37,869
8	$59,922	$42,107
for each additional family member add	$6,031	$ 4,238

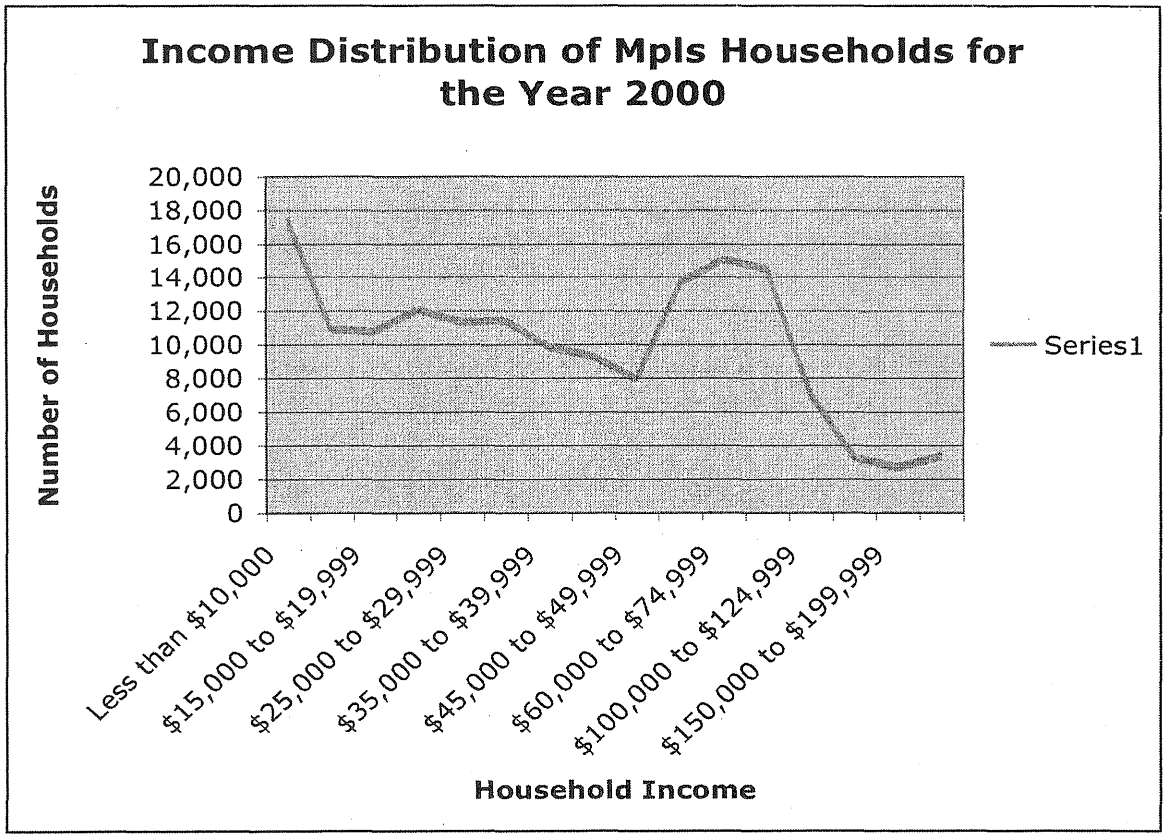
The criteria for determining the school discount percentage for the E-Rate program is satisfied by using the guidelines for reduced price meals. The income eligibility schedule for free lunch may be found in the US Department of Agriculture's website listed below.

These guidelines are for eligibility for reduced price meals in the 48 contiguous United States, District of Columbia, Guam and the Territories. Cost of living adjustments are provided for Alaska and Hawaii. For complete information about federal poverty guidelines for Alaska and Hawaii, as well as guidelines for free meals, consult the US Department of Agriculture's Food and Nutrition Service website at http://www.fns.usda.gov/cnd/Lunch/Default.htm.

- Receives Aid for Dependent Children (ADC) benefits
- Receives food stamps
- Receives Medicaid
- Receives Supplemental Security Income (SSI)
- Receives federal public housing assistance, such as Section 8
- Participates in the Low Income Home Energy Assistance Program
- Receives tuition assistance (if your school income eligibility criteria approximates NSLP guidelines)
- Is a foster child
- Only if data cannot be obtained, after several attempts, to verify any of the above categories, two other procedures are available to the principal:

a. a) *Administrative Prerogative* -- after unsuccessfully attempting to obtain data to substantiated one of the nine categories above, the principal makes some judgment from personal observation about the poverty of the families that did not respond to requests for poverty data.

Handout # 6



2004 HHS Poverty Guideline for a family of four is $18,850. The corresponding income level for a family of four that qualifies for free lunch (125% of poverty) is $23,562, and for reduced lunch prices is $34,872 (185% of poverty), 250% of this is an income of $47,125 for a family of four.

Minneapolis School District Funding by Revenue Source Per Pupil Unit 2003 (Source MN Department of Education)	
Local Revenues	
Levy	$1,858
Tuition from MN Districts	$30
Other Tuition and Fees	$0
Other Local Sources	$242
Total Local Revenues	$409
State Revenues	
State Aids	$7,483
State Grants	$867
Special Education	$1,206
Other State	$261
Total State Revenues	$9,818
Federal Revenues	
Federal Thru DCFL	$769
Fed Thru Other State Agencies	$7
Federal Direct	$182
Child Nutrition	$275
Total Federal	$1,233
Other	
Food Sales	$66
Other Sales & Recoveries	$2
Total Revenues per Pupil Unit	**$13,658**

Agenda #3

Senators Pappas, Kierlin, Skoe, Tomassoni and Robling introduced--

S.F. No. 1382: Referred to the Committee on Taxes.

