

HOUSE RESEARCH

Bill Summary

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Subject: Corporate income tax credit for contributions for early childhood access grants, and new preK and K individual income tax credit

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Overview

Provides for a corporate income tax credit for contributions to nonprofit organizations for provision of early childhood education access grants, equal to 75 percent of the amount contributed, up to a maximum of \$2.5 million. The organizations must use at least 85 percent of the contributions received to make early childhood education access grants to parents of prekindergarten and kindergarten-aged children who have incomes below 200 percent of the federal poverty guidelines. Coordinates with other tax provisions relating to charitable contribution to preclude corporate taxpayers from claiming more than one state tax benefit for a single contribution. Limits total credits to \$100 million in fiscal year 2008 and following years.

Also provides a new refundable income tax credit equal to 75 percent of qualifying prekindergarten and kindergarten expenses, up to a maximum of \$5,000 per child. The new credit is not subject to an income-based phaseout.

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1 Basic sliding fee childcare program. Provides that recipients of assistance through the

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basic sliding fee childcare program who also receive an early education access grant under section 0 must have their basic sliding fee assistance reduced by the early education access grant amounts received.

- 2 **Subtractions from taxable income; individuals** . Modifies the existing K-12 education subtraction by limiting it to students in grades 1 through 12. Section 0 extends a new credit to parents of prekindergarten and kindergarten children, without regard to household income.
- 3 **Corporations; additions to taxable income.** Requires corporate taxpayers to add to taxable income contributions for which a credit is claimed under section 0, to the extent the contributions were deducted as charitable contributions at the federal level. This prevents the taxpayer from claiming both a deduction and a credit for the same expense.
- 4 **Credit; grades 1-12.** Modifies the current K-12 education credit to limit it to qualifying expenses related to children in grades 1 through 12. Section 0 provides a new credit for kindergarten and pre-kindergarten expenses.
- 5 **PreK and kindergarten credit.** Allows a new refundable credit equal to 75 percent of qualifying kindergarten and prekindergarten expenses, up to a maximum of \$5,000 for each child who is younger than age 7 and not enrolled in first grade. Defines qualifying expenses as the same expenses that qualify for the current K-12 education credit, and also

- fees or tuition charged for all-day kindergarten
- fees or tuition charged for enrollment in a qualified early childhood program, and
- expenses for age-appropriate educational books, games, and software.

Provides that the preK and Kindergarten credit is not subject to an income-based phaseout.

- 6 **Limitation; K-12 credit.** Strikes language relating to the income-based phaseout of what will become the grades 1-12 credit. This same language is recodified in section 0 so that the income phaseout that currently applies to the K-12 education credit will remain in place for the grades 1-12 education credit.
- 7 **Credit for contributions for early childhood access grants.**

Subd. 1. Definitions. (a) Defines terms for this section.

(b) Defines "federal poverty guidelines" to mean the most recently published US Department of Health and Human Services poverty guidelines for the continental US.

(c) Defines "qualified student" as a Minnesota resident who is younger than age 7, not yet enrolled in first grade, and a member of a household with income below 200 percent of the federal poverty guidelines (\$41,300 for a family of four in 2007).

(d) Defines "Early childhood access grant organization," as a nonprofit organization that maintains separate funds for providing early childhood access grants and is certified by the commissioner of education as meeting the requirements of this

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section.

(e) Defines "qualified early childhood program" to mean a program described in guidelines to be prepared by the commissioner of education in consultation with the commissioner of human services. Provides that a program must accept education access grants as payment of tuition for it to be a qualified program.

Subd. 2. Early childhood access grant organizations. Requires early childhood grant organizations to:

- ▶ accept contributions for the purpose of awarding early childhood education access grants and award at least 85 percent of annual contributions as grants;
- ▶ provide a process for parents to apply for and receive grants, which they must use to enroll qualifying students in a program of their choice;
- ▶ not charge a fee to parents of qualifying students;
- ▶ not restrict scholarships to one qualifying early childhood education program;
- ▶ report annually to the commissioner of education on the number and dollar amounts of grants awarded, and the number of programs attended by grant recipients; and
- ▶ report annually to the commissioner of education the names of students receiving grants, so that the commissioner may reduce basic sliding fee awards as provided in section 0.

Provides that parents may receive a grant for each child who meets the qualifications.

Subd. 3. Credit allowed. Allows a corporate tax credit equal to 75 percent of the amount contributed to early childhood access grant organizations for use in making early childhood access grants. Allows a maximum credit for any one taxpayer of \$2.5 million annually. Denies a credit for contributions to a specific student. Precludes the credit from exceeding the corporation's tax liability. Directs the revenue commissioner to prescribe how the credit is claimed, which may include processing the credit as a separate refund claim.

Subd. 4. Commissioner of education. Requires the commissioner of education to

- ▶ certify on application organizations that meet the criteria specified for early childhood access grant organizations; and
- ▶ report annually to the legislature (in consultation with the commissioner of revenue) on the number and dollar amounts of grants awarded, the number of programs attended by grant recipients, and summary information on the geographic distribution around the state of grant recipients.

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Subd. 5. Application for credit certificate. Directs corporations to apply to the commissioner of education for tax credit certificates, which are available on a first-come, first-served basis until the maximum statewide credit is reached. Sets the maximum statewide credit at \$100 million in FY 2008 and following years. Requires corporate contributions to be made within 60 days of receiving notice that an application is approved. Directs the commissioner of education to issue certificates equal to 75 percent of the amount contributed to early childhood access grant organizations for early childhood access grants. Prohibits the commissioner from issuing a tax credit certificate greater than \$2.5 million.

Effective in tax year 2007.