HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 1368 **DATE:** March 10, 2015
Version: As introduced

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Subject: Income tax credit for contributions to prekindergarten scholarship granting organizations

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Overview

Provides for an individual income and corporate franchise tax credit for contributions to qualified foundations equal to 80 percent of the amount contributed, up to a maximum of $100,000 for corporations, $20,000 for married couples filing jointly, and $10,000 for individuals. Qualified foundations must award 100 percent of donations as preK scholarships within two years. Limits total credits awarded to $10 million per year for scholarships in the metro area and $10 million per year for scholarships in greater Minnesota. Coordinates with other tax provisions relating to charitable contribution to preclude taxpayers from claiming more than one state tax benefit for a single contribution.

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1 **Individuals; additions to federal taxable income.** Requires an add-back to Minnesota taxable income for individuals equal to the amount of qualified foundation 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 contributions to qualified foundations to the proposed credit, rather than both the credit and the flow-through deduction.

2 **Corporations; additions to federal taxable income.** Requires an add-back to Minnesota taxable income for corporations equal to the amount of qualified foundation credit that was

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claimed as a federal charitable contribution deduction at the federal level, corresponding to the add-back required under section 1.

3 Equity and opportunity in early education tax credit.

Subd. 1. Definitions. Defines terms for this section. Key terms are:

"Eligible child" is a Minnesota resident of pre-school age whose family meets the income requirements for early learning scholarships under section 124D.165 (income under 185 percent of the federal poverty guideline, or participation of the child in any one of several assistance programs). A child who becomes eligible remains eligible until entering elementary school or reaching seven years of age, without regard to changes in the family's income.

"Qualified foundation" is a 501(c)(3) nonprofit or a qualified school.

"Qualified prekindergarten educational program" is a program that participates in a quality rating system and is one of the following:

- a prekindergarten program offered by a school district or charter school;
- an accredited and licensed preschool, nursery school, or early childhood development program;
- a Montessori program;
- a child care program provided by a family day care provider with an early childhood development credential.

"Qualified scholarship" means a payment from a foundation either to a parent or to a preK program for the cost of a child's participation in the preK program.

Subd. 2. Credit allowed. Allows a credit equal to 80 percent of the amount contributed to a qualified foundation. The maximum annual credit is $20,000 for married joint filers, $10,000 for other individual filers, and $100,000 for corporations. Requires claimants to provide a copy of a receipt from a qualified foundation. Allows credits that exceed liability to be carried forward for five tax years.

Subd. 3. Application for credit certificates. Requires taxpayers to apply to the commissioner of revenue for tax credit certificates, which are available on a first-come, first-served basis until the maximum statewide credit for the taxable year is reached. The maximum is $10 million for contributions to foundations to provide scholarships in the seven-county metro area, and $10 million for contributions to provide scholarships in greater Minnesota.

Subd. 4. Responsibilities of qualified foundations. Requires participating foundations to:

- document that it is a 501(c)(3) organization;
- provide receipts to taxpayers making donations;
- conduct criminal background checks of employees and board members;
- demonstrate its accountability and financial viability;

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- use amounts received as donations to award scholarships within two years of receiving the donation;
- ensure that qualified preK programs receiving scholarships comply with health and safety laws, hold valid occupancy permits, do not discriminate, and provide accountability to parents.

Also requires foundations to report the following information annually to the commissioner on the number and dollar amount of donations received and scholarships awarded in the previous calendar year.

If the commissioner bars a foundation from participating, it must notify donors in writing within 30 days.

Subd. 5. Commissioner duties. Directs the commissioner to maintain and transmit a list of qualified foundations, develop standard forms for use as receipts and in reporting, conduct audits of foundations after finding evidence of fraud or intentional misreporting, bar from participation a foundation that intentionally and substantially fails to comply with the requirements in subdivision 4.

Effective date: Tax year 2015.

4 **Evaluation.** Requires the commissioner of revenue, in consultation with the commissioner of education, to contract with an outside consultant to evaluate the effects of the credit. Requires public and participating preK programs to cooperate and provide data for the evaluation as needed. Requires the evaluation to be completed by January 2019. Requires the evaluation to include analysis of:

- the level of parent and family satisfaction with the program;
- the impact of the program on preK educational program capacity, availability, and quality.

Requires the researchers conducting the study to:

- apply appropriate methodologies to ensure public confidence in the study;
- protect the identity of participating preK programs and children.