A bill for an act

relating to taxes; providing a credit for employer postsecondary education expenses; amending Minnesota Statutes 2004, section 290.06, by adding a subdivision.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2004, section 290.06, is amended by adding a subdivision to read:

Subd. 32. [CREDIT FOR EMPLOYER EDUCATION EXPENSES.] A taxpayer may take a credit against the tax due under this chapter equal to 30 percent of the expense incurred by the taxpayer for payment of tuition and fees for postsecondary education for qualifying employees. The maximum credit allowed in any taxable year may not exceed $2,000 for a qualifying employee. As used in this subdivision, "qualifying employee" means an employee who works at least 30 hours per week at a pay rate of less than $12 per hour, and "postsecondary education" means postsecondary educational programs for which payment qualifies as "educational assistance" as defined in section 127(c) of the Internal Revenue Code, but excluding programs leading to a law, business, medical, or other advanced academic or professional degree.

[EFFECTIVE DATE.] This section is effective for taxable years beginning after December 31, 2004.

MINNESOTA· REVENUE

CORPORATE FRANCHISE
INDIVIDUAL INCOME TAX
Credit for Education Expenses

April 19, 2005

Preliminary Analysis

	Yes	No
Separate Official Fiscal Note Requested	X	
Fiscal Impact		
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 882 (Thissen) / S.F. 1382 (Pappas)

	Fund Impact			
	F.Y. 2006	**F.Y. 2007**	**F.Y. 2008**	**F.Y. 2009**
		(000's)		
General Fund Total	($4,700)	($4,900)	($5,200)	($5,400)

Effective for tax years beginning after December 31, 2004.

EXPLANATION OF THE BILL

Present law does not provide a credit for employer-paid education expenses. Employers can deduct these expenses as a business expense. If the employer-paid expenses are paid out under a qualified education assistance plan, employees can exclude the value of the benefit from their income.

The bill would allow employers to receive a tax credit equal to 30% of the value of employer-paid education expenses provided that certain conditions are met. The credit covers expenses paid for employees who earn less than $12 per hour and work at least 30 hours per week. The maximum credit is $2,000 per employee. The bill defines educational assistance the same as the definition in I.R.C section 127(c). Expenses covered by the credit must be for postsecondary education but do not include graduate studies.

REVENUE ANALYSIS DETAIL

- The revenue estimate is based on the employer-provided educational assistance item in the federal tax expenditure budget published in January 2005 by the Joint Committee on Taxation.
- The tax expenditure estimate was reduced to account for the effect of employer-paid assistance for graduate studies. It was also reduced to account for the maximum salary cap of $12 per hour.
- The value of employer-paid assistance was multiplied by 30% to determine the credit.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

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Agenda #4

Senators Pappas, Kierlin, Larson, Tomassoni and Skoe introduced--

S.F. No. 1888: Referred to the Committee on Taxes.

A bill for an act

relating to taxation; providing an income tax credit for expenditures for postsecondary tuition and related expenses; appropriating money; amending Minnesota Statutes 2004, section 290.06, by adding a subdivision.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2004, section 290.06, is amended by adding a subdivision to read:

Subd. 32. [HIGHER EDUCATION TUITION TAX CREDIT.] (a) In this subdivision, the following terms have the meanings given in this paragraph.

(1) "Eligible student" includes the taxpayer, spouse, or person claimed as a dependent of the taxpayer under section 151 of the Internal Revenue Code. An eligible student must be:

(i) a resident of Minnesota;

(ii) a graduate of a Minnesota high school or recipient of a Minnesota general education development diploma in 2005 or later; and

(iii) an enrolled full-time student at an eligible Minnesota postsecondary institution.

(2) An "eligible institution" has the meaning given in section 136A.101, subdivision 4, provided that the institution has a physical presence in Minnesota.

(3) "Qualifying higher education expenses" means tuition and fees actually paid during the taxable year to an eligible

institution by a taxpayer on behalf of an eligible student for the student's first two years of postsecondary education, reduced by:

(i) refunds of tuition and fees received from the institution; and

(ii) the amount of any Hope Scholarship Credit or Lifetime Learning Credit received with respect to the student under section 25A of the Internal Revenue Code for the same taxable year.

(b) An individual is allowed a credit against the tax imposed by this chapter equal to the amount of qualified higher education expenses for an eligible student. The maximum credit allowed for each eligible student is $500 in each of the first two years of postsecondary education.

(c) The amount of the credit otherwise payable under this subdivision must be reduced as follows:

(1) for single taxpayers, by ten percent for every $500 by which the taxpayer's federal adjusted gross income exceeds $25,000; and

(2) for married taxpayers, by ten percent for every $1,000 by which the taxpayer's federal adjusted gross income exceeds $50,000.

(d) If the amount of the credit exceeds the taxpayer's liability under this chapter, the excess is refundable. The amount necessary to pay the refunds is appropriated annually from the general fund to the commissioner.

[EFFECTIVE DATE.] This section is effective for taxable years beginning after December 31, 2004.

INDIVIDUAL INCOME TAX
Postsecondary Tuition Tax Credit

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings	X	

April 19, 2005

Department of Revenue
Analysis of S.F. 1888 (Pappas) / H.F. 2049 (Carlson)

	Fund Impact			
	F.Y. 2006	**F.Y. 2007**	**F.Y. 2008**	**F.Y. 2009**
	(000's)			
General Fund	($5,810)	($16,110)	($20,760)	($21,180)

Effective beginning with tax year 2005.

EXPLANATION OF THE BILL

This proposal would provide a refundable income tax credit for tuition and fees paid to a Minnesota postsecondary institution for the enrollment of a Minnesota resident who graduated from a Minnesota high school or received a Minnesota general education development diploma in 2005 or later. The credit can be taken only for students in their first two years of postsecondary education. The student may be the taxpayer, the taxpayer's spouse, or dependent and must be enrolled full time.

The student's eligible tuition and fees would be reduced by refunds of tuition and fees from the institution and by the amount of a federal Hope or Lifetime Learning tax credit.

The credit would be a maximum of $500 per student. For single taxpayers, the credit would be reduced by 10% for every $500 of federal adjusted gross income that exceeds $25,000. For married taxpayers, the credit would be reduced by 10% for every $1,000 of federal adjusted gross income that exceeds $50,000.

