

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Dependent Care Credit

April 9, 2007

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of S.F. 1777 (Larson) / H.F. 2070 (Simon)

	<u>Fund Impact</u>			
	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
			(000's)	
General Fund	(\$20)	(\$20)	(\$20)	(\$20)

Effective for tax years beginning after December 31, 2006.

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 \$3,000 for one dependent and \$6,000 for two or more dependents multiplied by a percentage ranging from 35% to 20%, with the percentage decreasing as income increases. However, the Minnesota credit is limited to a maximum of \$720 for one child and \$1,440 for two or more children, and the maximum state credit allowed is based on total household income. For tax year 2006 the maximum amounts were reduced for taxpayers with total household incomes over \$21,060, so that a taxpayer with total household income over \$34,710 received no credit.

Licensed family day care providers who care for their own children are eligible for the credit even though they did not have actual child care expenses. Parents are deemed to have \$3,000 of qualifying expenses for a child less than 16 months of age. If the child is older than 16 months of age but less than 6 years of age, parents may claim the amount they charge to care for a child of the same age. They can not claim a credit for children six years of age or older.

Proposed Law: For licensed family day care providers, the proposal extends the income tax credit for the care of their own children to include children 6 to 12 years of age. Parents who have not incurred actual child care expenses for their own children may claim the amount they charge to care for a child of the same age. 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 proposal will extend the credit for those licensed day care providers who have not incurred child care expenses but do have qualifying dependents over the age of 5 but under the age of 13. Moreover, it will increase the credit to those licensed day care providers who are already taking the credit for qualifying dependents under the age of 6 but also have other dependents that qualify under the age of 13.
- The total number of returns from licensed day care providers claiming the dependent care credit in tax year 2005 is estimated to be 205 based on data from electronic filed returns. The total credit claimed by licensed day care providers is estimated to be \$131,000 for an average credit of \$639, significantly higher than the average credit of \$376 for the total population of dependent care credit filers. Licensed day care providers have a higher average credit due to the age restriction; their dependents are not of school age.
- Assuming that the number of dependents of licensed day care provider between the ages of 6 and 13 would expand to reflect the same distribution of dependents by age in the electronic filed population of dependent care credit filers, it is estimated that another 93 dependents would qualify for the dependent care credit. This equates to an additional 57 returns at an average of 1.6 dependents per return. The average credit for returns filed for dependents between the ages of 6 and 13 is \$349 resulting in an additional credit of about \$20,000.
- Some licensed day care providers who currently receive the credit for their children under the age of 6 would get an increase in credit. However, some licensed day care providers will be at the maximum credit of \$1,440, so the additional credit has been scaled back by 10 percent.

Number of Taxpayers: The proposal will allow an estimated additional 57 licensed day care providers to claim the dependent care credit. Some of the current 205 licensed day care providers who are already claiming the credit will receive an increase in credit.

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