DEPARTMENT OF REVENUE

INDIVIDUAL INCOME TAX
Dependent Care Credit Increase

March 15, 2021

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 1401 (Becker-Finn) / S.F. 1777 (Nelson)

	Fund Impact			
	F.Y. 2022	**F.Y. 2023**	**F.Y. 2024**	**F.Y. 2025**
	(000's)			
General Fund Total	($35,400)	($35,100)	($35,800)	($36,400)

Effective beginning with tax year 2021.

EXPLANATION OF THE BILL

Current Law: The federal dependent care credit is a nonrefundable credit equal to a percentage of unreimbursed employment-related expenses related to child or dependent care, up to $3,000 for one qualifying dependent and $6,000 for two or more qualifying dependents. The credit rate depends on income and ranges from 35% for families with incomes of $15,000 or less to 20% for families with incomes over $43,000. The maximum federal credit is equal to $1,050 for one dependent and $2,100 for two or more dependents.

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 ($53,630 in 2021). The threshold is indexed annually for inflation. The credit is not available for individuals filing a married separate return.

For tax year 2021 only, the American Rescue Plan Act (Public Law 117-2) made the following temporary changes to the federal dependent care credit: (1) the credit is made refundable; (2) the maximum expense for one dependent increases to $8,000, for two or more qualifying dependents to $16,000; (3) the credit rate ranges from 50% for families with income of $125,000 or less to 20% for families with income over $185,000. Minnesota has not adopted those changes to the federal credit.

Proposed Law: The bill would increase the credit to 2.5 times the federal dependent care credit. The phaseout threshold and phaseout rate are unchanged. The proposal does not adopt the federal changes to the credit in tax year 2021.

REVENUE ANALYSIS DETAIL

- For tax year 2018, about 48,800 returns claimed total credits of $25.1 million.
- 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 February 2021. The model uses a stratified sample of 2018 individual income tax returns compiled by the Minnesota Department of Revenue.
- Tax year impacts were allocated to the following fiscal year.
- If Minnesota adopted the temporary changes to the federal credit, the impact in fiscal year 2022 would be ($121.5 million).

REVENUE ANALYSIS DETAIL (Cont.)

Number of Taxpayers: About 42,600 returns would have an average reduction in tax of $830 in tax year 2021.

Minnesota Department of Revenue
Tax Research Division
https://www.revenue.state.mn.us/revenue-analyses

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