

2016

Temporary Reading Credit



Minnesota Department of Revenue
March 1, 2016

Minnesota Statutes, section 3.197, requires any report to the Legislature to include the cost of preparing the report, including any costs incurred by another agency or another level of government.

This report cost \$10,000.

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March 1, 2016

The Honorable Greg Davids
Chair, House Taxes Committee
585 State Office Bldg.

The Honorable Paul Marquart
DFL Lead, House Taxes Committee
261 State Office Bldg.

The Honorable Jenifer Loon
Chair, Education Finance Committee
449 State Office Bldg.

The Honorable Mary Murphy
DFL Lead, Education Finance Committee
343 State Office Bldg.

The Honorable Rod Skoe
Chair, Senate Taxes Committee
3211 Minnesota Senate Bldg.

The Honorable Julianne Ortman
Ranking Minority Member,
Senate Taxes Committee
119 State Office Bldg.

The Honorable Charles Wiger
Chair, Education Committee
3219 Minnesota Senate Bldg.

The Honorable Sean Nienow
Ranking Minority Member,
Education Committee
105 State Office Bldg.

To Members of the Legislature of the State of Minnesota:

I am pleased to present this Temporary Reading Credit Report undertaken by the Minnesota Department of Revenue as required by Minnesota Laws 2014, Chapter 308, article 4, section 22, subdivision 5.

Sincerely,



Cynthia Bauerly
Commissioner

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Executive Summary

A law passed during the 2014 legislative session created a Temporary Reading Credit and required the Minnesota Department of Revenue to submit a report that:

- summarizes the number of taxpayers who claimed the credit
- shows the average dollar amount of each eligible credit claimed
- provides recommendations for ensuring compliance and improving ease of administration

Results

- As of December 29, 2015, a total of 1,037 Temporary Reading Credits were claimed.
- 75 claims for the credit (7%) were validated, totaling \$86,973. Most claims could not be validated because they did not meet the credit's complex eligibility criteria required by statute.
- The average amount for an eligible claim was \$1,160.

Recommendations

In administering the Temporary Reading Credit, the department identified several areas in need of potential improvement or modification. Some of the issues identified include:

- Taxpayer eligibility:
 - The language of the law did not align with how parents speak about the different aspects of special education.
 - Although the credit was available to qualifying children in grades K-12, schools do not usually evaluate children before the third grade, causing confusion about eligibility for earlier years.
 - Criteria for the Temporary Reading Credit overlapped with the K-12 Education Credit and Subtraction causing confusion about which expenses should be claimed for each program.
- Administrative issues:
 - The credit was available on a per return basis rather than a per child basis.
 - Taxpayers were reluctant to provide information about their child's educational needs to the Department of Revenue, or they inadvertently provided documentation protected under the Health Insurance Portability and Accountability Act (HIPAA).
 - The department's efforts to administer the credit were hindered by its lack of specialized expertise around special education and reading remediation needs.

As a result of this experience with the program, the department recommends:

- If a tax credit program is continued, modifications to the law would be beneficial to reduce confusion and ease administration including:
 - using the language commonly used within the special education and reading remediation communities
 - clarifying eligibility requirements

History of the Temporary Reading Credit

In 2014, the Legislature passed a Temporary Reading Credit, effective for the 2014 tax year. The credit was intended to offset some of the costs taxpayers incur when their dependents need additional assistance due to difficulties with reading.

The credit was available to taxpayers who had a qualified dependent that met both of the following:

- evaluated for, and found not to meet criteria of an Individualized Education Plan (IEP) under the Specific Learning Disability (SLD) category
- had a reading deficiency preventing them from meeting age or grade expected reading standards

The credit was available for qualifying expenses including:

- treatment to improve basic reading skills, comprehension, and fluency
- tutoring to help children meet grade-level expectations in subjects such as math, language arts, science, and social studies

The credit was not available to cover expenses related to diagnosing a learning disability or reading disorder.

The credit was refundable and equal to the lesser of \$2,000 or 75% of the expenses paid for qualifying instruction or treatment for the taxpayer's qualifying children. There was no income limit on the credit, and the credit was allowed on a per return basis.

The department worked closely with the Minnesota Department of Education to design the credit and to develop educational and outreach materials to promote the availability of the credit to the public and tax practitioners.

Outreach

To educate and spread awareness, the department presented information about the Temporary Reading Credit at many outreach and education events. The events included some of our partnering organizations, including the American Association of Retired Persons (AARP), the Minnesota Association of Public Accountants (MAPA), and the Volunteer Income Tax Assistance (VITA) program.

