

**Subject** Minnesota Education Credit income eligibility

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## Overview

H.F. 578 changes the income eligibility guidelines for the Minnesota Education Credit. The bill replaces the income threshold at which the credit is phased out—\$33,500—with the greater of the current threshold or the income eligibility guidelines for reduced price school lunch. Under current law, the guidelines are set at 185 percent of the federal poverty line. The table below shows the eligibility guidelines for the 2019-2020 academic year.

Household Size	Reduced Price Income Eligibility	Household Size	Reduced Price Income Eligibility
1	\$23,107	5	\$55,815
2	\$31,284	6	\$63,992
3	\$39,461	7	\$72,169
4	\$47,638	8	\$80,346
For each additional family member, add		\$8,177	

Adopting the federal income increases the phaseout threshold for taxpayers with a household size of three or greater. Because the federal income guidelines are indexed for inflation, it would also have the effect of indexing the credit phaseout threshold for inflation (the threshold is not indexed under current law).

The bill additionally repeals the existing definition of “income” for the purposes of the credit. Under current law, the definition of income used by the credit is a broad measure that equals federal adjusted gross income (FAGI) plus certain nontaxable income that is not part of FAGI, such as nontaxable social security benefits, nontaxable scholarships and fellowship grants, cash public assistance, nontaxable interest from government bonds, workers' compensation, and other sources. The bill changes the income phaseout to instead be based upon FAGI.

### K-12 Credit Background

Under current law, a refundable state income tax credit is allowed for 75 percent of K-12 education-related expenses. The credit is for up to \$1,000 for each child in grades K-12. For taxpayers with two or more qualifying children, the \$1,000 per child maximum is a family limit; credits may be claimed up to the maximum without regard to the qualifying child or children for whom the expenses were paid.

Qualifying expenses for the deduction include payments for:

- Fees or tuition for after-school enrichment, academic summer camps, music lessons, driver's education, and tutoring. Private school tuition *does not* qualify for the credit.
- Textbooks, including instructional materials and supplies, musical instrument rental and purchase, and up to \$200 of computer hardware and educational software.
- Transportation (paid to others for transporting children to school).

The credit begins to phase out when income exceeds \$33,500 at a 25 percent rate for families with one child and at 50 percent for families with two or more children. In other words, each \$4 dollar of income over the limit reduces the maximum credit by \$1 for a family with one child or by \$2 for a family with two or more children. For families claiming the credit for one or two children, it is fully phased out when income reaches \$37,500. The phaseout extends for an additional \$2,000 of income for each additional child claimed (i.e., to \$39,500 for three children, \$41,500 for four children, etc.).

In tax year 2016 (the most recent year for which data is available), 43,321 returns claimed education credits worth \$10.44 million.



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