

INFORMATION BRIEF
Research Department
Minnesota House of Representatives
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Funding to Support Child Care Assistance Federal and State Appropriations and Tax Expenditures

This information brief summarizes the following child care assistance programs and their funding sources: the Minnesota Family Investment Program child care assistance; the Basic Sliding Fee program; the Higher Education Child Care Assistance program; dependent care pre-tax accounts; and federal and state dependent care income tax credits. Also included are graphics detailing child care assistance funding for fiscal years 2006 through 2009.

The **Minnesota Family Investment Program (MFIP)** child care assistance program subsidizes the child care costs of families receiving MFIP cash assistance. It also provides child care assistance for eligible families for the first 12 months after the family leaves MFIP (known as transition year care). MFIP is funded through the state general fund, federal Child Care Development Fund (CCDF), and federal Temporary Assistance for Needy Families (TANF) funds.

The **Basic Sliding Fee (BSF)** program provides a child care subsidy to working families who are not receiving cash assistance through MFIP. BSF is funded through the state general fund, federal CCDF funds, federal TANF funds, and county contributions. Assistance through BSF is limited by available funding. Consequently, as of March 2009, there was a waiting list of 7,313 families waiting for BSF child care assistance.

The **Higher Education Child Care Assistance** program is administered by the Minnesota Office of Higher Education. Higher Education Child Care Assistance is a program that gives

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grants to eligible students to reduce the costs of child care while they are attending an eligible postsecondary institution. The maximum grant is set in statute at \$2,600 per child for a nine-month grant. A student may also receive a separate summer grant. This program is funded through the state general fund. Assistance is limited by the availability of state funding. For more information on this program, see the House Research short subject *Child Care Assistance for Postsecondary Students*, October 2008.

Employer-provided **Dependent Care Pre-Tax Accounts** allow parents to direct a portion of their salary to an employer-sponsored pre-tax account used to pay for dependent care expenses. Families may set aside up to \$5,000 each year. Not all employers provide the accounts. There are no income limits on who may participate. Pre-tax accounts are authorized under federal law; amounts contributed are exempt from federal income and payroll taxes. Minnesota conforms by exempting the accounts from state income tax as well. These accounts are funded by state and federal tax expenditures—by allowing contributions to be exempt from income tax, the federal and state governments collect less in taxes than would otherwise be the case.

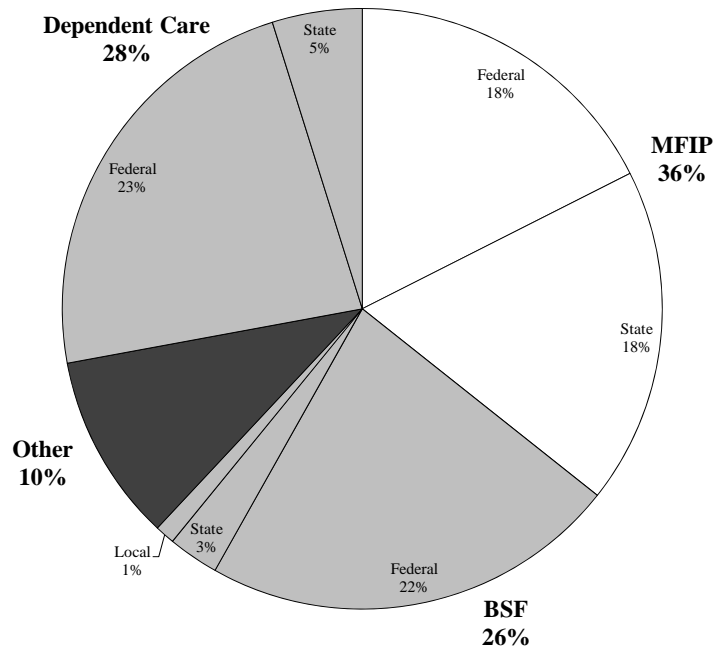
The **Federal Dependent Care Credit** is a nonrefundable tax credit equal to a percentage of qualifying child care expenses. The maximum credit is \$1,050 for one child and \$2,100 for two or more children. The minimum credit is \$600 for one child and \$1,200 for two or more children. The credit phases down for families with incomes over \$15,000, but all families regardless of income are eligible for the minimum credit. These credit parameters are in effect through 2010; after that the credit will revert to lower levels unless extended by Congress.

