MN DEPARTMENT OF REVENUE

INDIVIDUAL INCOME TAX
CORPORATE FRANCHISE TAX
Parental / Family Leave Credit

April 27, 2022

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 4394 (Coleman), As Proposed to be Amended (SCS4394A-1)

	Fund Impact			
	F.Y. 2022	F.Y. 2023	F.Y. 2024	F.Y. 2025
	(000's)			
Corporate Franchise Tax	$0	$0	($6,900)	($7,200)
Individual Income Tax	$0	$0	($12,800)	($13,300)
General Fund	$0	$0	($19,700)	($20,500)

Effective beginning tax year 2023.

EXPLANATION OF THE BILL

Current Law: Employees can take up to 12 weeks of unpaid leave for parental leave and family leave. Parental leave covers leave associated with the birth or adoption of a child. Family leave covers the serious illness of a family member. These leaves are available if the employee worked for a company with 50 or more employees, and either if the employee either has been with the company for at least 12 months or if the employee worked at least half time during the past 12 months.

Proposed Law: The bill creates a credit to reimburse employers who paid out leave benefits to their employees. The credit is nonrefundable and can be claimed against the individual income tax and the corporate franchise tax. Up to a maximum amount of $3,000 per employee, the credit equals 100% of the cost of leave benefits paid.

The credit can be claimed by taxpayers with 50 or fewer employees in Minnesota. Taxpayers may qualify for the credit even if they their total employee count is more than 50 as long as the count of Minnesota employees is 50 or fewer.

Possible leave events that could be covered by the bill parallel the definitions for parental and family leave events under the Federal Family and Medical Leave Act. Parental and family leave may include events associated with military deployment.

As proposed to be amended, there would be no cap on the amount of credits per tax year.

REVENUE ANALYSIS DETAIL

- The bill offers no standards on the minimum scope of benefits available. Nor does the bill offer any standards on benefit coverage. Standards affecting coverage include but are not limited to the following: the scope of leave events covered, the duration of leave events, and leave pay as a percent of prior pay. The details of paid leave benefit are to the discretion of the employer.
- The first step of computing the revenue loss is a projection of benefits paid. Next, it is assumed that the benefits paid by employers will be high enough to cover employee needs while on leave.

REVENUE ANALYSIS DETAIL (Cont.)

- Projection of benefits paid is based on assumptions on the scope of leave events, the incidence and duration of these events, and leave pay as a percent of prior pay.
- In general, the estimate assumes leave will cover the full scope of parental and family events as defined under the Federal Family and Medical Leave Act. This scope of coverage matches the default floor of coverage for unpaid leave under federal law.
- A 2016 report by the University of Minnesota titled "Options for a Minnesota Paid Family & Medical Leave Program" estimated the occurrence of parental and family leave. The study estimated the occurrence of leave taking as a percentage of private sector employees.
- The average duration of leave is assumed to be six weeks, slightly higher than the duration of leave taking as estimated in the University of Minnesota report.
- The estimate assumes that, on average, leave benefits will replace 65% of pay. Experience in California shows that leave benefits must be adequate to meet the employee needs. If the leave benefits are not adequate, employees will not claim the benefits in significant numbers.
- The $3,000 cap on benefits covered means that the possible benefits paid could be greater than the maximum cap if an employee earns greater than $40,000 and the benefits are paid over 6 weeks at 65% of prior wages. Employer can reduce leave benefits to match the maximum credit.
- Results from the model run were reduced by 40% to reflect the effect of the maximum $3,000 credit per employee.
- The growth rate of leave benefits is 4%, based on the growth rate projected for wages.
- The credit was estimated using the corporate franchise tax 2019 dataset. The credit was calculated for all taxpayers reporting Minnesota payroll and employing 50 or fewer Minnesota employees.
- The estimate was reduced for taxpayers who have a tax credit greater than their tax liability. As a result of this reduction, about 50% of the tax credit will be used to reduce current year taxes. The remainder will be used as a carryover credit in future years.
- The average tax credit is estimated to be almost $3,000.
- The estimate assumes that about 36% of employers would pay out eligible leave benefits.
- C corporations are expected to receive about 35% of the credits, based in part on total payroll for C corporations and pass-through entities from the U.S. Census Bureau's County Business Patterns data. Pass-through entities will account for 65% of the credits.
- Tax year impacts are allocated to the following fiscal year.

Minnesota Department of Revenue
Tax Research Division
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