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Senate

State of Minnesota

S.F. No. 9 – Great Start child care and dependent care credit

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Under current law, the Minnesota child and dependent care credit is tied to the federal credit. The credit is based on unreimbursed employment-related expenses incurred for caring for a dependent, including adult dependents who reside with the taxpayer and are incapable of caring for themselves, up to $3,000 for one qualifying dependent and $6,000 for two or more qualifying dependents. The credit equals $1,050 for one dependent and $2,100 for two or more dependents and is phased out for income. The Minnesota credit is refundable and the maximum credit is phased out by 5% of adjusted gross income over $59,210 for tax year 2023. While this bill references a number of federal definitions and requirements, it would decouple the Minnesota credit from the federal credit to create state-specific eligibility requirements and credit calculations. Effective for taxable years beginning after December 31, 2023.

Section 1. Dependent flexible spending accounts. Requires an addback for the amount contributed to a pre-tax dependent care assistance account for taxpayers claiming the credit in section 2. These contributions are already excluded from gross income under current law.

Section 2. Great start child care and dependent care credit.

Subdivision 1. Amount of credit. Strikes language linking the state child and dependent care credit to the federal credit and provides a reference to the new calculation of the state credit. Defines terms applicable to the credit. “Employment-related expenses” and “qualifying individual” have the meaning provided in the Internal Revenue Code, but for purposes of determining whether a child is a dependent, whether the taxpayer received a Minnesota family investment program (MFIP) grant or allowance on behalf of the child does not count toward the calculation of whether the child received more than half of the child’s support from the taxpayer. A “young child” is a qualifying individual who has not reached age five by December 31 of the taxable year.

Subd. 1a. Eligible dependent care expenses. Specifies that eligible dependent care expenses are limited to $3,000 for one qualifying individual per taxpayer and $6,000 two or more qualifying individuals per taxpayer.

Subd. 1b. Eligible expenses for taxpayers with young children. Allows an additional $7,000 in eligible expenses for taxpayers with young children; $14,000 for taxpayers with two young children; and $19,000 for taxpayers with three or more young children.

Subd. 1c. Credit percentage. Provides the following calculations for the credit:

- For taxpayers with adjusted gross income up to $125,000, the credit equals 50% of eligible expenses.
- For taxpayers with adjusted gross income in excess of $125,000 but less than $400,000, the credit phases out by one percentage point for each $2,000 (or fraction of) in excess of $125,000 until the credit equals 20% of eligible expenses.
- For taxpayers with adjusted gross income in excess of $400,000, the credit equals 20 percent of eligible expenses and phases out by two percentage points for every $2,000 (or fraction of) in excess of $400,000.

Subd. 2b. Inflation adjustment. Updates the statutory year for the inflation adjustment of the income thresholds under current law. The "statutory year" is the year before the amounts begin to be adjusted for inflation.

Subd. 2c. Deemed expenses. Allows taxpayers who care for their own children under age 6 in their own licensed family day care to claim deemed expenses in the amount the taxpayer would charge for the care of child of the same age for the same hours of care. For married filers with a child under age one who do not participate in a dependent care assistance program, the deemed employment-related expenses to claim the credit equals the lesser of the couple's combined earned income, or $3,000 ($10,000 for couples with a young child), regardless of whether employment-related expenses have been paid.

Subd. 2d. Identifying information required. Requires claimants who do not file a federal income tax return to include the name, address, and taxpayer identification number of the person paid employment-related expenses; or if the person who was paid employment-related expenses is a nonprofit organization, the name and address of the organization.

Subd. 3. Credit to be refundable. Appropriates an amount sufficient to pay the refunds authorized in the bill.

Subd. 4. Right to file claim. No changes to this subdivision from current law.

Subd. 5. Employment related expenses. Specifies that the federal requirement limiting the credit to the earned income of the taxpayer, or the taxpayer's lesser-earning spouse for married joint filers, applies for purposes of the state credit.

Subd. 6. Rules for married couples filing separate returns. Provides that only one spouse may claim the credit.