The **Minnesota Dependent Care Credit** is a refundable tax credit linked to the federal dependent care credit. Families with incomes above about \$37,000 do not qualify for the credit; the maximum income is adjusted annually for inflation. The maximum credit is \$720 for one child and \$1,440 for two or more children. The Minnesota dependent care credit is funded by state tax expenditures and an open appropriation for amounts paid as refunds in excess of liability. For more information on both the federal and state credits, see the House Research information brief *The Minnesota and Federal Dependent Care Tax Credits*, December 2008.

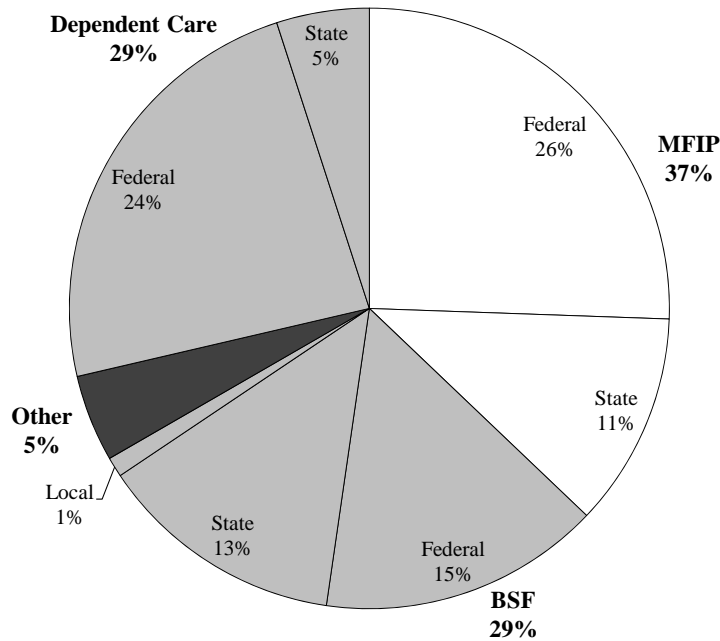
**Funding to Support Child Care Assistance
 Federal and State Appropriations and Tax Expenditures**

| Child Care Program | Minn. Stat. Citation | Source of Funds | FY06 | FY07 | FY08 | FY09 | Type of Expenditure |
|---|-----------------------------|--------------------------------|--------------|--------------|--------------|---------------|----------------------------|
| MFIP Child Care Assistance | 119B.05 | MFIP Federal | \$48,408,997 | \$70,060,374 | \$55,737,161 | \$47,095,359 | Federal CCDF and TANF |
| | | MFIP State | 49,943,500 | 31,634,999 | 45,833,029 | 66,173,800 | State general fund |
| Basic Sliding Fee Child Care Assistance | 119B.03 | BSF Federal | 62,039,944 | 41,608,046 | 45,561,725 | 69,660,222 | Federal CCDF and TANF |
| | | BSF State | 7,547,999 | 36,466,999 | 42,995,362 | 35,781,231 | State general fund |
| | | BSF Local | 2,941,235 | 2,941,235 | 2,941,235 | 2,941,235 | Local property tax |
| Higher Education Child Care Assistance | 136A.125 | Higher Ed. State | 4,934,000 | 4,934,000 | 6,184,000 | 6,184,000 | State general fund |
| Employer-Provided Dependent Care Pre-Tax Accounts | 290.01, subd. 19b | Employer State | 7,300,000 | 7,900,000 | 7,300,000 | 7,900,000 | State tax expenditure |
| | | Employer Federal | 20,600,000 | 22,300,000 | 20,600,000 | Not Available | Federal tax expenditure |
| Child and Dependent Care Credit | 290.067 | Dependent Care Federal | 63,580,000 | 64,785,000 | 66,469,000 | Not Available | Federal tax expenditure |
| | | Dependent Care State | 13,363,000 | 13,694,000 | 14,513,000 | 14,930,000 | State tax expenditure |
| | | Total State General Fund | 62,425,499 | 73,035,998 | 95,012,391 | 108,139,031 | |
| | | Total State Tax Expenditures | 20,663,000 | 21,594,000 | 21,813,000 | 22,830,000 | |
| | | Total Federal Allocations | 110,448,941 | 111,668,420 | 101,298,886 | 116,755,581 | |
| | | Total Federal Tax Expenditures | 84,180,000 | 87,085,000 | 87,069,000 | Not Available | |
| | | FY Total | 280,658,675 | 296,324,653 | 308,134,512 | Not Available | |
| NOTE: Expenditures for child care development and referrals are not included. School-age child care is an eligible use of child care assistance but does not receive a separate general fund appropriation. The employer-provided pre-tax account and state child and dependent care credit numbers for fiscal year 2009 are estimates from the Department of Revenue. | | | | | | | |

