

HOUSE RESEARCH

Bill Summary

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Overview

Reduces marriage penalties in the individual income tax by

- allowing a second-earner subtraction in calculating the phaseout of the dependent care credit, working family credit, and K-12 education credit, and
- setting the alternative minimum tax (AMT) exemption amount and phaseout threshold for married couples at twice the levels allowed for single filers

Section

- 1** **Dependent care credit; K-12 education credit.** Allows a second-earner subtraction for married couples in calculating the phaseout for the dependent care credit. The subtraction equals the earned income of the spouse with the lower earnings. This subtraction would apply also to the phaseout of the K-12 education credit, which defines income by reference to the dependent care credit.

The dependent care credit begins to phase out at \$20,420 of income and is fully phased-out when income reaches \$34,070. The K-12 education credit begins to phase out at \$33,500 of income and is fully phased out when income reaches \$37,500. For both credits the income phaseouts are the same for married couples as for head of household filers (single parents). Under the proposal the maximum dependent care and K-12 education credits allowed for married couples would be based on the couple's total income minus the earned income of the lesser-earning spouse.

Section

- 2** **Working family credit.** Allows a second-earner subtraction for married couples in calculating the phaseout for the working family tax credit.

For single parent (head of household) claimants with no qualifying children, the working family credit phaseout begins at \$6,530 of income and ends when income reaches \$11,760. For claimants with one qualifying child, the working family credit phaseout begins at \$17,070 of income and ends when income reaches \$30,984. For claimants with two or more qualifying children, the working family credit phaseout begins at \$20,525 of income and ends when income reaches \$35,476. In all cases the income phaseouts for married couples begin and end at incomes \$2,000 higher than for head of household filers, providing a degree of marriage penalty relief. The proposal would provide additional relief to married couples in which both spouses have earnings by basing the phaseout on the couple's income minus the earned income of the lesser-earning spouse.

- 3** **Working family credit; definitions.** Defines "earned income of the lesser-earning spouse" to mean wages, earnings, and pension and retirement income (the same definition used for the marriage penalty credit).
- 4** **Alternative minimum tax (AMT) exemption amount and phaseout threshold.** Sets the AMT exemption and phaseout threshold amounts for married couples to be twice the amounts allowed for single filers, by reference to the Internal Revenue Code.