

March 13, 2024

	<b>Yes</b>	<b>No</b>
<b>DOR Administrative Costs/Savings</b>		<b>X</b>

Department of Revenue  
Analysis of H.F. 4823 (Norris)

	<b>Fund Impact</b>			
	<b><u>F.Y. 2024</u></b>	<b><u>F.Y. 2025</u></b>	<b><u>F.Y. 2026</u></b>	<b><u>F.Y. 2027</u></b>
		(000's)		
General Fund	\$0	(\$7,800)	(\$7,700)	(\$7,800)

Effective beginning tax year 2024.

**EXPLANATION OF THE BILL**

**Current Law:** In tax year 2023, the working family credit was replaced by a child credit and a new working family credit. The two credits are calculated separately and phased out jointly.

The child credit equals \$1,750 per qualifying child under the age of 18.

In tax year 2024, the working family credit equals 4% of the first \$9,220 of earned income. The credit is increased by \$970 for a taxpayer with one qualifying older child, \$2,210 for two qualifying older children, and \$2,630 for three or more qualifying older children age 18 or older.

The child credit and the working family credit are reduced together by 12% of earned income or adjusted gross income, whichever is greater, over a threshold. In 2024, the threshold is \$36,880 for married joint filers or \$31,090 for all other filers.

If the taxpayer has one or more qualifying older children, the phase-out rate is 9% instead of 12%.

All amounts are adjusted annually for inflation, except that the \$1,750 child credit amount will be adjusted for inflation beginning in tax year 2026.

**Proposed Law:** The bill expands the child credit to include qualifying children up to the age of 18. Qualifying older children would be age 19 or older.

**REVENUE ANALYSIS DETAIL**

- The estimate is based on estimates from the House Income Tax Simulation Model (HITS 7.4) and information on dependent ages from 2017 tax returns.
- The HITS simulations assume the same economic conditions used by Minnesota Management and Budget for the budget forecast published in February 2024. The model uses a stratified random sample of tax year 2021 individual income tax returns compiled by the Minnesota Department of Revenue.
- The average change in credit was calculated based on returns that claimed the child and working family credit in the HITS model in tax year 2024. For simplicity, the calculation was limited to returns with only one child to get the average change in credit per child.

**REVENUE ANALYSIS DETAIL (Cont.)**

- The average increase in the credit is \$716.
- Based on the ages of dependents on federal tax returns in 2017 (the last year that dependent's ages were available on tax returns), 18-year-olds account for 2.9% of all qualifying children for the working family credit.
- For tax year 2024, it is estimated that about 9,800 18-year-olds would qualify for the child credit rather than the additional amount for older children.
- The estimate is increased by 15% to account for newly eligible returns and children of ITIN users, which are not included in the HITS estimates.
- Growth is based on projected growth in the child and working family credit in the February 2024 forecast.
- Tax year impacts are allocated to the following fiscal year.

**Number of Taxpayers:** About 10,800 returns would benefit under the proposal in tax year 2024.

Minnesota Department of Revenue  
Tax Research Division  
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