The outreach events included:

- Tax Practitioner Liaison Meeting – June 18, 2014
- AARP District Coordinator Meeting – September 26, 2014
- National Association of Tax Professionals (NATP) Regional Conferences – September 29 and October 24, 2014
- Income Tax Short Courses – October 2014-January 2015 (11 presentations)
- AARP Instructor Workshops – November 13, 17, 25, and December 3, 2014
- MAPA Conference – December 1, 2014
- Twin Cities Tax Professional Discussion Group – December 3, 2014
- Volunteer Preparer Training in Fargo, ND – December 10, 2014
- H&R Block District Meeting – December 13, 2014
- AARP Volunteer Trainings – December 2014-January 2015 (22 presentations)
- VITA Trainings – January 2015 (3 presentations)
- Minnesota Society of Enrolled Agents – January 7, 2015

In addition to presentations, the department also published written informational and instructional material on the Temporary Reading Credit, including:

- MAPA Newsletter for Tax Professionals – October 2014
- Conference Call for Tax Professionals – September 11, 2014
- Temporary Reading Credit Fact Sheet
- Web pages
- 2014 Form M1 Instruction Booklet
- 2014 VITA/AARP Tax Aide Minnesota Income Tax and Property Tax Refund Volunteer Training Manual (for Volunteers)
- 2014 University of Minnesota Short Course Income Tax Manual (for Tax Professionals)

The department also created an M1READ Intake Sheet for Volunteers to properly screen taxpayers who may qualify for the credit at VITA and AARP sites.

Administering the Temporary Reading Credit

Research

The department worked with the Minnesota Department of Education to better understand the educational requirements of this credit and to gain better working knowledge of special education and learning disabilities. Revenue used this feedback to develop the tax form, instructions, fact sheet, and website content.

Revenue then met with members of the House and Senate to explain how the credit would work, review the steps that had been taken to carefully administer the credit, and discuss the department's outreach efforts to publicize the credit.

Implementing the credit

To implement the credit the department:

- Met with specialists from the Minnesota Department of Education to learn about special education, learning disabilities, and the various programs available to children.
- Worked with the Minnesota Department of Education to design a tax form that legally fulfilled the statutory requirements of the credit.
- Placed the line for the Temporary Reading Credit on the first page of the income tax form in an attempt to highlight the credit for taxpayers who file paper returns.
- Programmed Revenue systems with a new form, new work queues, and verification procedures.
- Trained employees on:
 - tax perspective of education laws so they could request the correct verifications, speak with parents, and evaluate the documentation taxpayers supplied
 - new processes and procedures for verifying documentation that qualified for the credit
 - the complex criteria to meet requirements of the credit
- Requested only necessary information to document the dependent qualified for the credit and had qualifying expenses.
- Improved the instructions and fact sheets to clarify who and what costs qualified for the credit.

Credits Claimed

All claims for new, refundable credits are closely reviewed and monitored by the department. The department was able to identify and verify every credit because of the small anticipated population who qualified for this credit.

- As of December 29, 2015, a total of 1,037 Temporary Reading Credits were claimed.
- 75 claims for the credit were validated, totaling \$86,973.
- The average amount for an eligible claim was \$1,160.

Only 7% of the claims made were validated. Most claims could not be validated because they did not meet the credit's complex eligibility criteria required by statute. Some examples include:

- The child was evaluated by an outside source, but not by the school district.
- The child was evaluated for special education, but not for a specific learning disability.
- The school district did not evaluate the child for special education, or provided an intervention plan instead of an evaluation.
- The school district evaluation found the child did not have a reading deficiency.
- The school district evaluation found the child had a specific learning disability and/or qualified for an IEP. Children with an IEP do not qualify for the credit under the statute.
- The child's evaluation was not completed by the deadline of December 31, 2014.

Lessons Learned and Observations

In administering the credit, the department gathered lessons learned and observations that impacted the effectiveness of the credit.

Taxpayer eligibility

The credit did not allow taxpayers to recoup costs associated with diagnosing a learning disability.

The tax credit was available to qualifying children in grades K-12. However, schools generally do not evaluate children before third grade. Additionally, children must be two standard deviations between ability (as tested by an IQ test) and performance (as tested by an achievement test) to qualify for SLDs.

Taxpayer filing issues

The credit was available on a per return basis rather than a per child basis. This meant homes with two or more children who qualified for the credit received less money per child than homes with only one qualifying child.

