

HOUSE RESEARCH

Bill Summary

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Overview

Updates the definition of net income to conform to the change made by Public Law 112-240, “The American Taxpayer Relief Act of 2012,” that extended the deduction for higher education tuition expenses to tax year 2013, effective retroactively to tax year 2013. Under current law the amount deducted at the federal level is subject to Minnesota state income tax.

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1 **Net income.** Conforms Minnesota’s definition of net income for the individual income tax to the federal definition as revised by the provision of Public Law 112-240, “The American Taxpayer Relief Act of 2012,” that extended the deduction for higher education tuition expenses to tax year 2013. The deduction applies to up to \$4,000 of qualifying expenses for taxpayers with adjusted gross income up to \$65,000 (\$130,000 for married joint filers), and to up to \$2,000 of qualifying expenses for taxpayers with adjusted gross income over \$65,000 but less than \$80,000 (\$130,000 to \$160,000 for married joint filers).

Background. The Economic Growth and Tax Relief Reconciliation Act (Public Law 107-16) enacted the deduction for higher education expenses, effective for tax years 2002 through 2005. For tax years 2002 and 2003, the deduction was limited to \$3,000 and only allowed for filers with adjusted gross income less than \$130,000 for married joint filers and \$65,000 for all other filers, with the current law \$4,000 maximum and two-tiered phaseout structure took effect in tax year 2004. Laws 2001, First Special Session, Chapter 5, conformed Minnesota’s income tax to the deduction and other federal changes.

The Tax Relief and Health Care Act of 2006 (Public Law 109-432) extended the higher education tuition deduction for two years, through tax year 2007. Laws 2007, Chapter 1

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conformed Minnesota's income tax to the deduction and to other federal changes for tax year 2006 only. Laws 2008, Chapter 154 did not conform to the deduction for tax year 2007, but instead required an addition to taxable income at the state level.

The Emergency Economic Stabilization Act of 2008 (Public Law 111-343) extended the higher education tuition deduction for two years, through tax year 2009. Laws 2009, Chapter 12 did not conform to the deduction, but instead required an addition to taxable income at the state level for tax years 2008 and 2009.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Public Law 111-312) extended the higher education tuition deduction for two years, through tax year 2011. Laws 2011, Chapter 8, conformed Minnesota's income tax to the deduction and to other federal changes for tax year 2010. Laws 2011, First Special Session, Chapter 7, conformed Minnesota's income tax to the deduction and to other federal changes for tax year 2011.

Effective date: Retroactive to tax year 2013.