REVENUE ANALYSIS DETAIL

- According to the Minnesota Higher Education Services Office (MHESO), in 2003 there were approximately 234,000 Minnesota residents enrolled as undergraduates in Minnesota institutions.
- According to MHESO, 69% of undergraduates are enrolled full-time. According to the National Center for Education Statistics (NCES), 59.4% of undergraduate students are in the first two years of postsecondary education.
- According to NCES, in 1998 approximately 65% of full-time undergraduates in the first two years of postsecondary education met the income criteria to receive this credit. Due to rising incomes, it is assumed that 50% would now be eligible.
- An average credit amount of $400 and a growth rate of 2% are used for this analysis.

April 19, 2005

REVENUE ANALYSIS DETAIL (Continued)

- TY 2005 and TY 2006 were adjusted to account for those who graduated from high school before 2005. In TY 2005, only the fall semesters of college freshmen who graduated in 2005 are eligible. In TY 2006, the spring and fall semesters of 2005 graduates and the fall semester of 2006 graduates are eligible.
- Tax year impact is allocated to the following fiscal year.

Number of Taxpayers: There are an estimated 48,000 students eligible for this credit.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

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GROWTH & JUSTICE

WORKFORCE FIRST

A practical and affordable path toward a strong Minnesota economy and a decent standard of living for all

February 2004

Minnesota Citizens Engage in the Process

What do Jim Graves, President & CEO of Graves Hospitality (Le Meridien Hotel); Rebecca Yanisch, former Commissioner of the MN Department of Trade and Economic Development; David Ross, President and CEO of the Duluth Chamber of Commerce; Ann Weyandt, President of Anoka Technical College; John Ellenbecker, St. Cloud Mayor; and Dick Johnson, former President of the Minneapolis Central Labor Union Council, all have in common? They agree that one of the most important economic issues facing Minnesota is the inability of lower-income workers to support their families on their earnings, and that *all* Minnesotans will benefit when we have a strong economy in which all Minnesotans can earn a decent living.

These leaders in their fields, and about 150 others like them, participated in roundtable discussions as part of what we called the Growth & Justice Wage Project. Unlike some think tanks that rely primarily on "hired thinkers," Growth & Justice convenes people who share broad goals to brainstorm and evaluate new ideas and policies. For the Wage Project, this included interested citizens from business, labor, government, nonprofits and academia, including economists, political scientists and other experts.

In May and June 2003, roundtables were held in five cities – Blaine, Duluth, Minneapolis, St. Cloud and St. Paul. Armed with a background paper, participants discussed and rated broad strategic options for achieving the goal of increasing the number of Minnesotans who can support their families on their wages. Six more roundtables were then held in October and November 2003, with some of the first round participants and some new people. This time, participants critiqued a series of specific policy proposals put forth by Growth & Justice. As a result of the second round of discussions, Growth & Justice modified some proposals, scrapped others, and did further research to develop new initiatives.

In addition to the roundtables, small work groups came together to discuss specific issues in more depth, such as the minimum wage and Working Family Tax Credit, and early childhood education and child care. Focus groups were held with low-income workers struggling to make ends meet. Finally, feedback was solicited on the Growth & Justice website, on email, and in meetings with the Growth & Justice board and with small groups of advisers.

All told, hundreds of Minnesota citizens offered input and ideas, which deeply inform the content of this "Workforce First" report. Some of their many comments are highlighted throughout its pages.

Roundtable participants in Duluth learn how difficult it is to support a family on a basic-needs budget.

"This is the kind of discussion that should be going on at the legislature."

— CHRIS MAHAI, CO-OWNER AND PARTNER, AVEUS

EXECUTIVE SUMMARY

WORKFORCE FIRST

A practical and affordable path toward a strong Minnesota economy and a decent standard of living for all

The Minnesota economy has had a very strong run. In 2002, Minnesota ranked 7th among the 50 states in per capita income, after outperforming the nation for four straight decades. The state's real economic output grew 50% from 1991 to 2001, while the U.S. economy grew 41%.

Despite this success, a very substantial number of Minnesotans do not earn enough to support a family on a basic-needs budget. Half the jobs in Minnesota don't pay enough to cover the needs of a family with one worker and two children, and a third don't pay enough even with two parents working full-time. More than 330,000 Minnesota children (about one in four) live in families with annual incomes below $35,000, which is below what it takes for most families with two children to meet a basic-needs budget.

Why should all Minnesotans care? Because there is a high public return on investment for moving people up the wage ladder. People who earn more pay more state income taxes and are much less likely to commit crimes or end up in prison. Their children are likely to perform better in school, stay healthier, and become law-abiding and economically successful adults. Based on a state analysis, moving 50,000 low-wage workers with dependents to a wage $5 an hour higher, a wage they could live on, could save the state a quarter of a billion dollars a year. And businesses benefit from lower turnover, more productive employees, and more consumers able and willing to buy what they sell. Finally, the children of financially self-reliant parents do better, compounding all these benefits into the next generation.

A Unifying Goal

At a time of deep partisan division in Minnesota and the nation, here is a unifying goal: a Minnesota economy that is strong and growing, creating a decent standard of living for all. It is a goal that can appeal to Minnesotans concerned about economic justice and equal opportunity for the next generation. And it's a goal that can appeal to Minnesotans concerned about economic growth, the virtue of work, and reducing reliance on government services.

But what if the best route to economic growth and the best route to higher wages were the same route? And what if state government could have a major impact on moving Minnesota along that route, at a modest cost, by investing more in what has been proven to work and less in what hasn't? That would be a highly desirable route to take.

Growth & Justice has spent a year reviewing the academic literature about what works, talking to experts and more than 200 interested citizens around the state, exploring various policy ideas. Our conclusion: While many problems need to be addressed at the federal level, including immigration policy and the impact of global trade on jobs, the research evidence on what the state should do is clear. The best route for Minnesota's economic growth is indeed also the best route for growth in Minnesota workers' wages. That route is a better educated, more skilled workforce. The state with the best workforce prospers most.

The Case for Education and Skills as the Drivers of Growth

What is the evidence?

