



**INDIVIDUAL INCOME TAX  
CORPORATE FRANCHISE TAX  
Parental / Family Leave Credit**

April 29, 2022

	<b>Yes</b>	<b>No</b>
<b>DOR Administrative Costs/Savings</b>	X	

Department of Revenue  
Analysis of S.F. 4394 (Coleman), As Proposed to be Amended (SCS4394A-2)

	<b>Fund Impact</b>			
	<b><u>F.Y. 2022</u></b>	<b><u>F.Y. 2023</u></b>	<b><u>F.Y. 2024</u></b>	<b><u>F.Y. 2025</u></b>
		(000's)		
Corporate Franchise Tax	\$0	\$0	(\$8,300)	(\$8,700)
Individual Income Tax	<u>\$0</u>	<u>\$0</u>	<u>(\$15,400)</u>	<u>(\$16,000)</u>
General Fund	\$0	\$0	(\$23,700)	(\$24,700)

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 directly pay for leave benefits for their employees or purchase insurance to provide paid family leave benefits to their employees. The credit is nonrefundable and can be claimed against the individual income tax and the corporate franchise tax. The credit equals 100% of the cost of leave benefits or insurance premium paid, up to a maximum amount of \$3,000 per employee.

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.

## REVENUE ANALYSIS DETAIL (Cont.)

- 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.
- 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.
- 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 25% of employers would pay out eligible leave benefits directly and 11% would purchase paid leave insurance.
- 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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