In filing for the credit, taxpayers had issues with:

- filing Schedule M1READ with the state tax return (Form M1)
- entering an amount on the M1READ line on Form M1 when they meant to claim a different refundable credit
- understanding the instructions for Schedule M1READ

Unlike most refundable credits, including the K-12 education expense credit, there was no income limit on the reading credit. This difference added complexity for taxpayers about which credits and subtractions they qualified for.

Department of Revenue processes

- The language of the statute did not align with how parents speak about the different aspects of special education, which made department's verification work with parents more difficult.
- The review process delayed refunds, especially when requesting additional information for the Schedule M1READ.
- Many of the expenses claimed could qualify for more than one credit or subtraction, complicating the calculation of eligible expenses.

Other

- Software vendors had a difficult time wording their questions so taxpayers could understand the requirements of the credit.

Required information

- There was a significant amount of information required to qualify for the credit. A number of taxpayers did not feel the amount of the credit warranted the work to gather all of the required documentation.
- Some taxpayers refused to submit required information because they did not want the department to have private information about their child.
- Some of the documentation submitted to validate claims was protected under HIPAA.

Recommendations

If this program is implemented in the future, the department recommends the Legislature consider the following modifications:

- If a tax credit program is continued, modifications to the law would be beneficial to reduce confusion and ease administration including:
 - using the language commonly used within the special education and reading remediation communities
 - clarifying eligibility requirements

Appendix A: Schedule M1READ

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Schedule M1READ, Reading Credit 2014

Sequence #9

You must have proof of your qualifying expenses; keep with your tax records.

Your First Name and Initial	Last Name	Social Security Number

Qualifying Child(ren)

Qualifying Child(ren) Information—See instructions.

- A** Number of children who were believed to have a specific learning disability and were evaluated for special education **A**
- B** How many of the children in step A did **not** qualify for an Individualized Education Program (IEP)? **B**
- C** Of the number of children in step B, how many were determined to have a reading deficiency that impaired their ability to meet expected age or grade level reading standards? **C**

Enter the requested information for each child included in step C. If you have more than 3 children, complete and attach an additional Schedule M1READ.

Education Expenses

	1st Child	2nd Child	3rd Child
Name of child evaluated for a specific learning disability	<input type="text"/>	<input type="text"/>	<input type="text"/>
Child's Social Security Number	<input type="text"/>	<input type="text"/>	<input type="text"/>
K-12 Grade(s) in Which Expenses Incurred	<input type="text"/>	<input type="text"/>	<input type="text"/>
School District that performed the evaluation (enter ISD number from instructions)	<input type="text"/>	<input type="text"/>	<input type="text"/>
Date of evaluation report	<input type="text"/>	<input type="text"/>	<input type="text"/>

Qualifying Education Expenses—See instructions.

- 1** Fees for individual instruction by a qualified instructor (such as tutoring for reading) See instructions if you filed Schedule M1ED. **1**
- 1a** Name of each instructor or organization **1a**
- Type of class:
- 2** Fees for the child's treatment of any reading disorder, disability or difficulty that impairs your child from reading at expected age or grade level **2**
- 2a** Name of organization providing treatment **2a**
- Type of treatment:
- 3** Add lines 1 and 2 **3**
- 4** Add line 3 for all columns. If you filed more than one Schedule M1READ, enter the total of line 3 for all M1READ Schedules **4**
- 5** Total reimbursements you received from insurance or a pre-tax health savings account that covered expenses included on line 4. **5**
- 6** Subtract line 5 from line 4 **6**
- 7** Multiply line 6 by 75% (.75). Do not enter more than \$2,000. **Full-year residents:** Enter the amount here and on line 27 of Form M1. **7**
- 8** **Part-year residents and nonresidents:** Multiply the amount on line 7 by line 25 of Schedule M1NR. Enter the result here and on line 27 of Form M1. However, if your Minnesota gross income is less than \$10,150, see instructions; enter the result from step 5 of the worksheet here: and step 6 on line 8 **8**

Credit

2014 Schedule M1READ Instructions

In 2014, the Minnesota legislature passed a law allowing this credit for tax year 2014 only.

Who is Eligible?

You may be able to receive a refundable credit for non-reimbursed expenses you paid to assist your qualifying child with meeting state-required academic standards. To be eligible for this credit, you must meet the following criteria:

- Your child has been evaluated for an Individualized Education Program (IEP) and does not qualify;
- Your qualifying child does not meet standards for reading competency;
- You paid a qualifying instructor to tutor your child in order to meet state academic standards in certain areas of study; and
- The expenses you paid to the instructor meet the criteria identified below.

What is a Qualifying Child?