The link between education and higher earnings is dramatic and growing. In 1975, a college graduate earned 1.5 times more than a high school graduate; that's now up to 1.8 times. Minnesotans with more education are also far less likely to be unemployed.

There is strong evidence that more postsecondary education not only benefits the individual but drives the growth of a state's economy. A recent study of America's

250 largest cities, "The Changing Dynamics of Urban America," found that the best predictor of economic growth from 1990 to 2000 was the city's proportion of adults in 1990 that had college degrees.

Minnesota already ranks fairly high in postsecondary attainment. In 2002, we ranked 8th on percentage of adults over age 25 with a college degree (30.5%). We also ranked 8th in the year 2000 on percentage with a two-year associate's degree or higher (35%). Considering that we are now 3rd in high school attainment, we should be able to do better at higher levels.

But the future looks less bright, because we're lagging on the front end of the pipeline: Minnesota ranks 17th in postsecondary enrollments of 18- to 24-year-olds and 29th in enrollment for adults 25 and older.

Growth & Justice recommends that Minnesota set a goal of adding 10,000 more Minnesotans a year with postsecondary degrees than our current pace – almost a 30% increase in associate and bachelor's degrees – so that by 2015 we would be among the top five states in educational attainment.

The best opportunity for increasing the number of post-secondary degrees lies with lower-income students, because Minnesota's success is unusually concentrated at the high end of the socioeconomic spectrum. The wealthiest 20% of Minnesotans are seven times more likely to have a bachelor's degree than the poorest 20%. This is a greater inequality than in 29 other states.

Busting Through Barriers

For Minnesota to have the best educated, best trained workforce in the nation, we must bust through the barriers that block lower-income people from earning postsecondary degrees.

- Many of the state's policies actively discourage low-income workers from returning to school. For example:
  - In the face of rising tuition rates, the State Grant Program does not provide nearly enough help for low-income and part-time students who want to attend postsecondary institutions.
  - Welfare recipients have to take low-wage, dead-end jobs even if they are qualified and willing to go to college. This Work First philosophy, driven by the federal government and now accepted in Minnesota, is turning out large numbers of workers who do not meet employers' needs, resulting in high turnover.
  - Child-care subsidies are strongly biased in favor of parents who work at low-wage jobs, rather than attending school.
  - Many skilled, high-paying occupations are experiencing labor shortages, but we are not counseling and attracting young people to prepare to enter those fields and in some cases, such as nursing, we are turning away applicants because we don't have the capacity to train the number needed.
  - Unemployment insurance rules discourage Minnesotans from looking for part-time work while returning to school.
- Public higher education, the main route up for lower-income students, has been getting a shrinking share of Minnesota's resources, and our commitment to it is declining sharply compared to other states.
- There is a substantial academic performance gap between white students and those of many minority groups. This gap shows up in early childhood and persists through K-12 education, decreasing the chance of these minority students succeeding in postsecondary education.

What if the best route to economic growth and the best route to higher wages were the same route?

GROWTH & JUSTICE PROPOSES A SERIES OF SOLUTIONS FOR MORE EDUCATIONAL ATTAINMENT:

- Restructure the state financial aid formula, to help low-income and part-time students.

- Adopt Maine's Parents-as-Scholars program, which has enabled qualified and motivated welfare recipients to attend college, raising average income by nearly 50%.

- Encourage online education by providing an incentive to businesses that pay for it for their employees.

- Consolidate all child care subsidy programs into a single new early childhood voucher, available for parents going either to work or to school, and – unlike the current programs – designed to encourage them to place their children in high-quality care provided by workers earning a living wage.

- Support reform of our K-12 education system. A major focus should be new ways to recruit, train, reward, and retain the highest-quality teachers and principals where they are most needed.

Skills Training Works, Too

Evidence is also growing that raising basic skills, even without higher degrees, can dramatically improve workers' wages. Here, too, what's good for the worker is good for the economy, because Minnesota businesses say that one of their major concerns is that too many low-wage workers lack the basic skills to be productive employees, and productive workers drive profits.

There are programs in Minnesota today that have been proven effective at this, including nonprofits that provide intensive training for low-skilled workers and a state program involving cooperation between businesses and postsecondary institutions to train workers for jobs the business needs.

In addition to seeing that an added 10,000 people a year get post-secondary degrees, Minnesota should also commit to an additional 15,000 workers a year obtaining market-driven skills training that could raise their wages without a degree.

GROWTH & JUSTICE PROPOSES:

- Paying nonprofit training organizations for successfully moving low-wage workers up the ladder.

- Expanding a state program in which businesses partner with postsecondary institutions to train employees in skills the business needs.

Together, by 2015, the two parts of this Workforce First strategy could give nearly 250,000 additional Minnesotans the postsecondary degree or market-driven skills training they need to make a living wage. The result for the state could be as much as $6 billion in benefit.

The Case Against Most Tax Incentives to Businesses

Workforce quality pays off, but the evidence for other economic development strategies the state could pursue is weak, based on reviews of the evaluative literature by expert economists.

For example, the state of Minnesota and its local governments continue to offer generous tax incentives to encourage businesses to locate or expand on certain sites, even though the research evidence suggests that this produces limited results at a very high cost per induced job. It is difficult to know what we spend on such programs, but it's well over $100 million a year, and the governor's new Job Opportunity Building Zones (JOBZ) program alone figures to cost the state tens of millions a year.

Workforce First: 250,000 additional Minnesotans with postsecondary degrees or market-driven skills training could equal as much as a $6 billion benefit to the state.

Doubling the Working Family Credit would provide 200,000 working Minnesota families with an average of $500 more cash per year; some could get as much as $1,300.

We need to wean ourselves off these incentives, to free up scarce resources for more effective strategies. The state should join with the business community and local leaders to end the bidding wars among localities within the state, and to emphasize workforce quality, quality of life and other advantages – not tax breaks – when recruiting firms from outside the state.

The state has many broader-based business tax breaks as well. They are based on encouraging capital investment, which may or may not help workers. An employment subsidy that rewards firms for hiring more workers in areas of high unemployment would have more direct impact at lower cost. And Growth & Justice urges exploring an incentive that is untested but intriguing: a credit against the payroll tax for employers that actually raise the wages of lower-wage earners significantly faster than inflation.

