

**Working Family Credit Eligibility  
American Rescue Plan Act**

	FY 2022	FY 2023	FY 2024	FY 2025
		(\$000s)		
Credit for Taxpayers with Dependents				
Without Identification	(\$30)	(\$30)	(\$30)	(\$30)
Credit for Certain Married Separate Filers	(\$700)	(\$700)	(\$800)	(\$800)
Increase Max Investment Income	(\$260)	(\$250)	(\$250)	(\$250)
Allow 2019 Income for 2021 Credit	<u>(\$9,900)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
General Fund Total	(\$10,890)	(\$980)	(\$1,080)	(\$1,080)

Most provisions are effective beginning with tax year 2021. The use of 2019 income in calculating the credit is effective for tax year 2021 only.

The American Rescue Plan Act (Public Law 117-2) was enacted on March 11, 2021. The Act expands the qualifications for the earned income credit in several ways.

1. Taxpayers generally must supply the name, age and identification number for any dependents claimed for the earned income credit. Beginning with tax year 2021, the Act allows taxpayers who lack the required identification for their children to claim the credit as if they had no children.
2. Married separate filers are generally ineligible for the earned income credit. Beginning with tax year 2021, the Act allows married separate filers to claim the credit under certain circumstances if they are living separately from their spouse for more than half the year with one or more qualifying children and paid more than half the cost of maintaining the household.
3. A taxpayer with more than a certain amount of investment income is ineligible for the earned income credit. For tax year 2021, the limit on investment income was \$3,650. The Act increased the limit to \$10,000 in tax year 2021, adjusted annually for inflation.
4. The Act allows taxpayers to use their 2019 income in determining their earned income credit in tax year 2021.

This estimate includes the impact of those provisions for determining eligibility for the working family credit. It is assumed that conforming language would be needed to clarify that the federal provisions apply to the working family credit.

*Working Family Credit for Taxpayers with Dependents Lacking Identification*

- The estimate is based on a sample of 2018 individual income tax returns.
- Returns were identified that appeared eligible for the working family credit except that the dependents did not have a Social Security number.
- The credit was calculated for each return using the credit rates and thresholds for taxpayers with no children.
- Tax year impacts were allocated to the following fiscal year.

*Working Family Credit for Certain Married Separate Filers*

- The estimate is based on a sample of 2018 individual income tax returns.
- Returns were identified that appeared eligible for the working family credit except that they had a married separate filing status.
- It is assumed that 30% of the returns would meet the other qualifications for the credit.
- Tax year impacts were allocated to the following fiscal year.

*Increase Investment Income Limit for WFC Recipients*

- The House Income Tax Simulation (HITS 7.0) Model was used to estimate the tax year revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in November 2020. The model uses a stratified sample of 2018 individual income tax returns compiled by the Minnesota Department of Revenue.
- Tax year impacts are allocated to the following fiscal year.

*Use 2019 Income for 2021 Working Family Credit*

- The estimate is based on a sample of 2018 income tax returns.
- The credit was calculated based on expected income in 2021 and compared to the credit using unadjusted incomes.
- It is assumed that taxpayers would only choose to use their 2019 income if doing so would increase their credit.
- The tax year impact 2021 is allocated to fiscal year 2022.

Minnesota Department of Revenue  
Tax Research Division  
May 5, 2021