

HOUSE RESEARCH

Bill Summary

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Overview

Provides for an individual and corporate income tax credit for contributions to school tuition organizations equal to 75 percent of the amount contributed, up to a maximum of \$1,000. Allows for a three-year carryforward of unused credits. School tuition organizations must use 85 percent of their annual revenues to award scholarships to students from families with incomes below the statewide median, 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

- 1 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 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

Section

nonitemizer subtraction.

3 Additions to federal taxable income; corporations. 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 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.

4 School tuition organization credit.

Subd. 1. Definitions. Defines the following terms:

(a) "**school tuition organization**" (STO) means a nonprofit charitable organization that allocates at least 85 percent of its annual revenues for education scholarships to children from families with incomes below the statewide median. An STO may not restrict the availability of scholarships to students of one school, and may not charge scholarship applicants a fee. The commissioner of education must certify qualifying STOs and maintain a list on the department's website.

(b) "**statewide median family income**" is as determined for a four person family in Minnesota by the U.S. Department of Health and Human Services for use in administering the low income energy assistance program.

(c) "**liability for tax**" means individual and corporate tax after nonrefundable credits.

(d) "**qualified school**" means a school in which a Minnesota resident may fulfill the state's compulsory attendance laws.

Subd. 2. Credit allowed. Allows a credit equal to 75 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. Allows both individuals and corporations to claim the credit.

Subd. 3. Carryover allowed. Provides for unused credit amounts to be carried-forward for up to three tax years.

Subd. 4. Nonresident allocation. Requires nonresidents and part-year residents to pro-rate the credit based on the share of their income that is Minnesota source income.