Struggling Families Still Need a Boost

A stronger workforce will still leave some people earning too little to support their families, and we must have a secondary strategy to strengthen their financial capacity. The research suggests that the most efficient way is through the Earned Income Tax Credit (EITC) – which also happens to be the route with the broadest multi-partisan support.

GROWTH & JUSTICE RECOMMENDS DOUBLING THE STATE WORKING FAMILY CREDIT, AT A COST OF ABOUT $100 MILLION A YEAR, WHICH WOULD PROVIDE MORE THAN 200,000 LOW-INCOME WORKING MINNESOTA FAMILIES WITH AN AVERAGE OF $500 MORE CASH PER YEAR, WITH SOME FAMILIES GETTING AS MUCH AS $1,300.

Other tactics, such as raising the state's mandatory minimum wage or subsidizing more of lower-income people's expenses, can also work, but they are less efficient. While health care reform is beyond the scope of this report, universal coverage that is portable, affordable and high-quality would make a huge difference.

Paying for the Strategy

The cost of pursuing a strategy to make Minnesota the quality workforce state is modest, since some of the resources can be diverted from business tax incentives and from some less effective forms of workforce development. For about $500 million in new funding a year, the state could make meaningful progress on every proposal in this report.

It is not the purpose of this report to propose a specific set of tactics to pay the bill. But we believe it can be paid in ways that would actually benefit Minnesota.

Even if the entire $500 million came from taxes and fees, that would represent only about 1/4 of a percent of Minnesotans' aggregate personal income. That would still leave the price of government (all state and local spending as a percentage of personal income) well below its average over the past decade and more than two percentage points below its 1994 peak of 17.7%. Even if the state also spent another $500 million restoring the most damaging of its recent spending cuts, the price of government would remain below its 10-year average.

Some methods of raising the revenues could have beneficial side effects, such as the impact that a $1 per pack increase in the cigarette tax would have on teen smoking, or the impact that rush-hour highway fees would have on traffic congestion. Some could make the tax system fairer, such as a new higher income tax bracket on the highest-earning 4% of Minnesotans, who do not pay their proportional share of all state and local taxes.

Agenda #6

Senators Moua, Pogemiller, Belanger, Skoe and Limmer introduced--

S.F. No. 1175: Referred to the Committee on Taxes.

A bill for an act

relating to taxation; increasing the income tax subtraction for charitable contributions; amending Minnesota Statutes 2004, sections 290.01, subdivision 19b; 290.091, subdivision 2.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2004, section 290.01, subdivision 19b, is amended to read:

Subd. 19b. [SUBTRACTIONS FROM FEDERAL TAXABLE INCOME.] For individuals, estates, and trusts, there shall be subtracted from federal taxable income:

(1) interest income on obligations of any authority, commission, or instrumentality of the United States to the extent includable in taxable income for federal income tax purposes but exempt from state income tax under the laws of the United States;

(2) if included in federal taxable income, the amount of any overpayment of income tax to Minnesota or to any other state, for any previous taxable year, whether the amount is received as a refund or as a credit to another taxable year's income tax liability;

(3) the amount paid to others, less the amount used to claim the credit allowed under section 290.0674, not to exceed $1,625 for each qualifying child in grades kindergarten to 6 and $2,500 for each qualifying child in grades 7 to 12, for tuition,

textbooks, and transportation of each qualifying child in attending an elementary or secondary school situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a resident of this state may legally fulfill the state's compulsory attendance laws, which is not operated for profit, and which adheres to the provisions of the Civil Rights Act of 1964 and chapter 363A. For the purposes of this clause, "tuition" includes fees or tuition as defined in section 290.0674, subdivision 1, clause (1). As used in this clause, "textbooks" includes books and other instructional materials and equipment purchased or leased for use in elementary and secondary schools in teaching only those subjects legally and commonly taught in public elementary and secondary schools in this state. Equipment expenses qualifying for deduction includes expenses as defined and limited in section 290.0674, subdivision 1, clause (3). "Textbooks" does not include instructional books and materials used in the teaching of religious tenets, doctrines, or worship, the purpose of which is to instill such tenets, doctrines, or worship, nor does it include books or materials for, or transportation to, extracurricular activities including sporting events, musical or dramatic events, speech activities, driver's education, or similar programs. For purposes of the subtraction provided by this clause, "qualifying child" has the meaning given in section 32(c)(3) of the Internal Revenue Code;

(4) income as provided under section 290.0802;

(5) to the extent included in federal adjusted gross income, income realized on disposition of property exempt from tax under section 290.491;

(6) to the extent included in federal taxable income, postservice benefits for youth community service under section 124D.42 for volunteer service under United States Code, title 42, sections 12601 to 12604;

(7) to the extent not deducted in determining federal taxable income by an individual who does not itemize deductions for federal income tax purposes for the taxable year, an amount

equal to ~~50~~ 100 percent of the excess of charitable contributions allowable as a deduction for the taxable year under section 170(a) of the Internal Revenue Code over $500;

(8) for taxable years beginning before January 1, 2008, the amount of the federal small ethanol producer credit allowed under section 40(a)(3) of the Internal Revenue Code which is included in gross income under section 87 of the Internal Revenue Code;

(9) for individuals who are allowed a federal foreign tax credit for taxes that do not qualify for a credit under section 290.06, subdivision 22, an amount equal to the carryover of subnational foreign taxes for the taxable year, but not to exceed the total subnational foreign taxes reported in claiming the foreign tax credit. For purposes of this clause, "federal foreign tax credit" means the credit allowed under section 27 of the Internal Revenue Code, and "carryover of subnational foreign taxes" equals the carryover allowed under section 904(c) of the Internal Revenue Code minus national level foreign taxes to the extent they exceed the federal foreign tax credit;

(10) in each of the five tax years immediately following the tax year in which an addition is required under subdivision 19a, clause (7), an amount equal to one-fifth of the delayed depreciation. For purposes of this clause, "delayed depreciation" means the amount of the addition made by the taxpayer under subdivision 19a, clause (7), minus the positive value of any net operating loss under section 172 of the Internal Revenue Code generated for the tax year of the addition. The resulting delayed depreciation cannot be less than zero; and

(11) job opportunity building zone income as provided under section 469.316.

