HOUSE RESEARCH

Bill Summary =

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Subject: Individual income tax credit for contributions to school tuition organizations

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Overview

Provides for an individual income tax credit for contributions to school tuition organizations equal to 50 percent of the amount contributed, up to a maximum of \$1,000. School tuition organizations must use 85 percent of their annual revenues to award scholarships to students from families with incomes below 75 percent of the statewide median, may only award 25 percent of the total amount awarded to students already enrolled in nonpublic schools, and may not restrict scholarships to students of one school. Coordinates with other tax provisions relating to charitable contribution to preclude taxpayers from claiming more than one state tax benefit for a single contribution.

Section

- Additions to federal taxable income; individuals. Requires an add-back to Minnesota taxable income equal to the amount of school tuition organization credit that was claimed as a federal charitable contribution deduction at the federal level. Federal itemized deductions flow through to the state income tax, resulting in a state tax benefit for charitable contributions claimed at the federal level. This section limits state tax benefits for school tuition organization contributions to the proposed credit, rather than both the credit and the flow-through deduction.
- 2 Nonitemizer charitable contribution subtraction. Prohibits nonitemizers from claiming Minnesota's charitable contribution subtraction for amounts claimed under the proposed

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Section

school tuition organization credit. The charitable contribution subtraction equals 50 percent of contributions in excess of \$500. This section limits state tax benefits for school tuition organization contributions to the proposed credit, rather than both the credit and the existing nonitemizer subtraction.

- 3 Credit for contributions to scholarship granting organizations.
 - **Subd. 1. Definitions.** (a) Defines terms for this section.
 - (b) "School tuition organization" or "STO" means a tax exempt charitable organization that is registered with the state attorney general's office and is certified by the education commissioner as meeting the paragraph's criteria, including:
 - must award at least 85 percent of annual revenues as education scholarships, of which not more than 25 percent may be awarded to students enrolled in a nonpublic school of the time they first apply for a scholarship;
 - must limit scholarships to students from families with incomes less than 75 percent of the statewide median adjusted for family size;
 - must not restrict scholarships to one school; and
 - may not charge a fee to prospective scholarship recipients.

Requires the commissioner of education to maintain a list of STOs.

- (c) "Statewide median family income" is as determined by the commissioner of education. If the commissioner were to determine the median using data reported by the U.S. Department of Health and Human Services, the 2002 median for a family of four in Minnesota was \$72,379; 75 percent of the median was \$54,284. This is the most recent year for which data has been published in the federal register.
- (d) "Liability for tax" means individual and corporate tax after nonrefundable credits.
- (e) "Qualified school" means a school in which a Minnesota resident may fulfill the state's compulsory attendance laws, and which is not operated for a profit.
- **Subd. 2. Credit allowed.** Allows a credit equal to 50 percent of the amount contributed to a school tuition organization, up to a maximum credit of \$1,000. Prohibits the credit if contributions were designated for the use of a specific student.
- **Subd. 3. Nonresidents and part-year residents.** Requires nonresidents and part-year residents to apportion the credit by the ratio of their Minnesota source income to their total income.

Makes this section effective beginning in tax year 2006.