

April 14, 2025

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 2101 (Drazkowski)

	Fund Impact			
	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>	<u>F.Y. 2028</u>	<u>F.Y. 2029</u>
	(000's)			
General Fund	\$59,800	\$101,800	\$148,400	\$193,600

Effective beginning with tax year 2025.

EXPLANATION OF THE BILL

Current Law: The Working Family Credit (WFC) and Child Tax Credit (CTC) are refundable credits for low- and moderate-income working individuals and families. Under current law the WFC and CTC include an inflation adjustment. The WFC is calculated as 4% of the first \$9,480 of earned income in tax year 2025, with a maximum credit of \$379 per eligible taxpayer. The credit increases for taxpayers with qualifying older children (age 18 and over); \$1,000 for one, \$2,270 for two, \$2,710 for three or more in tax year 2025.

The CTC equals \$1,750 per qualifying child. The two credits are phased out jointly based on income, starting at \$31,950 for single filers or \$37,910 for married filing jointly in tax year 2025. The credits are reduced by 12% of income above the thresholds. These phase-out thresholds and additional amounts for older children are adjusted for inflation annually, based on the U.S. Chained Consumer Price Index (C-CPI-U). The child credit amount will be adjusted for inflation beginning in tax year 2026.

Proposed Law: The bill would eliminate the annual inflation adjustments for the WFC and CTC, returning the phase-out thresholds to the statutory levels of \$29,500 for single filers and \$35,000 for married filed jointly filers, and the additional amounts for qualifying older children to \$925 for one child, \$2,100 for two children, and \$2,500 for three or more children. The CTC would remain at \$1,750 per qualifying child. The elimination of inflation adjustments on the WFC and CTC would impact TY25 and each tax year thereafter.

REVENUE ANALYSIS DETAIL

- The House Income Tax Simulation Model (HITS 7.5) 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 2025. The model uses a stratified sample of 2022 individual income tax returns compiled by the Minnesota Department of Revenue.
- Tax years were allocated to the following fiscal year.

REVENUE ANALYSIS DETAIL (Cont.)

Number of Taxpayers: About 423,500 returns would have an average increase in tax of \$141 in tax year 2025.

Minnesota Department of Revenue
Tax Research Division
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sf2101 Repeal CWFC Inflation Adjustment / pm