[EFFECTIVE DATE.] This section is effective for taxable years beginning after December 31, 2004.

Sec. 2. Minnesota Statutes 2004, section 290.091, subdivision 2, is amended to read:

Subd. 2. [DEFINITIONS.] For purposes of the tax imposed by this section, the following terms have the meanings given:

(a) "Alternative minimum taxable income" means the sum of the following for the taxable year:

(1) the taxpayer's federal alternative minimum taxable income as defined in section 55(b)(2) of the Internal Revenue Code;

(2) the taxpayer's itemized deductions allowed in computing federal alternative minimum taxable income, but excluding:

(i) the charitable contribution deduction under section 170 of the Internal Revenue Code ~~to-the-extent-that-the-deduction exceeds-1.0-percent-of-adjusted-gross-income,-as-defined-in section-62-of-the-Internal-Revenue-Code~~;

(ii) the medical expense deduction;

(iii) the casualty, theft, and disaster loss deduction; and

(iv) the impairment-related work expenses of a disabled person;

(3) for depletion allowances computed under section 613A(c) of the Internal Revenue Code, with respect to each property (as defined in section 614 of the Internal Revenue Code), to the extent not included in federal alternative minimum taxable income, the excess of the deduction for depletion allowable under section 611 of the Internal Revenue Code for the taxable year over the adjusted basis of the property at the end of the taxable year (determined without regard to the depletion deduction for the taxable year);

(4) to the extent not included in federal alternative minimum taxable income, the amount of the tax preference for intangible drilling cost under section 57(a)(2) of the Internal Revenue Code determined without regard to subparagraph (E);

(5) to the extent not included in federal alternative minimum taxable income, the amount of interest income as provided by section 290.01, subdivision 19a, clause (1); and

(6) the amount of addition required by section 290.01, subdivision 19a, clause (7);

less the sum of the amounts determined under the following:

(1) interest income as defined in section 290.01,

subdivision 19b, clause (1);

(2) an overpayment of state income tax as provided by section 290.01, subdivision 19b, clause (2), to the extent included in federal alternative minimum taxable income;

(3) the amount of investment interest paid or accrued within the taxable year on indebtedness to the extent that the amount does not exceed net investment income, as defined in section 163(d)(4) of the Internal Revenue Code. Interest does not include amounts deducted in computing federal adjusted gross income; and

(4) amounts subtracted from federal taxable income as provided by section 290.01, subdivision 19b, clauses (10) and (11).

In the case of an estate or trust, alternative minimum taxable income must be computed as provided in section 59(c) of the Internal Revenue Code.

(b) "Investment interest" means investment interest as defined in section 163(d)(3) of the Internal Revenue Code.

(c) "Tentative minimum tax" equals 6.4 percent of alternative minimum taxable income after subtracting the exemption amount determined under subdivision 3.

(d) "Regular tax" means the tax that would be imposed under this chapter (without regard to this section and section 290.032), reduced by the sum of the nonrefundable credits allowed under this chapter.

(e) "Net minimum tax" means the minimum tax imposed by this section.

[EFFECTIVE DATE.] <u>This section is effective for taxable years beginning after December 31, 2004.</u>

MINNESOTA· REVENUE

INDIVIDUAL INCOME TAX
Charitable contributions subtraction

March 7, 2005

	Yes	No
Separate Official Fiscal Note Requested	X	
Fiscal Impact		
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 1254 (Abrams)/ S.F. 1175 (Moua)

	Fund Impact			
	F.Y. 2006	**F.Y. 2007**	**F.Y. 2008**	**F.Y. 2009**
		(000's)		
General Fund	($8,300)	($8,800)	($9,500)	($10,300)
	5,9			

Effective beginning with tax year 2005

EXPLANATION OF THE BILL

Current Law: Taxpayers who do not itemize deductions may reduce taxable income by 50% of charitable contributions in excess of $500. Taxpayers subject to the alternative minimum tax may deduct itemized charitable contributions in excess of 1% of adjusted gross income to arrive at Minnesota alternative minimum taxable income.

Proposed Law: The bill allows 100% of charitable contributions in excess of $500 to be deducted from taxable income for nonitemizers. It allows all itemized charitable contributions to be deducted in determining Minnesota alternative minimum taxable income.

REVENUE ANALYSIS DETAIL

- Simulation results are obtained using the House Income Tax Simulation (HITS 5.3) model. The simulations assume: (1) the same economic conditions used by the Minnesota Department of Finance for the forecast published in February 2005 and (2) individual income tax situations contained in a database of returns compiled for tax year 2002 by the Minnesota Department of Revenue. The HITS model extrapolates these data for the applicable tax years according to the economic assumptions of the Department of Finance.
- The tax year impact is allocated to the following fiscal year.

Number of Taxpayers: About 196,000 taxpayers in 2005 would be affected.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

hf1254(sf1175) _1/gt

Agenda #7

Senators Ortman, Hann, Fischbach, Bachmann and Wergin introduced--

S.F. No. 1247: Referred to the Committee on Taxes.

