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S.F. No. 13 – Equity and opportunity in education tax credit

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This bill provides an income and corporate franchise tax credit for donations made to qualifying foundations that provide scholarships for K-12 students at qualifying schools. Effective beginning in tax year 2021.

Sections 1 and 2. Equity and opportunity donations. Require individual and corporate filers, respectively, to include equity and opportunity in education donations when calculating Minnesota taxable income. Because these amounts would be deducted as a charitable contribution in calculating federal taxable income, they must be added back to Minnesota taxable income for purposes of claiming the credit authorized in section 3.

Section 3. Equity and opportunity in education tax credit.

Subdivision 1. Provides definitions for the following significant terms used in the credit:

"Eligible student" means a student who:

- is a Minnesota resident;
- with household has annual income less than twice the income standard used to qualify for the federal reduced price lunch program or has a disability as identified under state or federal law; and
- meets one of the following criteria:
  - attended a public, nonpublic, or homeschool in the semester before receiving a scholarship;
  - is age six or younger and not enrolled in kindergarten or first grade in the semester before receiving a scholarship or transportation scholarship;
  - previously received a scholarship or transportation; or
  - lived in Minnesota for less than a year before receiving a scholarship or transportation scholarship.

"Qualified charter school" means a charter school at which at least 30 percent of students qualify for the federal reduced-price lunch program.

"Qualified school" means a nonpublic elementary or secondary school in Minnesota at which a student may fulfill the state's compulsory attendance laws that is not operated for profit; adheres to federal and state equal rights laws; administers approved standardized tests for requisite grade levels and annually reports student performance on the test.

"Qualified foundation" means a 501(c)(3) nonprofit organization that has been approved by the commissioner.

"Qualified grant" means a grant from a qualified foundation to a qualified charter school for use in supporting the school's mission of educating students in academics, arts, or athletics, including transportation.

"Qualified public school foundation" means a qualified foundation whose primary purpose is supporting public schools or school districts in the state at which at least 30% of students qualify for the federal free or reduced price lunch program.

"Qualified scholarship" means a payment from a foundation to or on behalf of a parent or guardian for the cost of an eligible student's tuition for enrollment at a qualified school, not to exceed 70 percent of average state general education revenue per pupil unit.

"Qualified transportation scholarship" means a payment from a foundation to or on behalf of a parent or guardian for the cost of an eligible student's transportation to a qualified school, not to 70 percent of average state general education revenue per pupil unit.

"Total annual income" is the amount of income used to determine eligibility under the federal reduced price school lunch program.

Subdivision 2. Credit allowed. Authorizes a credit of 70 percent of the donation amount made in a taxable year, up to specified amounts. The maximum annual credit is $21,000 for married joint filers, $10,500 for other individual filers, and $105,000 for corporations. The credit is not allowed for taxpayers who designate a specific child as the beneficiary of a scholarship. Taxpayers must be issued a credit certificate to claim the credit. The credit is nonrefundable but may be carried forward for up to five tax years.

Subdivision 3. Application for credit certificate. Requires taxpayers to apply to the commissioner of revenue for a tax credit certificate in order to claim the credit. Credits must be issued on a first-come, first-served basis. No more than $26.5 million may be allocated for credits in a tax year.

Subdivision 4. Responsibilities of qualified foundations. Requires participating foundations that award scholarships to eligible students to: not restrict scholarships to any one qualified school; not charge fees to scholarship applicants; sign an agreement with a qualified school that the school will not use different admissions standards for students with qualified scholarships; and give priority to students in households with total income not greater than twice the income standard used to qualify for the federal reduced price lunch program.

Foundations must apply to the commissioner to be a qualified foundation. The application must document that the entity is a 501(c)(3) nonprofit and demonstrate the entity's accountability and financial viability.

Foundations must provide receipts to taxpayers who make donations and if a foundation awards scholarships, it must annually verify that each school to which it awards scholarships: complies with health and safety laws; holds a valid occupancy permit if required; certifies that it adheres to federal civil rights laws and the human rights chapter of Minnesota law; and administers standardized testing and provides the foundation with a report on student performance.

Foundations must annually report by June 1 the following: financial viability; documentation of criminal background checks of employees and board members; documentation that it has used donations to provide scholarships, transportation scholarships, or grants; a list of qualified schools to which it provided scholarships, transportation scholarships, or grants; for qualified public school foundations, a list of expenditures made in support of public schools; the number and dollar amount of donations received and scholarships, transportation scholarships, and grants awarded; for public school foundations, the number and dollar amount of expenditures made in support of the mission of public schools or school districts; and the amount used for administrative expenses. Foundations may use up to five percent of donations received for administrative expenses.

Subdivision 5. Responsibilities of commissioner. Requires the commissioner to make applications for qualified foundations available by August 1 of each year, to approve or deny applications within 60 days and to notify foundations that submitted incomplete documentation that it may reapply within 30 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 for reporting by foundations. Authorizes the commissioner to conduct audits of foundations after finding evidence of fraud or intentional misreporting, notify a foundation that fails to submit required information, and allow for the foundation to remedy its noncompliance.

Subdivision 6. Special education services. Provides that a student's receipt of a scholarship or transportation scholarship does not affect eligibility for special education services.