

**Subject** Dependent care credit amount increased

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## Summary

H.F. 1401 increases the Minnesota dependent care credit to equal 2.5 times the amount allowed to the taxpayer federally. Under current law, the credit amount equals the amount allowed federally.

Under current federal law (disregarding certain temporary changes to which the state has not conformed), the maximum federal credit is \$2,100 for taxpayers with two or more dependents and \$1,050 for taxpayers with one dependent. H.F. 1401 would increase the maximum state credit to \$5,250 or \$2,265, depending on the number of the taxpayer's dependents.

### *Background: Dependent Care Credit Calculation*

For taxable years other than 2021, the federal credit equals 35 percent of up to \$3,000 of qualifying expenses for one dependent (\$6,000 of qualifying expenses for two or more dependents). The maximum federal credit is \$1,050 for one dependent and \$2,100 for two or more dependents. The federal credit percentage rate begins to phase down when income exceeds \$15,000, with the credit percentage decreasing as income increases. Claimants with incomes over \$43,000 qualify for the minimum federal credit rate of 20 percent of qualifying expenses, or up to \$600 for one dependent and \$1,200 for two or more dependents. For example, a claimant with \$50,000 of income and \$1,000 of expenses will qualify for a credit of \$200 (20 percent of \$1,000).

The American Rescue Plan Act (ARPA) modified the dependent care credit parameters significantly, effective for tax year 2021 only. Because Minnesota has not conformed to the changes in ARPA, the federal changes would not affect H.F. 1401.

### *Background: Minnesota Credit Calculation (current law)*

The state credit equals the federal credit for which the claimant is eligible, subject to an income-based phaseout. While all filers with tax liability and qualifying expenses may claim the federal credit, the state credit is fully phased out for filers with higher incomes. In tax year 2021, the phaseout begins when adjusted gross income exceeds \$53,630. The income threshold for the phaseout is adjusted each year for inflation.