

**File Number:** H.F. 315  
**Version:** First engrossment

**Date:** March 9, 2017

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**Subject:** Parental leave tax credits

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This bill provides two tax credits for parental leave:

- a nonrefundable credit for employers who provide paid parental leave to their employees
- a refundable credit for employees who take unpaid parental leave

**Employer tax credit.** The employer credit equals 25 percent of wages paid to employees on parental leave up to a maximum credit of \$3,000. Wages are those subject to Minnesota income tax withholding. Wages qualifying for the credit cannot exceed the wages normally paid to the employee (calculated on hourly or equivalent basis) for up to a six-week period.

To claim the credit, an employer must have a parental leave policy that allows a full-time employee who has worked for the employer for one year or more to take two or more weeks of paid parental leave. (Part-time employees must be provided a proportionately reduced parental leave benefit based on the percentage of hours that they work—e.g., an employee working half-time must be provided a minimum of one week of paid leave.) Parental leave is defined by reference to the federal Family and Medical Leave Act (FMLA). The references to FMLA exclude payments for vacation, medical, or personal leave days from qualifying for the credit.

The credit is not refundable, but credits that exceed the employer's tax liability (both regular and alternative minimum taxes, but not the minimum fee) may be carried over for up to five taxable years.

**Employee tax credit.** Employees who work for an employer who does not provide paid parental leave qualifying for the employer credit may claim a refundable credit equal to 25 percent of their foregone wages during a parental leave (again, defined by reference to FMLA) of up to six weeks. To qualify for the credit, an employee must have been a full-time employee for nine months out of the 12-month period before taking the parental leave.

Maximum weekly wages used to compute the employee credit are capped at \$1,000. The \$1,000 limit is adjusted based on an index of child care costs for the county in which the taxpayer resides. The adjustment increases the \$1,000 weekly limit in counties with high child care costs and reduces it in counties with low child care costs. These values are based on the annual child care market survey prepared by the Department of Human Services.

**Effective date:** Tax year 2017, except the tax credits only apply to parental leaves taken after June 30, 2017.