Child Care Assistance Funding FY 2006

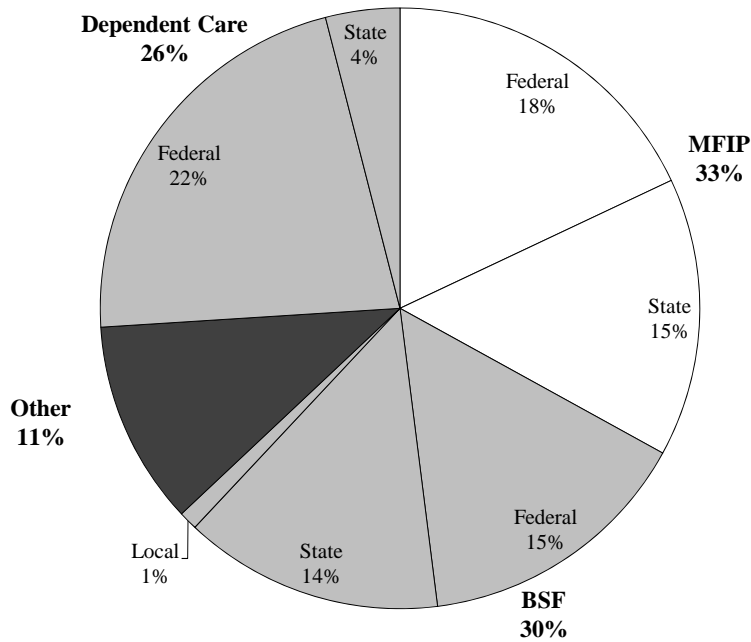


Child Care Assistance Funding FY 2007



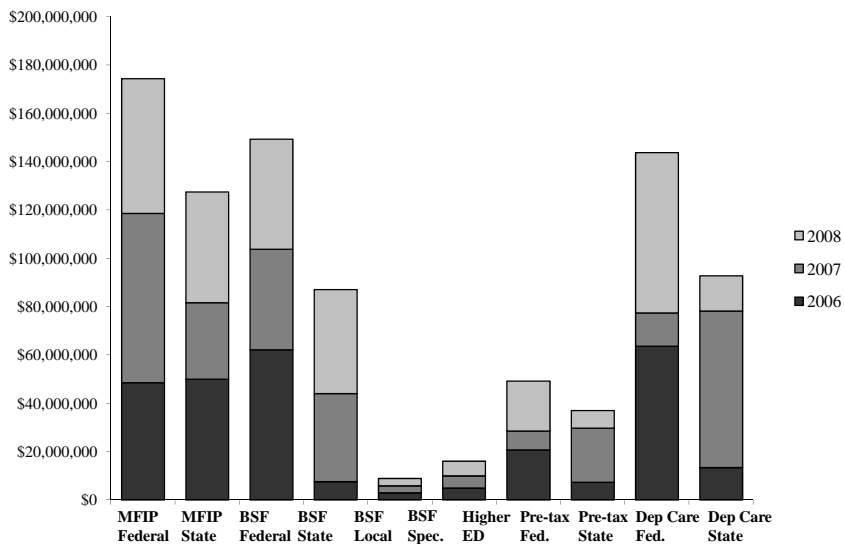
Other = Employer-provided dependent care pre-tax accounts and higher education child care assistance.

Child Care Assistance Funding FY 2008



Other = Employer-provided dependent care pre-tax accounts and higher education child care assistance.

Child Care Assistance Funding FY 2006 - 2008



For more information about child care assistance, visit the health and human services area of our web site, www.house.mn/hrd/hrd.htm.