

HOUSE RESEARCH

Bill Summary

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Subject: Corporate income tax credit for contributions to prekindergarten scholarship granting organizations

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Overview

Provides for a corporate income tax credit for contributions to prekindergarten scholarship granting organizations equal to 50 percent of the amount contributed, up to a maximum of \$100,000. PreK Scholarship granting organizations must use 85 percent of their annual revenues to award preK scholarships, and may not restrict scholarships to students of one program. Limits total credits awarded to an unspecified amount in fiscal years 2008 and 2009. 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 Early childhood family education; participants' fees.** Authorizes the early childhood family education program to accept preK scholarships as payment of fees for program participation.
- 2 School readiness program; fees.** Authorizes the school readiness program to accept preK scholarships as payment of fees for program participation.
- 3 Corporations; additions to federal taxable income.** Requires an add-back to Minnesota taxable income equal to the amount of preK scholarship granting 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

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charitable contributions claimed at the federal level. This section limits state tax benefits for scholarship granting organization contributions to the proposed credit, rather than both the credit and the flow-through deduction.

4 **Credit for contributions to scholarship granting organizations.**

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

(b) **"Statewide median family income"** is as estimated for a four-person family in Minnesota by the U.S. Department of Health and Human Services for use in administering the low-income home energy assistance program. For federal fiscal year 2007, the most recent year for which data has been published in the federal register, the estimated median for a family of four in Minnesota was \$78,829.

(c) **"Qualified student"** is a Minnesota resident of pre-school age who lives in a household with income less than 75 percent of the statewide median.

(d) **"Qualified prekindergarten educational program"** is

- ▶ a prekindergarten program offered by a school district;
- ▶ an accredited and licensed preschool, nursery school, or early childhood development program;
- ▶ a Montessori program;
- ▶ an Early Childhood Family Education (ECFE) program; or
- ▶ a School Readiness program

(e) **"Prekindergarten scholarship granting organization" or "preK SGO"** 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 preK education scholarships;
- ▶ must not restrict scholarships to one program;
- ▶ may not charge a fee to prospective scholarship recipients;
- ▶ must require programs accepting scholarships to agree to not use different admissions standards for scholarship students; and
- ▶ must annually report to the commissioner of education on students awarded scholarships, and amounts awarded in scholarships.

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Subd. 2. Commissioner duties. Directs the commissioner to maintain and transmit a list of qualified prekindergarten scholarship granting organizations, develop an application process, remove from the list of preK SGOs an organization that mismanages finances or violates the law, and develop a process for annual reports.

Subd. 3. Credit allowed. Allows a corporate tax credit equal to 50 percent of the amount contributed to a prekindergarten scholarship granting organization. Allows a maximum credit of \$100,000 annually for any one corporation. 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. Application for credit certificates. Directs qualified corporations to apply to the Education Department for tax credit certificates, which are available on a first-come, first-served basis until the maximum statewide credit for the fiscal year is reached. Leaves the maximum blank for fiscal years 2008 and 2009. Requires corporate contributions to be made within 60 days of receiving notice that an application is approved. Directs the commissioner to issue certificates equal to one-half the amount contributed to the SGO . Prohibits the commissioner from issuing tax credit certificates in excess of \$100,000.

Makes this section effective beginning in tax year 2007.