

MINNESOTA • REVENUE

INCOME TAX Dependent Care Credit

March 9, 2004

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

Department of Revenue
Analysis of S.F. 2495 (Moua)/H.F. 2650 (Kuisle)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
		(000's)		
General Fund	(\$0)	(\$1,530)	(\$1,610)	(\$1,690)

Effective beginning with tax year 2004

EXPLANATION OF THE BILL

Current Law: A refundable credit is allowed for income tax filers who incur expenses for the care of a dependent so that the filers can work or seek work. The maximum credit is \$720 for one dependent and \$1,440 for two or more dependents. The maximum credit phases out above a threshold which is indexed for inflation. For tax year 2003, the maximum credit is phased out as household income rises from \$19,520 to \$33,170.

Proposed Law: The bill doubles the amount of the credit if child care expenses were incurred through use of quality child care: that is, through using a child care provider who is accredited or otherwise qualified by having an educational degree in early childhood education or child development, as specified.

REVENUE ANALYSIS DETAIL

- An estimated 15% of licensed providers qualify as quality child care providers, based on information from the organization Child Trends.
- Taking into account all providers, including those that are unlicensed, it is assumed that 10% of households claiming the credit obtain child care from quality child care providers at some time during the year.
- For tax year 2004, the projected number of total dependent care credit claimants under current law is 37,500. The average projected credit of \$405 is used to estimate the proposal.
- Growth is set at 5%.

Number of Taxpayers: An estimated 3,750 claimants for tax year 2004.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy