Overview

Adjusts the dependent education expense deduction amounts annually for inflation. Doubles the maximum qualifying expenses and the maximum dependent care tax credit, and removes the two-child cap on the number of children for whom the credit may be claimed. Adjusts the new maximum qualifying expenses and credit amounts annually for inflation. Provides for an additional working family credit per child for families with more than two children. Removes the $2,000 per family limit on the education credit, instead allowing a credit of up to $1,000 of education-related expenses for each child in grades K-12. Provides for a new refundable credit of $300 per child, subject to an income-based phaseout.

Section

1  **Dependent education expense deduction.** Provides for the dependent education expense deduction amounts to be adjusted for inflation, beginning in tax year 1999. The deduction amounts for tax year 1998 are $1,625 for each dependent in grades K-6, and $2,500 for each dependent in grades 7-12.

2  **Dependent care credit.** Sets the dependent care credit equal to a percentage of a claimant's qualifying expenses. Under current law, the dependent care credit equals the federal credit, which in turn equals a percentage of qualifying expenses. The maximum allowed qualifying expenses for the federal credit are $2,400 for one child and $4,800 for two or more children. This change allows the state to adjust the maximum qualifying expenses for inflation, independent of the federal credit.

Also increases the deemed expenses used in calculating the "young-child" component of the dependent care credit to $4,800. This component of the dependent care credit is allowed for married couples with a child under age one. The maximum young-child credit would increase to $1,440.

3  **Dependent care credit calculation and phaseout.** Increases the maximum qualifying expenses
for the dependent care credit to $4,800 per dependent, increases the maximum credit to $1,440 per child, and removes the two-child cap on the number of children for whom the credit may be claimed. The maximum credit increases from $720 for one child and $1,440 for two or more children to $1,440 per child, regardless of the number of children eligible for the credit. Since the maximum credit is twice as large as in current law, H.F. 2119 would double the length of the phaseout. The phaseout would begin at $17,730, and end at $44,780, compared to an ending point of $31,080 under current law.

4 **Dependent care credit inflation adjustment.** Provides for the maximum credit and the maximum qualifying expenses to be adjusted annually for inflation beginning in 1999. The income threshold for the phaseout is adjusted for inflation under current law.

5 **Working family credit.** Removes the two-child cap on the number of children for whom the working family credit may be claimed. The maximum credit for each additional child is $568, and is subject to the same phaseout as the current law credit.

6 **Education credit.** Removes the $2,000 per family cap in the education credit. Allows $1,000 of education-related expenses to be claimed as a credit for each child in grades K-12, regardless of the number of children for whom taxpayer claims the credit.

7 **Credit for children.** Allows a refundable credit of $300 for each child. The credit is subject to an income-based phaseout of $50 for each $1,000 of income over a threshold, with the phaseout beginning at $110,000 for married couples filing joint returns, $55,000 for married separate returns, and $75,000 for heads of household. This is the same phaseout schedule used for the federal child credit. Provides that the credit and the phaseout thresholds are adjusted annually for inflation, beginning in tax year 2000.

8 **Effective dates.** Effective beginning in tax year 1999.