For purposes of this credit, a qualifying child:

- Is your child, grandchild, great-grandchild, brother, sister, niece or nephew;
- Is enrolled in a grade K-12;
- Lived with you for more than half the year in the United States;
- Is not claimed as a qualifying child by any other person;
- Was evaluated for, but found not to have, a specific learning disability; and
- Was found, as part of the school district's evaluation, to have a deficiency in basic reading skills, comprehension or fluency that impairs him or her to meet expected age or grade-level standards.

What is a Qualifying Instructor?

A qualifying instructor is a person who is not a parent, grandparent, or sibling of the qualifying child and:

- Has a valid teaching license in the field and grade level taught (or is supervised by someone in this category);
- Has successfully completed a teacher competency evaluation;
- Teaches at an accredited private school; or
- Has a bachelor's degree

What Expenses Qualify?

A qualifying expense is an expense that:

- You paid for qualified instruction, tutoring or treatment and can document;
- You did not receive reimbursement from insurance or a pretax medical account for; and
- Was not used to claim the K-12 education credit on Schedule M1ED or the K-12 education subtraction on Schedule M1M, line 17

You Must Have Proof

Save records (such as itemized invoices and canceled checks) of all your expenses. You may be asked to show such records if there is any question concerning your reading credit.

Penalty for Fraudulently Claiming a Credit

If you file a return that fraudulently claims a credit, you will be assessed a penalty equal to 50 percent of the fraudulently claimed credit.

Line Instructions

Round amounts to the nearest whole dollar.

Line 1

You cannot use the same expenses to claim the K-12 education credit and reading credit. If you claimed the K-12 education credit use the worksheet below to determine the instruction and tutoring fees you may use for the reading credit.

What type of Tutoring Qualifies?

Tutoring by a qualified instructor to help the qualifying child meet state academic standards in school subjects such as Language Arts, Math, Science, Social Studies, History, Geography, Economics and Government.

Line 2

To qualify, the treatment must be intended to improve your child's basic reading skills, reading comprehension and reading fluency.

What type of Treatment Qualifies?

To qualify, the treatment must:

- Use a recognized diagnostic assessment to determine what intervention would be most appropriate for your child, and
- Use a research based method to teach language decoding skills in a systematic manner.

If you are unsure if your child's treatment qualifies, contact the treatment provider.

Line 8

If your Minnesota gross income is below the filing requirement and you're filing Form M1 to claim this credit, you should have entered zero on line 23 of Schedule M1NR. However, to correctly determine this credit, you must first fully complete Schedule M1NR to determine what the amounts would have been, and then follow the Worksheet for Line 8 below.

Worksheet for Line 1

1	Enter the amount from Schedule M1ED, line 15	
2	Enter the amount from Schedule M1ED, line 18	
3	Multiply step 2 by 1.333	
4	Subtract step 3 from step 1	
5	Enter the amount from Schedule M1ED, line 8 for your qualifying children for the Reading Credit	
6	Enter the smaller of step 4 or step 5 here and on line 1	

Worksheet for Line 8

1	Line 11, column B, of Schedule M1NR	
2	Line 22, column B, of Schedule M1NR	
3	Subtract step 2 from step 1 (if zero or less, stop here; you don't qualify)	
4	Line 24 of Schedule M1NR	
5	Divide step 3 by step 4 (carry to five decimal places). If step 3 is more than step 4, enter 1.0. Enter result on the space provided on line 8 of Schedule M1READ	
6	Multiply step 5 by line 7 of Schedule M1READ	

