

MINNESOTA · REVENUE

INDIVIDUAL INCOME TAX

Child Credit

February 12, 2002

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

Department of Revenue
Analysis of S.F. 2837 (Rest)/ H.F. 3178 (Slawik)

	Revenue Gain or (Loss)			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
		(000's)		
General Fund	(\$)	(\$52,100)	(\$53,700)	(\$55,300)

Effective beginning with tax year 2002.

EXPLANATION OF THE BILL

Proposed Law: This bill would establish a \$60 child credit based on the federal child credit which is equal to \$600 for tax year 2001. However, unlike the federal credit it would be refundable. The amount would be phased out according to the same thresholds as the federal, \$5 for every \$1,000 of FAGI over the threshold. Thresholds are \$110,000 for married joint filers, \$75,000 for unmarried filers, and \$55,000 for married separate filers. The credit amount is increased in taxable years after 2004.

REVENUE ANALYSIS DETAIL

Data from the 1999 Income Tax Sample (when the federal credit was \$500) show 483,806 returns claiming the child credit for a total of \$397.9 million for an average credit of \$822. Assuming all the same filers would avail themselves of the new Minnesota credit, the revenue loss of a \$60 credit would be \$47.7 million, with average credits of \$99 per return. In addition, there are an estimated 5,000 returns that do not take the federal credit because it is not refundable, but do take the additional child credit. A full \$60 credit for these returns, assuming an average of 2.5 children, would be \$750,000, bringing the total to \$48.5 million.

This needs to be reduced by two percent to account for non-residents and then grown three percent each year from 1999 to 2002 to account for general filer growth. A further addition needs to be made for current non filers who might file to get this credit. This will be estimated at 1,000 returns for a total of \$150,000. This arrives at a total of \$52.1 million for tax year 2002. It is then assumed to grow three percent annually.

NUMBER OF TAX RETURNS AFFECTED: 500,000.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be administrative or operational costs for DOR in administration of this bill. Costs include the need for four additional news print pages that will need to be added to the following booklets. M1, M1-NR, and M1-PR. There will be additional postage costs and the need for one seasonal .25 FTE position for returns that stop in edit and need further review. Approximate cost of \$50,000 per fiscal year.

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

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