DEPARTMENT OF REVENUE

INDIVIDUAL INCOME TAX
CORPORATE FRANCHISE TAX
Parental Leave Credits

March 21, 2022

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 1780 (Nelson), As proposed to be Amended (SCS1780A-3)

	Fund Impact			
	F.Y. 2022	**F.Y. 2023**	**F.Y. 2024**	**F.Y. 2025**
		(000's)		
Employer Tax Credit for Paid Leave	$0	($7,200)	($14,900)	($15,500)
Employee Tax Credit	$0	($3,900)	($8,100)	($8,400)
General Fund	$0	($11,100)	($23,200)	($23,900)

Effective for wages paid and unpaid leaves taken after June 30, 2022.

EXPLANATION OF THE BILL

Current Law: Employees can take up to 12 weeks of unpaid leave upon birth or adoption of their child provided they have worked for a company with 21 or more employees, they have been with the company for at least 12 months and they worked at least half time during the past 12 months.

Proposed Law: The bill creates two credits that can be claimed against the individual income tax or corporate franchise tax.

Employer Tax Credit for Paid Leave
A qualified employer is allowed a nonrefundable credit equal to 25% of the amount of wages paid to qualifying employees during any period in which the qualifying employees are on parental leave, up to six weeks for any tax year. The credit may not exceed $3,000. The credit is nonrefundable but may be carried over for up to five years.

A qualified employer means an employer that has a policy in place that allows all qualifying full-time employees a minimum of two weeks of parental leave, and all qualifying part-time employees a proportional amount of parental leave based on the percentage of hours worked compared to the number of hours a full-time employee works.

A qualifying employee means an employee that has been employed by the qualifying employer for at least a year before taking the leave.

The amount of wages paid to employees on parental leave that are used to claim the credit must be added to the employer's adjusted gross income (for pass-through entities) or federal taxable income (for C corporations).

EXPLANATION OF THE BILL (Cont.)

Employee Tax Credit
An eligible employee may claim a refundable credit against the individual income tax equal to 25% of their foregone wages for the period of unpaid parental leave taken, up to six weeks. Foregone wages are calculated as the greater of the average weekly wages received in the preceding year or in the current tax year, up to $1,000 multiplied by an index determined by the commissioner based on child care costs in the county where the employee resides.

To be eligible for the employee credit, the employee must have been a full-time employee for nine out of the12 months prior to taking unpaid leave, may not be employed by an employer who is qualified for the employer credit, and must take at least one week of unpaid leave for the tax year. A full-time employee must work an annual average of 30 hours per week.

REVENUE ANALYSIS DETAIL

- The estimated number of private sector employees taking parental leave is based on counts of leaves published in a report titled "Options for a Minnesota Paid Family & Medical Leave Program" prepared by University of Minnesota in 2016. Data on taking leave was reported in two categories: those receiving some paid leave and those receive no paid leave.
- The average duration of parental leave is assumed to be six weeks.
- A growth rate of 4% is assumed for wages.
- As proposed to be amended, an employer must include any wages used to claim the credit in taxable income. The estimate was adjusted to reflect the addition.
- The estimate is reduced by half for tax year 2022 / fiscal year 2023.
- Tax year impact is allocated to the following fiscal year.

Employer Tax Credit
- Those receiving some paid leave are the employees for which employers could claim the employer tax credit. It is assumed that 30% of that pool would meet the conditions of the employer tax credit.
- The average tax credit for this group is $1,731.
- Because the credit is nonrefundable, an average 60% of the total tax credit will be claimed every year. The remainder may be claimed as a carryover credit in future years.

Employee Tax Credit
- Those receiving no paid leave are potentially eligible for the employee tax credit. It is assumed that 33% of that pool would meet the conditions of the employee tax credit.
- The average tax credit for this group is $1,650.

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