

March 24, 2026

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 495 (West), As Proposed to be Amended (H0495-A1)

	Fund Impact			
	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>	<u>F.Y. 2028</u>	<u>F.Y. 2029</u>
			(000's)	
General Fund	\$0	(\$52,200)	(\$53,800)	(\$55,700)

Effective beginning in tax year 2026.

EXPLANATION OF THE BILL

Current Law:

Exclusion for Dependent Care Expenses. At the federal level, employer-provided dependent care assistance is excluded from an employee's income if the assistance is provided through a formal, written plan. The maximum exclusion was increased from \$5,000 to \$7,500 by P. L. 119-21 beginning with tax year 2026. Minnesota has not adopted that law change. Therefore, any benefits over \$5,000 must be included in Minnesota taxable income.

Federal Dependent Care Credit. The federal dependent care credit is a nonrefundable credit equal to a percentage of unreimbursed employment-related expenses related to child or dependent care. P. L. 119-21 enhanced the credit beginning with tax year 2026. Minnesota has not adopted the changes to the federal credit.

Minnesota Dependent Care Credit. The Minnesota dependent care credit is equal to the federal credit except that it is refundable and the maximum credit is phased out by 5% of adjusted gross income over a threshold (\$64,150 in 2025). The threshold is indexed annually for inflation. The credit is not available for individuals filing a married separate return. A newborn credit is allowed for a child born in the tax year even if there are no qualifying expenses.

Proposed Law: The proposal creates a subtraction for daycare costs paid in excess of the amount of dependent care assistance the taxpayer excluded from federal gross income.

Eligible daycare costs include the amount a taxpayer paid to a licensed childcare program for the purpose of childcare for the taxable year.

"Licensed childcare program" means a childcare center or family or group family childcare licensed under chapter 142B, Minnesota statute.

Some expenses that are eligible for the federal dependent care exclusion or federal dependent care credit might not be eligible for the proposed subtraction. For example, after-school programs run by a school district or local government or an in-home nanny may not be licensed childcare programs. park and recreation park board are defined as legally unlicensed.

REVENUE ANALYSIS DETAIL

- According to the Department of Children, Youth, and Families (DCYF) Licensing Division, there were about 10,600 licensed childcare programs in Minnesota as of March 2026. However, no data is available for expenses paid for unlicensed care.
- Information on dependent care benefits reported on form W2, the Minnesota dependent care credit and the federal dependent care assistance and credit for tax year 2023 was used to estimate the tax impact of the proposed subtraction.
- About 48,200 returns reported dependent care benefits on the taxpayers' W-2. The average tax change for those returns would be \$719.
- An additional 53,400 returns reported daycare expenses for the state or federal dependent care credit. The average tax change for those returns would be \$477.
- The estimate was reduced by 20% to exclude expenses that were not paid to licensed childcare programs. Those expenses would not be eligible for the proposed subtraction.
- Tax year impacts are allocated to the following fiscal year.

Number of Taxpayers: About 81,700 returns would have an average decrease in tax of \$639 in tax year 2026.

Minnesota Department of Revenue
Tax Research Division
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