

**Subject** Education credit income definition

**Authors** Lien and others

**Analyst** Sean Williams

**Date** March 13, 2020

## Summary

The bill changes the definition of income used for the Minnesota Education Credit. Under current law, the credit is based on the taxpayer's "household income," which is described below in more detail. The bill would change the credit to be based on the taxpayer's federal adjusted gross income (FAGI) in the taxable year prior to the year in which the taxpayer claims the credit. For example, eligibility for a credit in tax year 2020—based on eligible education expenses paid in 2020—would depend on the taxpayer's FAGI in tax year 2019.

### *Background*

Under current law, eligibility for the Minnesota Education Credit is based on "household income." Household income is a broad measure of income that starts with FAGI, but with certain additions. Some of the more significant additions include:

- All nontaxable income.
- Passive activity losses.
- Cash public assistance.
- Worker's compensation.
- Certain voluntary contributions to retirement accounts.
- Nontaxable scholarships.
- Certain above-the-line deductions, including deductions for tuition, health savings account contributions, and educator expenses.