

INFORMATION BRIEF
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 five child care assistance programs and their funding sources. Also included are graphics detailing child care assistance funding for fiscal years 2002, 2003, 2004, and 2005.

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, state special revenue fund, federal CCDF funds, federal TANF funds, and county contributions. Assistance through BSF is limited by available funding. (Beginning in fiscal year 2006, BSF no longer receives funding through the state special revenue fund.) Consequently, as of June 2005, there was a waiting list of 1,808 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

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postsecondary institution. The maximum award to an eligible student has been adjusted by the legislature. Grants have been reduced from a high of \$2,600 for fiscal years 2002 and 2003 to \$2,200 for fiscal years 2004 and 2005. The current maximum grant is \$2,300 for each eligible child per academic year. 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*, September 2005.

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.

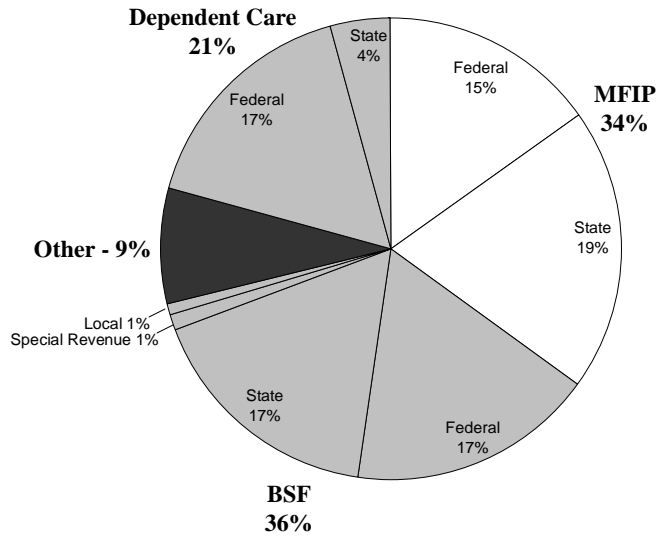
The **Federal Dependent Care Credit** is a nonrefundable tax credit equal to a percentage of qualifying child care expenses. The maximum credit is \$1,050 for one child and \$2,100 for two or more children. The minimum credit is \$600 for one child and \$1,200 for two or more children. The credit phases 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 with incomes above about \$32,000 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. For more information on both the federal and state credits, see the House Research information brief *The Minnesota and Federal Dependent Care Tax Credits*, February 2005.

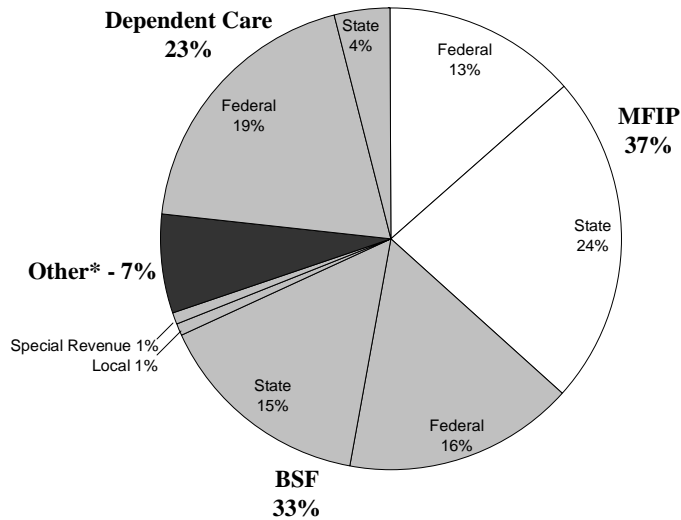
**Funding to Support Child Care Assistance
Federal and State Appropriations and Tax Expenditures**

Child Care Program	Minn. Stat. Citation	Source of Funds	FY02	FY03	FY04	FY05	Type of Expenditure
MFIP Child Care Assistance	119B.05	MFIP Federal	\$46,336,000	\$43,527,000	\$41,249,000	\$36,764,000	Federal CCDF and TANF
		MFIP State	59,956,000	74,999,000	69,543,000	43,043,000	State general fund
Basic Sliding Fee Child Care Assistance	119B.03	BSF Federal	52,344,000	52,326,000	46,989,000	47,003,000	Federal CCDF and TANF
		BSF State	51,999,000	48,499,000	27,628,000	18,771,000	State general fund
		BSF Local	2,941,000	2,941,000	2,947,000	2,941,000	Local property tax
		BSF Special Revenue Fund	2,441,000	2,840,000	3,340,000	3,340,000	Child support payments assigned to the state
Higher Education Child Care Assistance	136A.125	Higher Ed. State	4,743,000	1,133,000*	4,743,000	4,743,000	State general fund
Employer-Provided Dependent Care Pre-Tax Accounts	290.01, subd. 19b	Employer State	4,900,000	5,100,000	5,900,000	6,300,000	State tax expenditure
		Employer Federal	15,400,000	16,000,000	16,800,000	17,800,000	Federal tax expenditure
Child and Dependent Care Credit	290.067	Dependent Care State	12,400,000	13,004,000	13,004,000	13,004,000	State tax expenditure
		Dependent Care Federal	50,862,000	62,600,000	61,743,000	64,800,000	Federal tax expenditure
		Total State General Fund	\$116,698,000	\$124,631,000	\$101,914,000	\$66,557,000	
		Total State Tax Expenditures	\$17,300,000	\$17,700,000	\$18,904,000	\$19,304,000	
		Total Federal Allocations	\$98,680,000	\$95,853,000	\$88,238,000	\$83,767,000	
		Total Federal Tax Expenditures	\$66,262,000	\$78,600,000	\$78,543,000	\$82,600,000	
		FY Total	\$304,322,000	\$322,565,000	\$293,886,000	\$258,509,000	
<p>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. The federal child and dependent care credit numbers are estimates derived from information at www.irs.gov/pub/irs-soi/03in24mn.xls and www.whitehouse.gov/omb/budget/fy2006/pdf/spec.pdf (Table 19-1, page 318, line 102).</p>							
<p>*The FY03 Higher Education Child Care Assistance appropriation of \$4,743,000 was reduced by a transfer of \$3,610,000 to the state grant program.</p>							

