

March 2, 2023

	Yes	No
DOR Administrative Costs/Savings	X	

Revised to Correct Credit Calculation

Department of Revenue

Analysis of H. F. 1369 (Kotzya-Witthuhn), As Proposed to be Amended (H1369A2)

	Fund Impact			
	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>
	(000's)			
General Fund	(\$2,034,900)	(\$1,632,300)	(\$1,637,100)	(\$1,641,900)

Effective beginning with tax year 2023.

EXPLANATION OF THE BILL

Proposed Law: The bill would create a refundable individual income tax credit for each qualifying child claimed on an individual income tax return. A qualifying child is a child who has not attained the age of 18, a student who has not attained the age of 24, or who is permanently and totally disabled.

The maximum credit is equal to \$3,000 per young child and \$1,000 for other qualifying children. A young child is a qualifying child that has not attained the age of six by the end of the calendar year.

The maximum credit is phased out by ten percent of federal adjusted gross income over the following thresholds: \$150,000 for married joint filers, \$112,500 for head of household; and \$75,000 for all other filers. For part-year residents, the credit would be apportioned based on the percentage of their total income that is Minnesota source income. Full-year nonresidents are not eligible.

The taxpayer can elect to receive the credit in six advance payments throughout the year following a process that is set up by the Commissioner of Revenue. The advance payment is calculated without any deduction in the credit based on the taxpayer's adjusted gross income. If the aggregate advance payment is higher than the credit the taxpayer is eligible for in a tax year, the taxpayer's liability is increased by the difference between the aggregate payment and the credit.

REVENUE ANALYSIS DETAIL

- The estimate is based on information from the U.S. Census Bureau, the 2018 Incidence dataset, and a sample of the 2019 individual income tax returns.
- There were about 572,800 returns with eligible dependents in 2019. The total number of dependents under six years old was 402,100. The total number of dependents age six to 17 was 449,100.
- Based on the 2018 incidence database, about 23,100 dependents age under six and 47,800 dependents age six to 17 in households that did not file an income tax return. It is assumed only half of those would file an income tax return to claim the credit.
- Credit growth is based on average growth rate of children under 18 in Minnesota.

REVENUE ANALYSIS DETAIL (Cont.)

- It is assumed that half of all claimants would elect to receive the advance payments.
- All of tax year 2023 was allocated to fiscal year 2024. In other years, for those receiving advance payments, 50% of the tax year impact was allocated to the current fiscal year and 50% was allocated to the following fiscal year. For those not receiving advance payments, tax year impacts were allocated to the following fiscal year.

Number of Taxpayers: In tax year 2023, about 620,500 returns with 899,900 eligible dependents would claim an average credit of \$2,621 per return.

Minnesota Department of Revenue
Tax Research Division
[https://www.revenue.state.mn.us/
revenue-analyses](https://www.revenue.state.mn.us/revenue-analyses)

hf1369 MN Child Tax Credit_2R / ct tj