HOUSE RESEARCH
Bill Summary

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Subject: Dependent care credit amount increased and income eligibility expanded

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Overview

Increases the state dependent care credit to equal the federal credit for taxpayers with adjusted gross incomes (AGI) up to $100,000. The maximum state credit would be increased from $720 to $1,050 for one dependent, and from $1,440 to $2,100 for two or more dependents. The credit would continue to follow the phasedown of the federal credit, so that the maximum credit for filers with AGI over $43,000 would be $600 for one dependent, and $1,200 for two or more dependents. The state credit would then phase out for filers with AGI from $100,000 to $112,000 (one dependent), and from $100,000 to $124,000 (two or more dependents). The state credit would remain refundable. The $100,000 income threshold for the phaseout would be adjusted annually for inflation. Effective beginning in tax year 2015.

Background. The current state dependent care credit equals the lesser of the federal credit or $720 for one dependent and $1,440 for two or more. The state credit phases out for household incomes over $25,750, and in tax year 2015 is not allowed for filers with household income of $39,400 or higher.

The federal credit equals a percentage of qualifying expenses; the percentage decreases from 35 percent for filers with AGI under $15,000 to 20 percent for those with AGI over $43,000. Maximum qualifying expenses are set at $3,000 for one dependent and $6,000 for two or more, so that the maximum credit for filers with AGI under $15,000 is $1,050 for one dependent and $2,100 for filers with two or more, and phases down to a maximum credit of $600 for one dependent and $1,200 for two or more dependents for those with AGI of $43,000 or more. The federal credit is nonrefundable.

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1 **Dependent care credit.** Increases the state dependent care credit for parents with work-related dependent care expenses to equal the federal credit. The credit would follow the phasedown of the federal credit and then be subject to a state phaseout as provided in section 2.

Parents of children under age one and those who operate a family day care home and care for their own child would remain eligible for a state credit based on deemed expenses. Deemed expenses would remain the same as under current law: the maximum qualifying expense under the federal credit for parents with dependents under age one, and the maximum qualifying expense under the federal credit for family daycare home operators who care for their own child if the child is under 16 months of age, and the amount they charge for care for older children. Parents could not claim the credit based on deemed expenses and the credit based on work-related expenses for the same child.

2 **Dependent care credit phaseout.** Provides for the credit allowed under section 1 to be subject to an income-based phaseout. The income measure for the state phaseout would change from household income (a relatively broad measure that includes most nontaxable income) to AGI. The change in the income measure would eliminate some forms of nontaxable income, such as social security benefits, tax exempt bond interest, and cash public assistance, and certain items that reduce income, such as passive losses and deductible contributions to retirement plans, from the phaseout calculation. Individuals with these items may receive larger credits as a result. The credit would follow the phasedown of the federal credit and then be subject to a state phaseout, so that the maximum credit by AGI would be:

Maximum State Dependent Care Credit, H.F. 1301

AGI	Maximum for one dependent	Maximum for two or more dependents
Less than $15,000	$1,050	$2,100
$15,000 to $43,000	maximum credit decreases by $30 for each $2,000 of AGI over $15,000	maximum credit decreases by $60 for each $2,000 of AGI over $15,000
$43,000 to $100,000	$600	$1,200
$100,000 to $112,000	Maximum credit decreases by 5% of AGI over $100,000	Maximum credit decreases by 5% of AGI over $100,000
$100,000 to $124,000	No credit allowed	Maximum credit continues to decrease by 5% of AGI over $100,000
Over $124,000	No credit allowed	No credit allowed

Sets the maximum credit for parents with deemed expenses at $720 for one dependent, and $1,440 for two or more dependents, the same maximum as allowed for all claimants under

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current law. Specifies a separate income-based phaseout for parents with deemed expenses, which would take effect from $25,000 to $39,400 of AGI for those with one dependent, and from $25,000 to $53,800 of AGI for those with two or more dependents.

3 **Inflation adjustment.** Provides for the $100,000 income threshold for the credit phaseout for claimants with work-related expenses, and the $25,000 income threshold for the credit phaseout for claimants with deemed expenses, to be adjusted annually for inflation.

4 **Credit refundable.** Changes a reference from “subdivision” to “section” to reflect the re-structuring of the credit under the bill. The credit would remain refundable, as under current law.

5 **K-12 education credit phaseout.** Strikes a reference to “income” as defined for the dependent care credit.

6 **Income definition; K-12 education credit phaseout.** Adds a new subdivision to the K-12 education credit section of statute that re-states the household income definition currently used for the phaseout of both the dependent care credit and the K-12 education credit. The K-12 education credit would continue to be phased-out based on household income, while the dependent care credit phaseout would shift to AGI.

7 **Repealer.** Repeals the household income definition used for the dependent care credit phaseout. Under the bill, the dependent care credit would phase out based on AGI.