Child Care Assistance Funding FY 2002



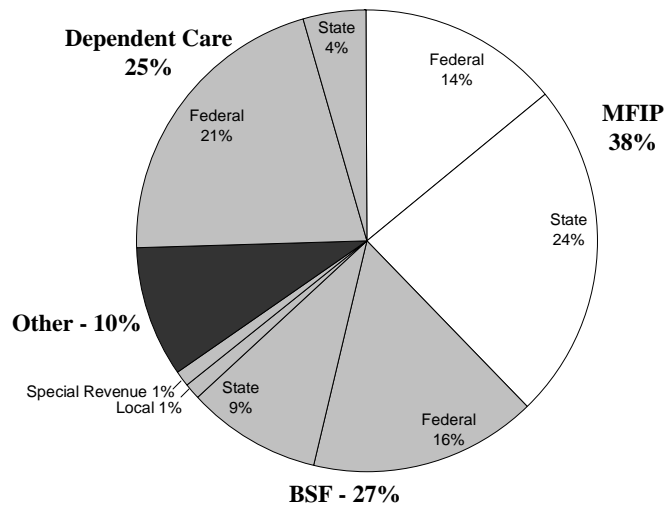
Child Care Assistance Funding FY 2003



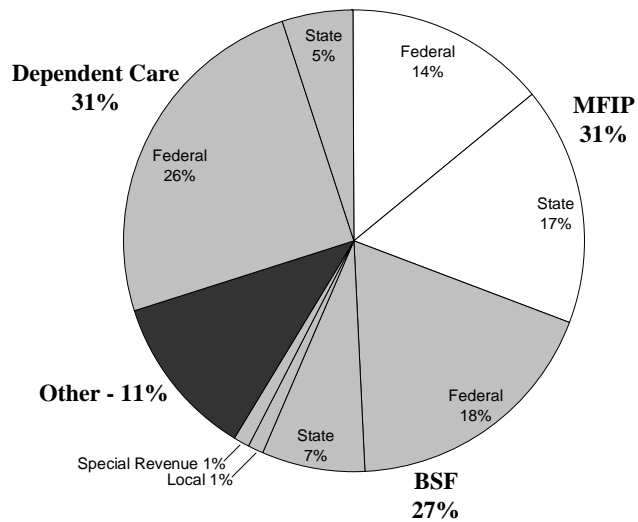
* The FY 2003 Higher Education Child Care Assistance appropriation was reduced by a transfer of \$3,610,000 to the state grant program.

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

Child Care Assistance Funding FY 2004

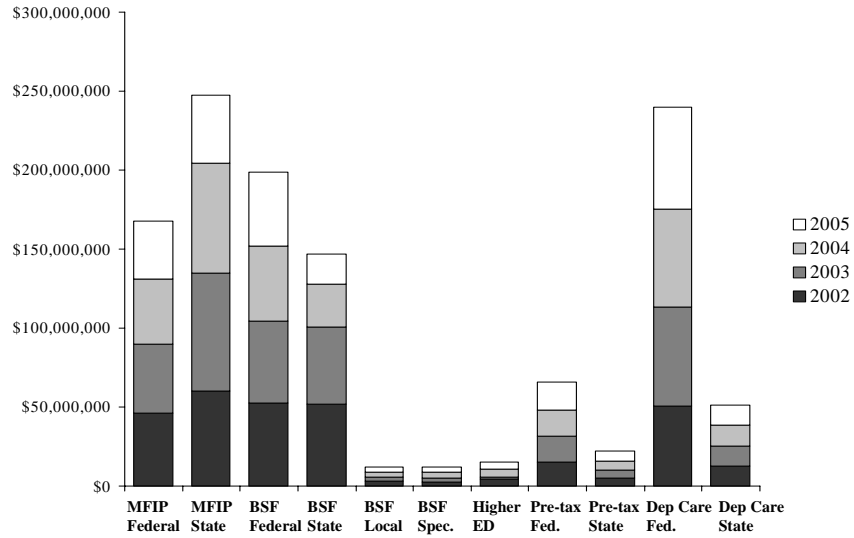


Child Care Assistance Funding FY 2005



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

Child Care Assistance Funding FY 2002 - 2005



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