A bill for an act

relating to taxation; providing an individual income and corporate franchise tax credit for qualifying investments in dairy operations; amending Minnesota Statutes 2004, section 290.06, by adding a subdivision.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2004, section 290.06, is amended by adding a subdivision to read:

Subd. 32. [DAIRY INVESTMENT CREDIT.] (a) A dairy investment credit is allowed against the tax computed under this section equal to the credit amount in the table, based on the amount paid or incurred by the taxpayer, during the taxable year, for qualifying expenditures:

Amount of qualifying expenditures	Credit amount
up to $500,000	ten percent of qualifying expenditures
over $500,000, but not more than $600,000	$50,000, plus nine percent of the amount of qualified expenditures in excess of $500,000
over $600,000 but not more than $700,000	$59,000, plus seven percent of the amount of qualified expenditures in excess of $600,000
over $700,000, but not more than $800,000	$66,000, plus five percent of the amount of qualified expenditures in excess of $700,000
over $800,000, but not more than $900,000	$71,000, plus three percent of the amount of qualified expenditures in excess of

	$800,000
over $900,000, but not more than $1,000,000	$74,000, plus one percent of the amount of qualified expenditures in excess of $900,000
$1,000,000 or more	$75,000

(b) "Qualifying expenditures" means for purposes of this subdivision the amount spent for the acquisition, construction, or improvement of buildings or facilities, or the acquisition of equipment, for dairy animal housing, confinement, animal feeding, milk production, and waste management, including the following, if related to dairy animals:

(1) freestall barns;

(2) fences;

(3) watering facilities;

(4) feed storage and handling equipment;

(5) milking parlors;

(6) robotic equipment;

(7) scales;

(8) milk storage and cooling facilities;

(9) bulk tanks;

(10) manure pumping and storage facilities;

(11) digesters; and

(12) equipment used to produce energy.

Qualified expenditures exclude any amounts deducted under section 162 of the Internal Revenue Code in computing federal taxable income.

(c) The credit is limited to the liability for tax, as computed under this section for the taxable year. If the amount of the credit determined under this section for any taxable year exceeds this limitation, the excess is a dairy investment credit carryover to each of the 15 succeeding taxable years. The entire amount of the excess unused credit for the taxable year is carried first to the earliest of the taxable years to which the credit may be carried and then to each successive year to which the credit may be carried. The amount of the unused credit which may be added under this paragraph shall not exceed the taxpayer's liability for tax less the dairy investment credit for the taxable year.

(d) For a partnership or S corporation, the maximum amount of the credit applies to the entity, not the individual partner or shareholder.

[EFFECTIVE DATE.] This section is effective for taxable years beginning after December 31, 2004.

Senator ..... moves to amend S.F. No. 1247 as follows:

Delete everything after the enacting clause and insert:

"Section 1. Minnesota Statutes 2002, section 290.06, is amended by adding a subdivision to read:

Subd. 29. [DAIRY INVESTMENT CREDIT.] (a) A dairy investment credit is allowed against the tax due under this chapter equal to ten percent of the amount paid or incurred by the taxpayer, on the first $300,000 of qualifying expenditures made in the qualifying period.

(b) "Qualifying expenditures" means for purposes of this subdivision the amount spent for the acquisition, construction, or improvement of buildings or facilities, or the acquisition of equipment, for dairy animal housing, confinement, animal feeding, milk production, and waste management, including the following, if related to dairy animals:

(1) freestall barns;

(2) fences;

(3) watering facilities;

(4) feed storage and handling equipment;

(5) milking parlors;

(6) robotic equipment;

(7) scales;

(8) milk storage and cooling facilities;

(9) bulk tanks;

(10) manure pumping and storage facilities;

(11) digesters; and

(12) equipment used to produce energy.

Qualified expenditures only include amounts that are capitalized and deducted under either section 167 or 179 of the Internal Revenue Code in computing federal taxable income.

(c) The credit is limited to the liability for tax, as computed under this chapter for the taxable year. If the amount of the credit determined under this section for any taxable year exceeds this limitation, the excess is a dairy investment credit carryover to each of the 15 succeeding taxable years. The entire amount of the excess unused credit for the taxable year is carried first to the earliest of the taxable years to which the credit may be carried and then to each successive year to which the credit may be carried. The amount of the unused credit which may be added under this paragraph shall not exceed the taxpayer's liability for tax less the dairy investment credit for the taxable year.

(d) The qualifying period is that time after December 31, 2005, and before January 1, 2012.

(e) The $30,000 maximum credit applies at the entity level for partnerships, S corporations, trusts, and estates as well as at the individual level. In the case of married individuals, the credit is limited to $30,000 for a married couple.

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2005."

Senators Sams, Koering, Dille, Vickerman and Lourey introduced--

S.F. No. 516: Referred to the Committee on Taxes.

A bill for an act

relating to taxation; providing an individual income and corporate franchise tax credit for qualifying investments in dairy operations; amending Minnesota Statutes 2004, section 290.06, by adding a subdivision.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2004, section 290.06, is amended by adding a subdivision to read:

Subd. 32. [DAIRY INVESTMENT CREDIT.] (a) A dairy investment credit is allowed against the tax computed under this section equal to the credit amount in the table, based on the amount paid or incurred by the taxpayer, during the taxable year, for qualifying expenditures:

Amount of qualifying expenditures	Credit amount
up to $500,000	ten percent of qualifying expenditures
over $500,000, but not more than $600,000	$50,000, plus nine percent of the amount of qualified expenditures in excess of $500,000
over $600,000, but not more than $700,000	$59,000, plus seven percent of the amount of qualified expenditures in excess of $600,000
over $700,000, but not more than $800,000	$66,000, plus five percent of the amount of qualified expenditures in excess of $700,000
over $800,000, but not more than $900,000	$71,000, plus three percent of the amount of qualified expenditures in excess of

	$800,000
over $900,000, but not more than $1,000,000	$74,000, plus one percent of the amount of qualified expenditures in excess of $900,000
$1,000,000 or more	$75,000

(b) "Qualifying expenditures," for purposes of this subdivision, means the expenses incurred for dairy animals for the acquisition, construction, or improvement of buildings or facilities, or the acquisition of equipment, for dairy animal housing, confinement, animal feeding, milk production, and waste management, including, but not limited to, the following:

(1) freestall barns;

(2) fences;

(3) watering facilities;

(4) feed storage and handling equipment;

(5) milking parlors;

(6) robotic equipment;

(7) scales;

(8) milk storage and cooling facilities;

(9) bulk tanks;

(10) manure pumping and storage facilities;

(11) digesters; and

(12) equipment used to produce energy.

Qualified expenditures do not include any amounts deducted under section 162 of the Internal Revenue Code in computing federal taxable income.

