Overview

Re-couples the Minnesota working family credit to the federal earned income tax credit, and sets the working family credit at 50 percent of the federal credit.

Background information. In tax year 1997, the working family credit was set at 15 percent of the federal earned income tax credit. The credit was scheduled to increase to 25 percent of the federal credit in tax year 1998. However, 1998 legislation restructured the working family credit and de-coupled it from the federal credit, with the purpose of alleviating work disincentives caused by the interaction between the tax system and the Minnesota Family Investment Program - Statewide (MFIP-S), Minnesota's new welfare program, for families making the transition from welfare to work. The restructuring targeted the working family credit to families with incomes in the MFIP-S phase-out range, but resulted in a more complicated credit calculation than in 1997.

1 Working family credit. Deletes changes made in the 1998 legislative session that uncoupled the Minnesota working family credit from the federal credit. Sets the working family tax credit at 50 percent of the federal credit, resulting in a maximum credit of $173 for claimants with no qualifying children, $1,156 for claimants with one qualifying child, and $1,908 for claimants with two or more qualifying children. Before the 1998 changes, the working family credit equaled 15 percent of the federal credit, and was set to increase to 25 percent in tax year 1998.

2 Repealer. Repeals definitions used in calculating the working family credit separately from the federal earned income credit. Since section 1 re-couples the working family credit to the federal credit, these definitions would not be necessary.

3 Effective date. Effective beginning in tax year 1999.