MN HOUSE RESEARCH

Bill Summary

H.F. 9

As amended by H0009DE1

Subject	**Minnesota dependent care credit expansion**
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Overview

H.F. 9 decouples Minnesota's dependent care credit from the federal dependent care credit, and expands the amount of credit a taxpayer would be eligible to receive.

The main credit expansion provisions in the bill are to:

- Increase the maximum credit rate to 50 percent.
- Increase the income-based phaseout to a two-tier phaseout, with the first tier beginning at $125,000 of adjusted gross income (AGI) and the second tier beginning at $400,000.
- Increase the maximum expenses eligible for the credit, for children ages 0-4. Under the bill, the maximum amount of expenses eligible for the credit would be increased to $10,000, $20,000, or $25,000, for taxpayers with one, two, or three children younger than 5.

The bill additionally allows taxpayers who participate in a dependent care assistance program (dependent care FSA) to claim the credit, but requires an addition for dependent FSA contributions that were excluded from AGI.

Summary

Section	Description
1	**Individual income tax addition; dependent care assistance.** Requires taxpayers who claim the Minnesota dependent care credit to add back any dependent care assistance (dependent FSA contributions) that are excluded from gross income federally.
2	**Great start child care and dependent care credit.** **Subd. 1. Amount of credit.** Decouples Minnesota's dependent care credit from the federal dependent care credit. Stipulates that the state credit amount would

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equal the credit rate determined under subdivision 1a, multiplied by the credit percentage determined under subdivision 1b.

Strikes language deeming certain individuals to have child care expenses for the purpose of the credit—this language is moved to subdivision 2c.

For nonresidents and part-year residents, requires the credit to be allocated based on the taxpayer's residency percentage. Under current law, the credit is allocated based on the share of the taxpayer's earned income that comes from Minnesota sources.

Defines the terms "qualifying individual" and "employment-related expenses" by reference to the federal dependent care credit. Defines "young child" as a qualifying individual who is 0-4 years old at the end of the taxable year.

Subd. 2. Eligible dependent care expenses. Allows taxpayers with one qualifying individual to claim up to $3,000 of eligible dependent care expenses, and taxpayers with two or more qualifying individuals to claim up to $6,000 in eligible dependent care expenses.

The amount of eligible expenses would be increased by $7,000, $14,000, or $19,000 for taxpayers with one, two, or three qualifying individuals (respectively) that were ages 0-4 at the end of the taxable year.

Subd. 1b. Credit percentage. Sets the credit percentage at 50 percent subject to an income-based phaseout beginning at $125,000 of adjusted gross income (AGI).

The credit point is reduced by one percentage for each $2,000 of AGI (or fraction of $2,000) above $125,000, until the credit percentage equals 20 percent. The 20 percent credit rate would apply until a taxpayer's income exceeded $400,000. The rate would be further reduced by one percentage point for each $2,000 of income in excess of $400,000 of AGI, until the credit percentage reached zero percent. The credit would be fully phased out at $440,000 of AGI.

Subd. 2b. Inflation adjustments. Sets the base year for the inflation adjustment at tax year 2023.

Subd. 2c. Deemed expenses. Under current Minnesota law, certain taxpayers are deemed to have employment-related expenses eligible for the dependent care credit. Under current law, deemed expenses are assigned to taxpayers who operate a licensed family day care that their child attends, and taxpayers with children ages 0-4.

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The bill moves these existing provisions to a new subdivision, and makes two additional changes. First, for operators of a family day care, it sets the deemed amount for a child attending the day care at the amount the facility would normally charge for a child of a given age. Under current law, the deemed amount equals the maximum amount of expenses allowed under federal law ($3,000 per child).

Second, for a child younger than 1, the bill sets the deemed amount to equal the maximum amount allowed for a child ages 0-4 ($10,000 for one child).

Subd. 2d. Identifying information required. Moves language governing taxpayers who do not file a federal return from subdivision 1 to a new subdivision. The bill does not make a substantive change to this provision.

Requires taxpayers to include the taxpayer identification number of a qualifying individual for whom the credit is claimed—this is consistent with current federal and state law for the dependent care credit.

Subd. 3. Credit to be refundable. Adds language appropriating funds to the Department of Revenue (DOR) for credit refunds. This language is standard for refundable credits but is missing from current law.

Subd. 4. Right to file claim. No changes.

Subd. 5. Employment-related expenses. Under current Minnesota and federal law, the dependent care credit is limited to the earned income of the taxpayer, or the earned income of the lesser-earning spouse (for a married taxpayer filing a joint return). H.F. 3283 decouples the state credit from the federal credit, meaning Minnesota would need to explicitly adopt any rules from the federal credit to include those rules in the new state credit. Subdivision 5 adopts the federal earned income limitations.

Adopts section 21(e)(6) of the Internal Revenue Code, which disallows payments to dependents or children of the taxpayer under age 19.

Subd. 6. Rules for married couples filing separate returns. Limits the ability of married couples filing separate returns to claim the credit—only one spouse would be permitted to claim the credit.

Subd. 7. Advance payment of tax credits. Requires DOR to establish a process for taxpayers to apply to receive advance payments of the credit. For taxpayers receiving advance payments, the credit amount is reduced by the amount of advance payments received. If a taxpayer received more advance payments than

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	they were eligible to receive as credits, the taxpayer's liability for tax is increased by the difference.