

HOUSE RESEARCH

Bill Summary

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Overview

Ties the refundable state dependent care credit to the nonrefundable federal dependent care credit. The state credit amount would equal the federal credit amount that individuals are unable to use to offset federal liability because their income is too low to result in federal liability after allowance of the federal child credit. (The federal dependent care credit is nonrefundable, and may only be used to offset liability.) The result would be that an individual's combined federal and state credits would equal the federal credit for which they are eligible.

- 1 Dependent care credit.** Provides that an individual qualifies for a state dependent care tax credit equal to the "unused" portion of the individual's federal dependent care credit. The federal dependent care credit is nonrefundable (it may only be used to offset liability). This section provides that the "unused" portion equals the federal credit for which the taxpayer is eligible, minus (i) the nonrefundable portion of the federal child credit, which is assumed to first offset federal liability, and (ii) the individual's remaining federal liability.

For example, an individual who is eligible for the maximum federal dependent care credit for one child of \$1,050, and has no federal liability, would receive a state credit equal to \$1,050. An individual who is eligible for the minimum federal dependent care for one child of \$600, a federal child credit of \$1,000, and has federal liability of more than \$1,600, would not be eligible for a state credit.

Also strikes the reference to the income definition used under current law to phase out the state credit, since under this section the state credit would be tied directly to the federal credit and no longer subject to a separate state phaseout.

Background. The federal dependent care credit equals 35 percent of qualifying expenses for individuals with adjusted gross income less than \$15,000. The maximum allowed qualifying expenses are \$3,000 for expenses related to the care of one dependent, and \$6,000 for expenses related to the care of two or more dependents. The credit percentage decreases by 1 percentage point for each \$2,000 of income over \$15,000, to a minimum of 20 percent for individuals with income over

\$43,000.

The state dependent care credit equals the lesser of (i) the federal credit for which the individual is eligible, without regard to the amount actually used to offset liability, or (ii) \$720 for one dependent and \$1,440 for two or more dependents. The state credit is phased out at a rate of \$18 for one dependent (\$36 for two or more dependents) for each \$350 of income in excess of an income threshold. For tax year 2011, the income threshold is \$23,720, and no state credit is allowed for individuals with income over \$37,370. The income threshold is adjusted each year for inflation.

- 2 **K-12 education credit; income reference.** Strikes a reference to the income definition that is repealed in section 5.
- 3 **K-12 education credit; income definition.** Restates the household income definition currently in the dependent care credit statute in the K-12 education credit statute. Under present law, the income definition appears in the dependent care credit statute, and is referenced in the K-12 credit statute, for use in the phaseout of the K-12 education credit. Since the income definition would no longer be needed under the proposed changes to the dependent care credit, this section provides the same definition directly in the K-12 education credit statute.
- 4 **Revisor's instruction.** Directs the Revisor to replace any other references in statute to the income definition currently in the dependent care credit statute with references to the new location of the definition in the K-12 education credit statute in the next edition of Minnesota Statutes.
- 5 **Repealer.** Repeals the household income definition used in the dependent care credit statute for the phaseout of the credit, and the inflation adjustment of the income floor for the credit. These subdivisions would not be necessary if the state credit were tied directly to the federal credit as proposed in section 1.