

Funding to Support Child Care Assistance

Federal and State Appropriations and Tax Expenditures

November 2018

This publication 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 2015 through 2018.

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 August 2018, there was a waiting list of 1,907 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 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 \$3,000 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 Grant Program for Postsecondary Students*, August 2018.

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.

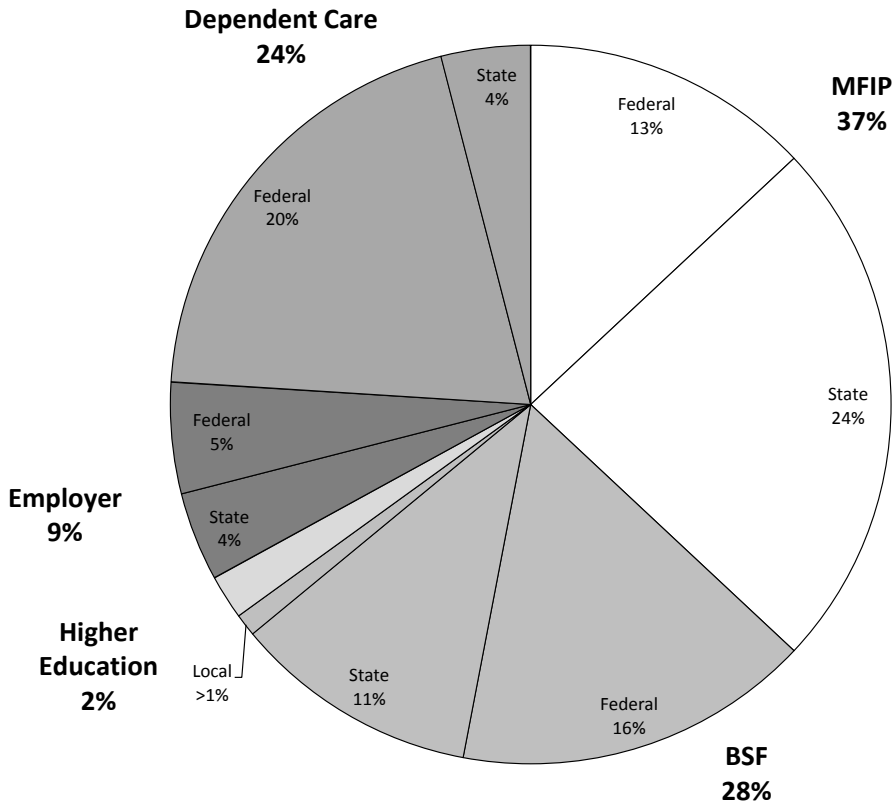
The **Minnesota Dependent Care Credit** is a refundable tax credit linked to the federal dependent care credit. Families who paid dependent care expenses for one child may claim the credit if their income was under about \$64,000 in tax year 2019. Families who paid dependent care expenses for two or more children may claim the credit if their income was below about \$76,000. The income thresholds increase each year with inflation. The maximum credit is tied to the maximum federal Dependent Care Credit. 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*, November 2018.