2014 Minnesota School Districts

1 - Minneapolis	277 - Westonka	577 - Willow River	881 - Maple Lake
1 - Aitkin	278 - Orono	578 - Pine City	882 - Monticello
2 - Hill City	279 - Osseo	581 - Edgerton	883 - Rockford
4 - McGregor	280 - Richfield	592 - Climax-Shelly	885 - St. Michael-Albertville
6 - South St. Paul	281 - Robbinsdale	593 - Crookston	891 - Canby
11 - Anoka-Hennepin	282 - St. Anthony-New Brighton	595 - East Grand Forks	911 - Cambridge-Isanti
12 - Centennial	283 - St. Louis Park	599 - Fertile-Beltrami	912 - Milaca
13 - Columbia Heights	284 - Wayzata	600 - Fisher	914 - Ulen-Hitterdal
14 - Fridley	286 - Brooklyn Center	601 - Fosston	2071 - Lake Crystal-Wellcome Memorial
15 - St. Francis	294 - Houston	621 - Mounds View	2125 - Triton
16 - Spring Lake Park	297 - Spring Grove	622 - North St Paul-Maplewood	2134 - United South Central
22 - Detroit Lakes	299 - Caledonia	623 - Roseville	2135 - Maple River
23 - Frazee-Vergas	300 - LaCrescent-Hokah	624 - White Bear Lake	2137 - Kingsland
25 - Pine Point	306 - Laporte	625 - St. Paul	2142 - St. Louis County
31 - Bemidji	308 - Nevis	630 - Red Lake Falls	2143 - Waterville-Elysian-Morristown
32 - Blackduck	309 - Park Rapids	635 - Milroy	2144 - Chisago Lakes
36 - Kelliher	314 - Braham	640 - Wabasso	2149 - Minnewaska
38 - Red Lake	316 - Greenway	656 - Faribault	2154 - Eveleth-Gilbert
47 - Sauk Rapids-Rice	317 - Deer River	659 - Northfield	2155 - Wadena-Deer Creek
51 - Foley	318 - Grand Rapids	671 - Hills-Beaver Creek	2159 - Buffalo Lake-Hector-Stewart
75 - St. Clair	319 - Nashauk-Keewatin	676 - Badger	2164 - Dilworth-Glyndon-Felton
77 - Mankato	330 - Heron Lake-Okabena	682 - Roseau	2165 - Hinckley-Finlayson
81 - Comfrey	332 - Mora	690 - Warroad	2167 - Lakeview
84 - Sleepy Eye	333 - Ogilvie	695 - Chisholm	2168 - N.R.H.E.G.
85 - Springfield	345 - New London-Spicer	696 - Ely	2169 - Murray County Central
88 - New Ulm	347 - Willmar	698 - Floodwood	2170 - Staples-Motley
91 - Barnum	356 - Lancaster	700 - Hermantown	2171 - Kittson Central
93 - Carlton	361 - International Falls	701 - Hibbing	2172 - Kenyon-Wanamingo
94 - Cloquet	362 - Littlefork-Big Falls	704 - Proctor	2174 - Pine River-Backus
95 - Cromwell-Wright	363 - South Koochiching	706 - Virginia	2176 - Warren-Alvarado-Oslo
97 - Moose Lake	378 - Dawson-Boyd	707 - Nett Lake	2180 - M.A.C.C.R.A.Y.
99 - Esko	381 - Lake Superior	709 - Duluth	2184 - Luverne
100 - Wrenshall	390 - Lake of the Woods	712 - Mountain Iron-Buhl	2190 - Yellow Medicine East
108 - Central Schools	391 - Cleveland	716 - Belle Plaine	2198 - Fillmore Central
110 - Waconia	402 - Hendricks	717 - Jordan	2215 - Norman County East
111 - Watertown-Mayer	403 - Ivanhoe	719 - Prior Lake-Savage Area Schools	2310 - Sibley East
112 - Eastern Carver County	404 - Lake Benton	720 - Shaksopee	2311 - Clearbrook-Gonvick
113 - Walker-Hackensack-Akeley	413 - Marshall	721 - New Prague Area Schools	2342 - West Central Area
115 - Cass Lake-Bena Schools	414 - Minneota	726 - Becker	2358 - Tri-County
116 - Pillager	415 - Lynd	727 - Big Lake	2364 - Belgrade-Brooten-Elrosa
118 - Northland Community Schools	423 - Hutchinson	728 - Elk River	2365 - G.E.W.
129 - Montevideo	424 - Lester Prairie	738 - Holdingford	2396 - A.C.G.C.
138 - North Branch	432 - Mahanomen	739 - Kimball	2397 - Lesueur-Henderson