(c) The credit is limited to the liability for tax, as computed under this section for the taxable year. If the amount of the credit determined under this section for any taxable year exceeds this limitation, the excess is a dairy investment credit carryover to each of the 15 succeeding taxable years. The entire amount of the excess unused credit for the taxable year is carried first to the earliest of the taxable years to which the credit may be carried and then to each successive year to which the credit may be carried. The amount of the unused credit which may be added under this paragraph shall not exceed the taxpayer's liability for tax less the dairy investment credit for the taxable year.

(d) For a partnership or S corporation, the maximum amount of the credit applies to the entity, not the individual partner or shareholder.

[EFFECTIVE DATE.] This section is effective for taxable years beginning after December 31, 2004.

MINNESOTA · REVENUE

INCOME AND CORPORATE TAX
Dairy Investment Credit

April 19, 2005

	Yes	No
Separate Official Fiscal Note Requested	X	
Fiscal Impact		
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 516 (Sams) / H.F. 719 (Urdahl)

	Fund Impact			
	F.Y. 2006	**F.Y. 2007**	**F.Y. 2008**	**F.Y. 2009**
		(000's)		
General Fund	($6,500)	($7,800)	($9,000)	($10,200)

Effective for tax years beginning after December 31, 2004.

EXPLANATION OF THE BILL

This proposal would create a non-refundable credit against the individual income tax or corporate franchise tax equal to a sliding percentage scale specified in the bill of qualifying dairy investments.

Qualified investment would receive a credit on the following scale:
Up to $500,000 of investment would receive a 10% credit,
$500,000 - $600,000 would receive a credit of $50,000 plus 9% of the excess over $500,000,
$600,000 - $700,000 would receive a credit of $59,000 plus 7% of the excess over $600,000,
$700,000 - $800,000 would receive a credit of $66,000 plus 5% of the excess over $700,000,
$800,000 - $900,000 would receive a credit of $71,000 plus 3% of the excess over $800,000,
$900,000 - $1,000,000 would receive a credit of $74,000 plus 1% of the excess over $900,000,
and investments over $1,000, 000 would receive a credit of $75,000.

Qualifying expenditures include amounts spent on acquisition, construction, or improvement of facilities, or the acquisition of equipment for dairy animal housing, confinement, feeding, milk production, and waste management. Examples of qualifying equipment include barns, fences, watering facilities, feed storage and handling equipment, milking parlors, robotic equipment, scales, milk storage and cooling facilities, bulk tanks, manure pumping and storage facilities, digesters, and equipment used to produce energy. The proposal includes a 15 year carry forward of unused investment credit.

REVENUE ANALYSIS DETAIL

- Data sources were an industry survey taken by the MN Department of Agriculture and the 2002 Census of Agriculture published in February and June of 2004.
- Survey participation rate for dairy enterprises is 25%.
- Inflation is assumed to be 1.85% per year.
- Acquisitions of entire farms are assumed not to qualify.
- It is assumed that 33% of the credit generated would be used to offset tax in the first year, with the remainder taken equally in each of the next 12 years.

Number of Taxpayers: Approximately 1,400 farms per year are expected to use this program.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

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Handout #1

Testimony—Senate Tax Committee

Paul Kent, Mora, Minn.,
on behalf of the Minnesota Association of Cooperatives

Thank you for the opportunity to speak with you today. My name is Paul Kent. I am a dairy producer from Mora, a director on the Land O'Lakes board and chairman of the Minnesota Association of Cooperatives Dairy Committee. I am here today representing the Minnesota Association of Cooperatives (MAC).

MAC is supportive of actions to strengthen our state's animal agriculture industry. Livestock production contributes about 52 percent of Minnesota's total farm income. Dairy production and processing alone iemploys over 22,000 workers in our state.

MAC began working on an Investment Tax Credit Proposal nearly two years ago, following introduction of a similar proposal for Wisconsin. The MAC membership adopted a resolution supporting a 10 percent tax credit for livestock modernization back in November 2003.

The need for this provision should now be clear. We're losing our farms and we're losing our cows. From 1980 to 2000, Minnesota dairy cow numbers declined by 320,000 head, from 860,000 to 540,000. This represents a 37 percent drop. During this same time period, the number of dairy farms in Minnesota decreased from 27,000 in 1980 to 8,500 in 2000. In total, Minnesota lost 18,500 or 68 percent of dairy farms in this 20-year time period.

But the loss is not confined to the dairy sector within agriculture. Loss of dairy cows also affects dairy feed demand for corn and soybeans, with drops of more than 30 percent in the last decade. This means the losses in dairy have meant a loss for most of Minnesota agriculture and our rural infrastructure.

But we can help to reverse this trend if we can make this valuable part of the state's economy a priority. In Minnesota, it's estimated that each cow in a 100-cow operation generates $511.92 in state and local taxes. A $1 gain in farm income is estimated to yield a gain of $1.50 in non-farm income. Any measure we can take to improve investment in our dairy herds, regardless of size, can have a noticeable ripple effect in the economies of our rural communities. The Minnesota Association of Cooperatives believes the dairy investment tax credit proposal is a step in the right direction.

But it's important to note that an investment tax credit is only paid to producers who have a net tax liability, so the state would first see substantial taxable income generated before tax credits are actually paid to producers. Currently, relatively few producers have a net tax burden.

The Investment Tax Credit measure has been identified by the MAC Dairy Committee as its highest priority issue for this session. In addition to helping our dairy industry, MAC also believes it is important to work toward maintaining a level playing field between Minnesota and surrounding states, particularly Wisconsin, as it pertains to dairy. Wisconsin's dairy investment tax credit proposal became law last year. Unless a similar proposal is passed here, members of the Minnesota Association of Cooperatives are concerned that such action puts Minnesota's dairy industry at a competitive disadvantage.

On behalf of the members of the Minnesota Association of Cooperatives, we urge Minnesota lawmakers to support an investment tax credit proposal as a measure which can help to ensure survival and growth for the future of our dairy industry and the well-being of our rural communities.