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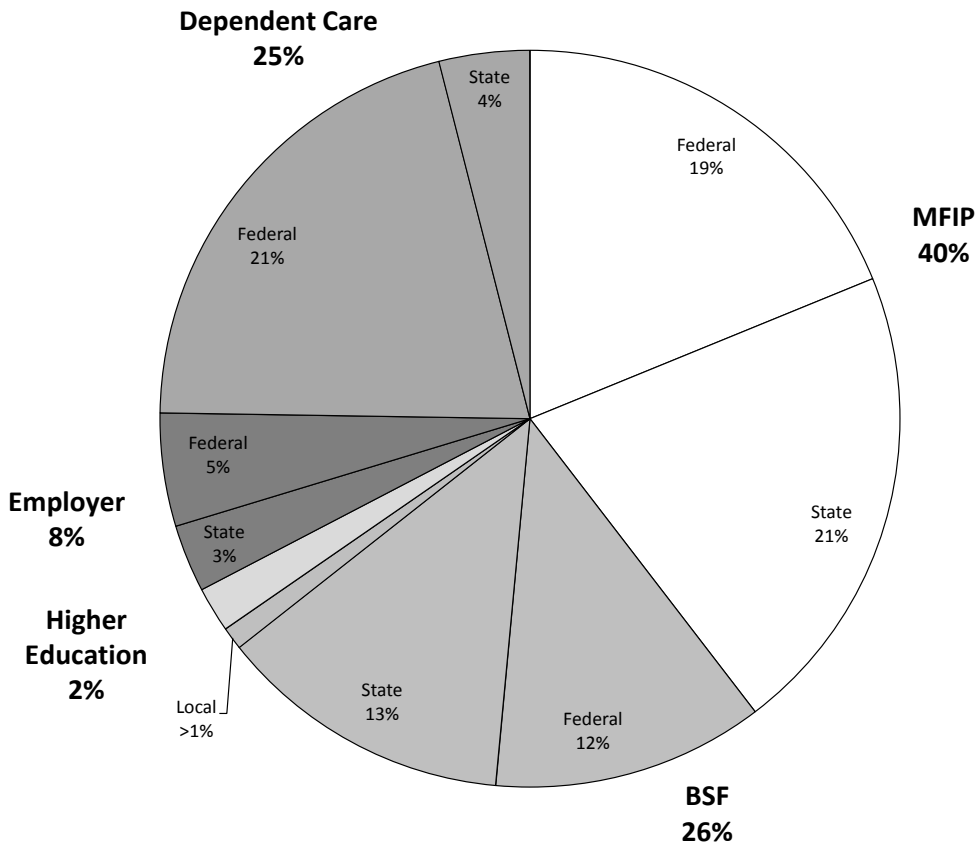
Federal and State Appropriations and Tax Expenditures

Child Care Program	Minn. Stat. Citation	Source of Funds	FY15	FY16	FY17	FY18	Type of Expenditure
MFIP Child Care Assistance	119B.05	MFIP Federal	\$48,435,660	\$68,735,683	\$62,971,769	\$74,758,537	Federal CCDF and TANF
		MFIP State	86,856,646	74,720,235	90,498,683	88,855,025	State general fund
Basic Sliding Fee Child Care Assistance	119B.03	BSF Federal	57,060,075	44,784,410	42,222,883	71,232,071	Federal CCDF and TANF
		BSF State	40,331,077	46,573,421	49,511,845	42,509,779	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	6,684,000	6,684,000	6,684,000	6,694,000	State general fund
Employer-Provided Dependent Care Pre-Tax Accounts	290.01 , subd. 19b	Employer State	13,400,000	10,800,000	10,800,000	7,500,000	State tax expenditure
		Employer Federal	17,900,000	17,500,000	18,300,000	19,000,000	Federal tax expenditure
Child and Dependent Care Credit	290.067	Dependent Care Federal	72,833,000	76,082,000	78,060,000	Not Available	Federal tax expenditure
		Dependent Care State	15,478,000	12,774,000	13,101,000	27,899,000	State tax expenditure
		Total State General Fund	133,871,723	127,977,656	146,694,528	138,058,804	
		Total State Tax Expenditures	28,878,000	23,574,000	23,901,000	35,399,000	
		Total Federal Allocations	105,495,735	113,520,093	105,194,652	145,990,608	
		Total Federal Tax Expenditures	90,733,000	93,582,000	96,360,000	Not Available	
		FY Total	358,978,458	358,653,749	372,150,180	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 are estimates from the Department of Revenue.						
	State department care credit amounts for FY 2017 and FY 2018 are estimated using the House Income Tax Simulation Model (HITS). The increase in credit expenditures in FY 2018 is due to a legislative expansion of the credit that was effective for tax year 2018.						

