

**INDIVIDUAL INCOME TAX
Dependent Care Credit**

April 6, 2001

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F.2237 (Bernardy)/ S.F. 2152 (Chaudhary)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
	(000's)			
General Fund	(\$20)	(\$20)	(\$20)	(\$20)

Effective for tax years beginning after December 31, 2000.

EXPLANATION OF THE BILL

Current Law: A Minnesota taxpayer may claim a refundable credit for a portion of dependent care expenses provided that those expenses were necessary in order to hold or look for a job. A dependent is defined as a child under age 13 or a dependent or spouse of any age who is disabled. Dependents who qualify for the federal child care credit also qualify for the Minnesota dependent care credit. The determination of the credit starts with the federal child and dependent care credit, which is equal to eligible expenses up to \$2,400 for one dependent and \$4,800 for two or more dependents multiplied by a percentage ranging from 30% to 20%, with the percentage decreasing as income increases. The maximum state credit allowed is based on total household income. For tax year 2001 the maximum amounts were reduced for taxpayers with total household incomes over \$18,610, so that a taxpayer with total household income over \$32,260 received no credit.

Proposed Law: The proposal extends the income tax credit for dependent care expenses to include expenses for the care of dependents under the age of 15. All other tests of the federal child care credit (except age) must still be met even though they do not qualify for the federal credit. The maximum credit remains limited to \$720 for claimants with expenses for one qualifying dependent, and \$1,440 for claimants with expenses for two or more qualifying dependents.

REVENUE ANALYSIS DETAIL

- The number of returns claiming the dependent care credit in tax year 1999 was 35,893 for a total credit of \$11,725,000 according to the income tax processing report for returns filed in 2000. The average credit is \$327 per return.

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- There are approximately 1.254 dependent care dependents per return for those returns that reported ages of the dependent on the Child and Dependent Care form M-1CD according to the preliminary 1999 Individual Income Tax Sample. With 35,893 returns processed in year 2000, there were approximately 45,011 children claimed as dependents with dependent care expenses.
- According to the Income Tax Samples for 1997 through 1999, it is estimated that 0.3 percent of the total number of children are 12 years old or 135 children dependent care children. This equates to 108 returns at 1.254 children per return. From the samples, the average credit for 12 year old children is estimated to be \$170 per return compared to the overall average of \$327. Older children generally do not require as much dependent care expenses as younger children in day care.
- The total dependent care credit attributed to 12 year olds is estimated to be \$18,360 at \$170 credit per return for 108 returns.
- It is assumed that from 12 years of age to 14 years of age, the number of children requiring dependent care expenses decreases each year. This decrease was assumed to be 25 percent per year. Therefore, there will be 101 dependent care children 13 years old or 81 returns with a total credit of \$13,770 and there will be 76 dependent care children 14 years old or 61 returns with a total credit of \$10,370.
- Some claimants in the sample are at their maximum credit amounts. Therefore, the total credit amount attributed to the 13 and 14 year olds was adjusted downward by 20 percent.
- It is assumed that the only federal test that is modified is the age of the qualifying dependent and that all other federal tests must still be met to qualify.
- Currently, the income tax samples indicate that 64 percent of dependent care children are under 6 years old and 98 percent are under 11 years old.

Number of Taxpayers Affected: With the proposed change, an additional 140 taxpayers will receive the credit for an average credit of \$143 per return.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational costs or savings to DOR in administration of this bill.

Source: Minnesota Department of Revenue
Tax Research Division
<http://www.taxes.state.mn.us/polic.html#analyses>