

**INDIVIDUAL INCOME TAX
Working Family Credit Expansion
Taxpayers with 3 or More Children**

March 5, 2019

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 1795 (Brand), As Proposed to be Amended (H1795A1)

	Fund Impact			
	<u>F.Y. 2020</u>	<u>F.Y. 2021</u>	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>
	(000's)			
General Fund	(\$14,700)	(\$15,100)	(\$15,300)	(\$15,700)

Effective beginning with tax year 2019.

EXPLANATION OF THE BILL

The current amount and rates for the working family credit are shown in the table below.

Tax Year 2019 Working Family Credit Amounts and Rates

	Eligible Earned Income	Credit Rate	Phase-out Begins*	Phase-out Rate
No children				
Current law	\$6,640	2.10%	\$8,730	2.01%
One child				
Current law	\$11,950	9.35%	\$22,770	6.02%
Two children				
Current law	\$19,600	11.00%	\$27,000	10.82%

*Phase-out threshold is \$5,840 higher for married taxpayers filing a joint tax return.

For families with three or more children, the bill would decrease the eligible earned income from \$19,600 to \$14,870, increase the credit rate from 11% to 15.78%, and decrease the phase-out rate from 10.82% to 9.07%.

All dollar amounts and additional phase-out threshold for married joint filers are adjusted for inflation starting in tax year 2020. The federal earned income or adjusted gross income limitations that determine eligibility for the credit no longer apply, because eligibility for the Minnesota credit extends beyond the income limits for the federal earned income tax credit.

REVENUE ANALYSIS DETAIL

- The House Income Tax Simulation (HITS 6.7) Model was used to estimate the tax year revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2018. The model uses a stratified sample of 2016 individual income tax returns compiled by the Minnesota Department of Revenue.
- Tax year impacts are allocated to the following fiscal year.

Number of Taxpayers: About 47,900 tax returns would be affected in tax year 2019. The average reduction in tax would be about \$307. The number of returns eligible for the credit would increase by about 5,400.

Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research/stats/Pages/Revenue-Analyses.aspx

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