139 - Rush City	435 - Waubun-Ogema-White Earth	740 - Melrose	2448 - Martin County West
146 - Barnesville	441 - Marshall County Central Schools	741 - Paynesville	2527 - Norman County West
150 - Hawley	447 - Grygla	742 - St. Cloud	2534 - Bird Island-Olivia-Lake Lillian
152 - Moorhead	458 - Truman	743 - Sauk Centre	2536 - Granada-Huntley-East Chain
162 - Bagley	463 - Eden Valley-Watkins	745 - Albany	2580 - East Central
166 - Cook County	465 - Litchfield	748 - Sartell-St. Stephen	2609 - Win-E-Mac
173 - Mountain Lake	466 - Dassel-Cokato	750 - Rocori	2683 - Greenbush-Middle River
177 - Windom	473 - Isle	756 - Blooming Prairie	2687 - Howard Lake-Waverly-Winsted
181 - Brainerd	477 - Princeton	761 - Owatonna	2689 - Pipestone Area Schools
182 - Crosby-Ironton	480 - Onamia	763 - Medford	2711 - Mesabi East
186 - Pequot Lakes	482 - Little Falls	768 - Hancock	2752 - Fairmont Area Schools
191 - Burnsville-Eagan-Savage	484 - Pierz	771 - Chokio-Alberta	2753 - Long Prairie-Grey Eagle
192 - Farmington	485 - Royalton	775 - Kerkhoven-Murdock-Sunburg	2754 - Cedar Mountain
194 - Lakeville	486 - Swanville	777 - Benson	2759 - Eagle Valley
195 - Randolph	487 - Upsala	786 - Bertha-Hewitt	2769 - Morris Area
196 - Rosemount-Apple Valley-Eagan	492 - Austin	787 - Browerville	2805 - Zumbrota-Mazepa
197 - West St. Paul-Mendota Hts.-Eagan	495 - Grand Meadow	801 - Browns Valley	2835 - Janesville-Waldorf-Pemberton
199 - Inver Grove Heights	497 - Lyle	803 - Wheaton Area Schools	2853 - Lac Qui Parle Valley
200 - Hastings	499 - Leroy-Ostrander	811 - Wabasha-Kellogg	2854 - Ada-Borup
203 - Hayfield	500 - Southland	813 - Lake City	2856 - Stephen-Argyle Central Schools
204 - Kasson-Mantorville	505 - Fulda	818 - Verndale	2859 - Glencoe-Silver Lake
206 - Alexandria	507 - Nicollet	820 - Sebeka	2860 - Blue Earth Area Schools
213 - Osakis	508 - St. Peter	821 - Menahga	2884 - Red Rock Central
227 - Chatfield	511 - Adrian	829 - Waseca	2886 - Glenville-Emmons
229 - Lanesboro	514 - Ellsworth	831 - Forest Lake	2888 - Clinton-Graceville-Beardsley
238 - Mabel-Canton	518 - Worthington	832 - Mahtomedi	2889 - Lake Park-Audubon Schools
239 - Rushford-Peterson	531 - Byron	833 - South Washington County	2890 - Renville County West
241 - Albert Lea	533 - Dover-Eyota	834 - Stillwater	2895 - Jackson County Central
242 - Alden-Conger	534 - Stewartville	836 - Butterfield-Odin	2897 - Redwood Area Schools
252 - Cannon Falls	535 - Rochester	837 - Madelia	2898 - Westbrook-Walnut Grove Schools
253 - Goodhue	542 - Battle Lake	840 - St. James	2899 - Plainview-Elgin-Millville
255 - Pine Island	544 - Fergus Falls	846 - Breckenridge	2902 - RTR
256 - Red Wing	545 - Henning	850 - Rothsay	2903 - Ortonville Area
261 - Ashby	547 - Parkers Prairie	852 - Campbell-Tintah	2904 - Tracy Area
264 - Herman-Norcross	548 - Pelican Rapids	857 - Lewiston-Altura	2905 - Tri-City United
270 - Hopkins	549 - Perham-Dent	858 - St. Charles	2906 - Red Lake County Central
271 - Bloomington	550 - Underwood	861 - Winona Area Public Schools	2907 - Round Lake-Brewster
272 - Eden Prairie	553 - New York Mills	876 - Annandale	2908 - Brandon-Evansville
273 - Edina	561 - Goodridge	877 - Buffalo-Hanover-Montrose	
276 - Minnetonka	564 - Thief River Falls	879 - Delano	