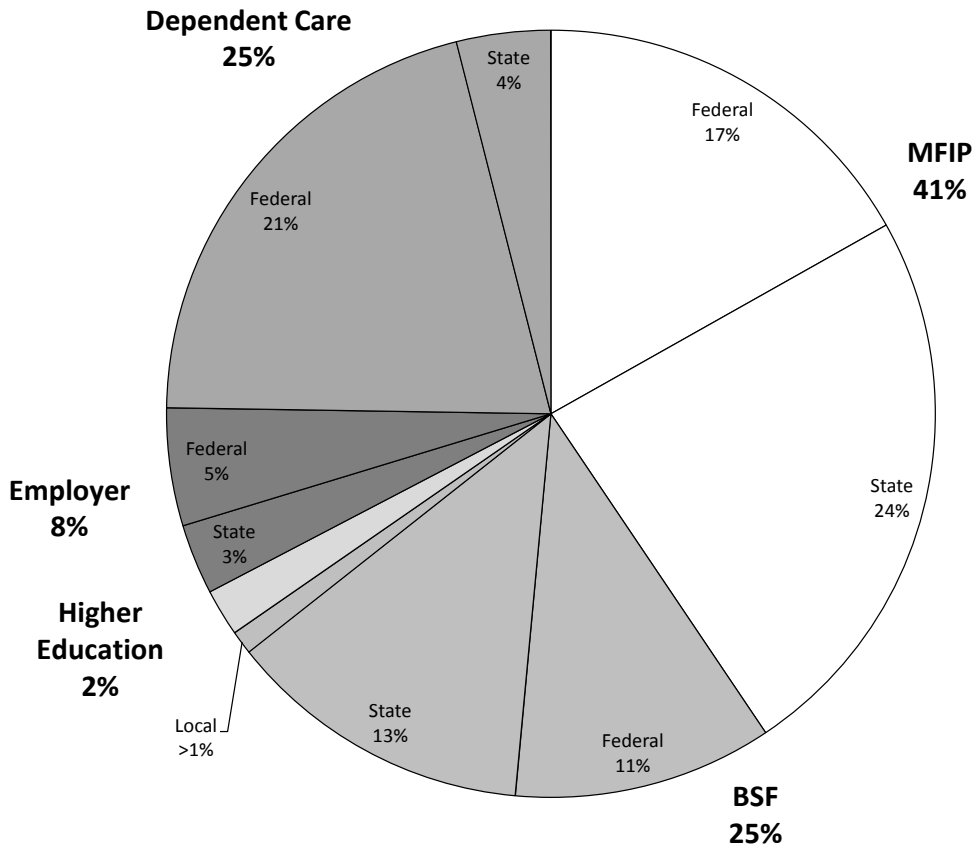
Child Care Assistance Funding FY 2015



Child Care Assistance Funding FY 2016

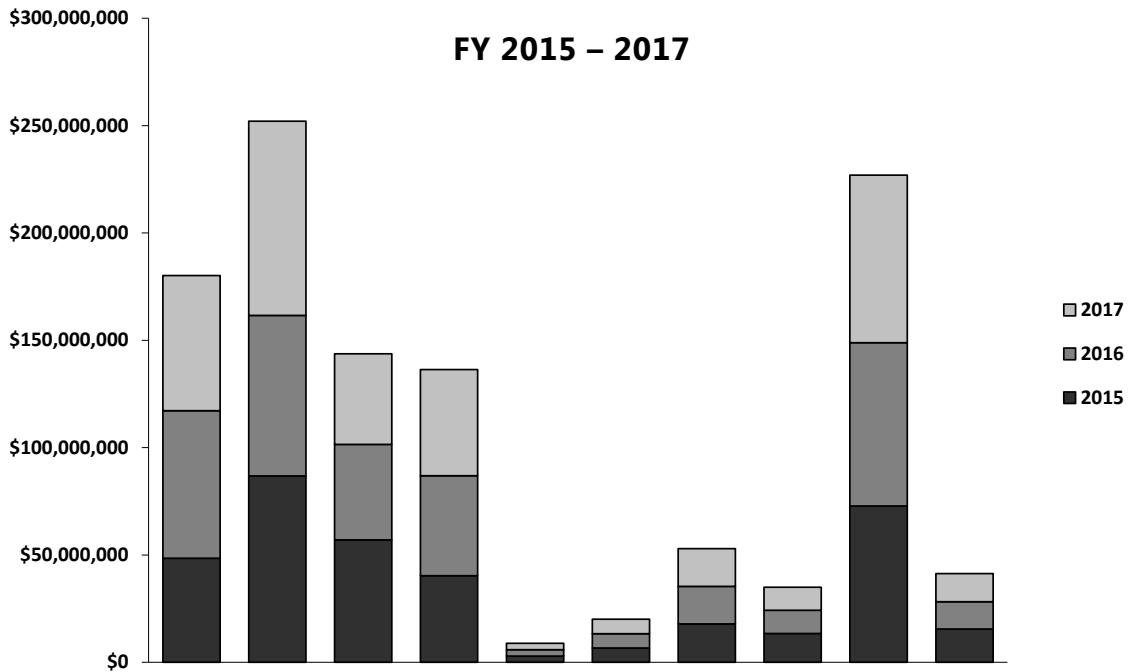


Child Care Assistance Funding FY 2017



Child Care Assistance Funding

FY 2015 – 2017





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