

HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 798
Version: First engrossment

DATE: March 9, 2015

Authors: Knoblach and others

Subject: K-12 education deduction and credit increased, and adjusted for inflation; credit extended to tuition

Analyst: Nina Manzi, 651-296-5204
Lisa Larson, 651-296-8036
Tim Strom, 651-296-1886

This publication can be made available in alternative formats upon request. Please call 651-296-6753 (voice); or the Minnesota State Relay Service at 1-800-627-3529 (TTY) for assistance. Summaries are also available on our website at: www.house.mn/hrd/.

Overview

Increases the maximum K-12 education deduction from \$1,625 to \$2,500 for each child in grades K to 6, and from \$2,500 to \$3,750 for each child in grades 7 to 12, effective in tax year 2015, and adjusts the maximum deduction amount annually for inflation, beginning in tax year 2016.

Extends the K-12 education credit to nonpublic school tuition, increases the maximum credit from \$1,000 to \$1,500 per child, increases the income at which the credit begins to phase out from \$33,500 to \$47,500, and decreases the rate of the phaseout, effective in tax year 2015. Adjusts the maximum credit and the income level at which the credit begins to phase out annually for inflation, beginning in tax year 2016.

Background. Under current law, the education credit is not allowed for nonpublic school tuition. The credit is phased out for families with household incomes over \$33,500. The credit is fully phased out when income reaches \$37,500 for families with one or two children, and the maximum income increases by \$2,000 for each additional child. Household income is a broad measure of income that includes most taxable and nontaxable income. The credit amount and income level at which the credit begins to phase out are not adjusted for inflation, nor are the maximum K-12 education expenses deduction amounts.

Section

- 1 **K-12 education deduction.** Increases the maximum K-12 education expense deduction from \$1,625 to \$2,500 for each child in grades K-6, and from \$2,500 to \$3,750 for each child in grades 7 to 12, effective in tax year 2015. Provides for the maximum deduction amounts to be adjusted annually for inflation, beginning in tax year 2016. Defines qualifying expenses by reference to the expenses allowed under the K-12 education credit, which section 2 expands to include nonpublic school tuition.
- 2 **K-12 education credit; qualifying expenses.** Expands the list of expenses that qualify for the K-12 education credit to include nonpublic school tuition. Under current law nonpublic school tuition is allowed under the K-12 education expense deduction, but not the credit.
- 3 **K-12 education credit; amount and phaseout.** Increases the maximum K-12 education expense credit from \$1,000 to \$1,500 per child. Increases the income at which the credit begins to phase out from \$33,500 to \$47,500 and decreases the rate of phaseout so that the credit would be fully phased out when income reached \$56,500 for families with one or two children and would extend by an additional \$4,500 for each additional child.
- 4 **Inflation adjustment.** Provides for the maximum K-12 education credit and the income threshold at which the credit begins to phase out to be adjusted annually for inflation, beginning in tax year 2016.