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**Subject:** Income tax credit for contributions to foundations that support K-12 education; extend existing K-12 education credit to tuition

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## Overview

Allows individual income and corporate franchise tax credits equal to 70 percent of the amount contributed to foundations that award scholarships to eligible K-12 students, make grants to charter schools, or support public schools. The maximum credit statewide is \$35 million per year. Extends the existing K-12 education tax credit to include expenses spent on tuition. Indexes the existing K-12 education tax credit amount and income threshold to increases in inflation.

### Section

- 1 Individuals; additions to federal taxable income.** Requires an add-back to federal taxable income for individuals equal to the amount of charitable contribution deduction under the federal income tax that is used to claim the foundation credit under section 5. 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 federal taxable income for corporations equal to the amount of charitable contribution deduction under the federal corporate income tax, corresponding to the add-back required under section 1.

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- 3 K-12 education credit.** Extends the individual income tax credit for K-12 education expenses to nonpublic school tuition. Effective beginning in tax year 2018.
- 4 K-12 education credit; inflation adjustment.** Provides for the maximum K-12 education credit and the income threshold at which the credit begins to phase out to be adjusted annually for inflation, beginning in tax year 2019. The maximum credit is currently \$1,000 per child, and the credit begins to phase out when household income exceeds \$33,500.
- 5 Equity and opportunity in education tax credit.**

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

**“Eligible student”** is a Minnesota resident child whose household has annual income less than 200 percent of the income standard used to qualify for the federal reduced-price lunch program (200 percent of the income reduced-price lunch standard for the current school year is \$89,910 for a family of four) and who has not yet started school; attended a public, nonpublic, or homeschool in the year before receiving a scholarship; moved to Minnesota within the previous year; or previously received a scholarship. A child who was eligible in a previous year remains eligible, without regard to changes in the family’s income.

**“Qualified charter school”** is a charter school at which at least 30 percent of students qualify for the federal reduced-price lunch program.

**“Qualified foundation”** is a 501(c)(3) nonprofit organization.

**“Qualified grant”** means a grant from a foundation to a charter school.

**“Qualified public school foundation”** means a qualified foundation that supports one or more public schools or districts at which at least 30 percent of students qualify for the federal reduced-price lunch program.

**“Qualified scholarship”** means a payment from a foundation either to a parent or to a qualified school for the cost of a child’s tuition for enrollment.

**“Qualified school”** means a nonpublic elementary or secondary school in Minnesota at which a student may fulfill the state’s compulsory attendance laws.

**Subd. 2. Credit allowed.** Allows a credit equal to 70 percent of the amount contributed to a qualified foundation, which must award scholarships to eligible students, or make grants to qualified charter schools, or both, or to a qualified public school foundation, which must use donations to support public schools or school districts. The maximum annual credit is \$21,000 for married joint filers, \$10,500 for other individual filers, and \$105,000 for corporations. Requires claimants to provide a copy of a receipt from a qualified foundation. Allows credits that exceed the liability for tax 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 beginning on January 1 of each year until the maximum statewide credit amount is reached. The maximum is \$35,000,000 per year beginning in tax year 2018. The application for a credit certificate must specify the qualified

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foundation or public school foundation to which the taxpayer intends to make a donation.

**Subd. 4. Responsibilities of qualified foundations.** Because qualified public school foundations must be qualified foundations, the requirements of this subdivision, other than those limited to foundations that award scholarships or make grants, are extended to qualified public school foundations.

- (a) Requires participating foundations that award scholarships to:
- ▶ award scholarships to eligible students;
  - ▶ not restrict scholarships to any one qualified school;
  - ▶ not charge fees to scholarship applicants; and
  - ▶ require schools receiving payment of tuition through a scholarship to not use different admissions standards for scholarship students.
- (b) Entities must apply to the commissioner to be qualified foundations. The application must:
- ▶ document that the entity is a 501(c)(3) nonprofit; and
  - ▶ demonstrate the entity's accountability and financial viability.
- (c) Also requires foundations to provide receipts to taxpayers who make donations and (d), if it awards scholarships, to annually verify that each school to which it awards scholarships:
- ▶ complies with health and safety laws;
  - ▶ holds a valid occupancy permit if required;
  - ▶ certify that it adheres to the provisions of the U.S. Civil Rights law and the Human Rights chapter of Minnesota law; and
  - ▶ provide regular reports to parents on student progress.
- (e) Requires foundations to annually report by June 1:
- ▶ its financial viability;
  - ▶ documentation of criminal background checks of employees and board members;
  - ▶ documentation that it has used donations to provide scholarships, make grants, or make expenditures to support public schools within one year;
  - ▶ a list of qualified schools to which it provided scholarships, charter schools to which it made grants, or public schools or districts in which it made expenditures; and
  - ▶ the number and dollar amount of donations received and scholarships awarded, grants made, or expenditures made in support of public schools, and
  - ▶ the amount used for administrative expenses (limited to five percent of donations under paragraph (f)).

**Subd. 5. Commissioner duties.** Requires the commissioner of revenue to make applications for qualified foundations available by August 1 of each year, and to

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approve or deny applications within 60 days. Requires the commissioner to post a list of qualified foundations on the Department's website by November 15 of each year. Directs the commissioner to develop standard forms for use as receipts and in reporting, conduct audits of foundations after finding evidence of fraud or intentional misreporting, and bar from participation a foundation that intentionally and substantially fails to submit information as required in subdivision 4.

**Effective date: tax year 2018.**

**6 Purpose statement.** Provides that the purpose of the bill is to expand educational choice.