Appendix B: Fact Sheet

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www.revenue.state.mn.us

Reading Credit

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Income Tax Fact Sheet 23

Minnesota forms you may need: M1, M1ED, M1M, M1READ

Fact Sheet

Note: This credit was available for tax year 2014 only.

If your child has a deficiency in reading, you may qualify for a refundable credit for expenses you paid in 2014 for tutoring, instruction, or treatment to help your child meet state-required academic standards. This credit is separate from the K-12 education credit and K-12 education subtraction.

How do I qualify?

You can claim this credit if:

- You have a **qualifying child** (see below);
- The child was evaluated by a school district for an Individualized Education Program (IEP) from Jan. 1, 2011- Dec. 31, 2014;
- The school district's evaluation found that the child has a reading deficiency but does not qualify for the IEP; and
- You paid expenses for **qualifying treatment** for the reading deficiency (see below) or for tutoring or instruction by a **qualifying instructor** (see below) for which you did not receive reimbursement from a pre-tax account, insurance or other reimbursement plan.

Note: If your child was evaluated for an IEP and was eligible for the program, you do not qualify for this credit. However, you may qualify for the K-12 education credit or subtraction. See Fact Sheet 8, *K-12 Education Subtraction and Credit*.

What is a qualifying child?

For purposes of this credit, a qualifying child:

- Is your child, grandchild, great-grandchild, brother, sister, niece, or nephew;
- Is enrolled in a grade K-12;
- Lived with you for more than half the year in the United States;
- Is not claimed as a qualifying child by any other person;
- Was evaluated for, but found not to have, a specific learning disability; and
- Was found, as part of the school district's evaluation, to have a deficiency in basic reading skills, comprehension or fluency that impairs him or her to meet expected age or grade-level standards.

What is qualifying treatment?

Qualifying treatment must:

- Be intended to improve basic reading skills, reading comprehension, and reading fluency;

- Use recognized diagnostic assessments to determine what intervention would be most appropriate; and
- Use a research-based method to teach language decoding skills in a systematic manner.

You must be able to verify that the treatment meets these criteria.

Who is a qualifying instructor?

A qualifying instructor is a person who is not the parent, grandparent, or sibling of the qualifying child, and:

- Has a valid teaching license in the field and grade level taught (or is supervised by someone with a valid teaching license);
- Has completed a competency evaluation;
- Teaches at an accredited school; or
- Has a bachelor's degree.

Limitations

The credit is limited to 75% of unreimbursed expenses or \$2,000 (whichever is less), even if you have qualifying expenses for more than one child. You may use expenses not used for this credit to qualify for the K-12 education credit or subtraction. You cannot use the same expenses to qualify for the reading credit and the K-12 education credit or subtraction.

There is no income limit for this credit.

Frequently Asked Questions

Can I claim the Reading Credit and the K-12 Education Credit and Subtraction?

You can claim the Reading Credit, K-12 Education Credit and/or the Education Subtraction if you have qualifying expenses and you meet the other guidelines. You cannot use the same expenses to qualify for more than one benefit.

If you qualify for the Reading Credit and the K-12 Education Credit, complete the Education Credit Schedule (M1ED) before you complete the Reading Credit Schedule (M1READ).

Claiming a credit instead of a subtraction usually results in a greater benefit.

Do I have to meet all of the criteria outlined above?

Yes. This credit is only available for a child who was evaluated for an IEP within the last three years and did not qualify for an IEP. The child, instructor, and type of instruction or treatment must meet the criteria listed in this fact sheet.

Continued

Income Tax and Withholding Division
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This fact sheet is intended to help you become more familiar with Minnesota tax laws and your rights and responsibilities under the laws. Nothing in this fact sheet supersedes, alters or otherwise changes any provisions of the tax law, administrative rules, court decisions or revenue notices. Alternative formats available upon request.

Minnesota Revenue, Reading Credit 1

How does a child get an IEP?

Typically, the school will recommend an IEP evaluation when they identify that a child may need more instruction than currently available to the child. A parent can also request an evaluation.

What is an RTI?

“RTI” is Response to Intervention. This is not the same as an IEP. These are services that a school offers before doing an evaluation for an IEP. Please check with your school district for more information.

How do I know if my child’s tutor is a qualifying instructor?

Ask your child’s tutor. You are responsible for verifying that the tutor meets one of the criteria outlined under the qualified instructor section.

What documents do I need to keep?

Keep any documents that show that your child was evaluated for, but did not qualify for, an IEP from Jan. 1, 2011-Dec. 31, 2014. The evaluation must identify that your child has a reading deficiency.

Also keep any documents that show how much you paid for qualifying treatment or tutoring of your qualifying child.

Can I claim this credit if I requested an evaluation for my child in 2014, but the evaluation was not complete until 2015?

No. The evaluation must have been completed by Dec. 31, 2014.

Can I claim this credit for expenses that I paid if the school did not do an evaluation?

No. Your child must have been evaluated by the school district. You must have proof of the evaluation and that the child did not qualify for an IEP.

What are the income limits for this credit?

There are no income limits for this credit.

How do I know if a program uses language decoding skills, recognized diagnostic assessments, or employs a research-based method?

Verify with your program provider that the treatment your child is receiving meets this standard.

When does this credit apply?

A child must have an evaluation completed from Jan. 1, 2011-Dec. 31, 2014. All expenses used to claim this credit must be paid in 2014.

How long can it take to get an evaluation for an IEP?

It typically takes at least 30 school days to complete an evaluation. Please check with your school district for more information.

Can an independent evaluation be used to qualify for this credit?

You can obtain an independent evaluation and present it to the school, but the school does not have to accept it. An independent will only qualify for this credit if your school accepts it.

Information and Assistance

Additional forms and information, including fact sheets and frequently asked questions, are available on our website at www.revenue.state.mn.us.

If you have questions or need help, contact us:

- By email: individual.incometax@state.mn.us
- By phone: 651-296-3781 or 1-800-652-9094

We will provide information in other formats upon request to persons with disabilities.

Appendix C: Reading Credit Website Entry

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Individual Income Tax

Last Updated: 1/8/2015

Reading Credit

The Reading Credit is a new credit available for tax year 2014 only. This credit does not have an income limit.

The credit is equal to the lesser of \$2,000 or 75% of expenses paid for the qualifying instruction or qualifying treatment of a taxpayer's qualifying child or children. The maximum credit is \$2,000 total, regardless of how many qualifying children the taxpayer has.

Qualifying Child

For this credit, a "qualifying child" is one who meets the requirements for the K-12 Education Credit **and** who:

- was believed to have a specific learning disability and evaluated for special education
- did not qualify for an individualized education program (IEP)
- was found, as part of the evaluation, to have a reading deficiency that kept them from meeting the reading standards for their age or grade level

Qualifying Tutoring and Instruction

To qualify for this credit, the tutoring or instruction must be provided by a qualified instructor **and** be intended to help the qualifying child meet state academic standards in school subjects such as language arts, math, science, and social studies.

Qualifying Instructor

For this credit, a "qualifying instructor" is an individual who is not a parent, grandparent, or sibling of the qualifying child **and** who is one of the following:

- has a valid teaching license or is supervised by someone who does
- has completed a teacher competency evaluation
- teaches at an accredited private school
- has a bachelor's degree

Qualifying Treatment

To qualify for this credit, the treatment must be intended to improve the child's basic reading skills, reading comprehension, and reading fluency. The treatment must also use:

- recognized diagnostic assessments to determine what intervention is most appropriate for the child
- a research-based method to teach language decoding skills in a systematic manner

Taxpayers who are unsure if their child's treatment qualifies should contact the instructor or treatment provider.

How do I claim the credit?

To claim the reading credit, you must file [Schedule M1READ](#).

If you also qualify for the Minnesota K-12 Education Credit and/or Subtraction, you may not claim the same expenses for more than one benefit.

If you qualify for the Reading Credit and K-12 Education Credit, complete the Education Credit Schedule ([M1ED](#)) before you complete the Reading Credit Schedule (M1READ).

Claiming a credit instead of a subtraction usually results in a greater benefit.

Appendix D: M1Read Intake Sheet for Volunteers

M1READ Intake Sheet

You must exercise due diligence when preparing Schedule M1READ; like you would for any credit or deduction you list on a client’s income tax return. This includes asking appropriate questions to ensure the child is a qualifying child and that the expenses are qualifying expenses.

Qualifying Child Questions:

- What is the child’s relationship to you? _____
- Where did the child live during 2014? _____
- Was the child enrolled in school? Y N
- Has the child been evaluated for an individualized education plan (IEP)? Y N
- Who conducted the evaluation? _____
- Did the child qualify for an IEP? Y N
- Do you have documentation to support the answers you’ve provided? (Or could you obtain documentation if requested?) Y N

Qualifying Expense Questions:

- What academic subject did the tutoring cover? _____
- Who provided the tutoring? _____
- To whom was the tutoring provided? _____
- Do you have documentation of the expenses? Y N
- What kind of treatment was provided? _____
- Did the treatment use a recognized diagnostic assessment to determine what intervention was most appropriate for your child and use a research based method to teach language decoding skills in a systematic manner? Y N
- Do you have documentation to support the answers you’ve provided? (Or could you obtain documentation if requested?) Y N

You can find a brief summary of the credit on the department’s website (www.revenue.state.mn.us). From the home page, enter “reading credit” into the search bar.

You may also provide Income tax Fact Sheet 23 to your clients.

Appendix E: Statute

Laws of Minnesota 2014 Regular Session, Chapter 308, Article 4.

Section 22. . TEMPORARY READING CREDIT

Subd. 5. **Report.** By March 1, 2016, the commissioner of revenue, in compliance with Minnesota Statutes, sections 3.195 and 3.197, must provide a report to the chairs and ranking minority members of the committees of the house of representatives and senate with jurisdiction over taxes and education on:

- (1) the number of taxpayers claiming the credit under this section and the average amount of credits claimed; and
- (2) the administration of the credit, including recommendations for ensuring compliance.