

# MINNESOTA • REVENUE

## INDIVIDUAL INCOME TAX Dedication of Selected Withholding

March 8, 2011

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of H.F. 102 (Mahoney) 1<sup>st</sup> Engrossment, *Estimates Revised for February 2011 Forecast*

	<b>Fund Impact</b>			
	<b><u>F.Y. 2012</u></b>	<b><u>F.Y. 2013</u></b>	<b><u>F.Y. 2014</u></b>	<b><u>F.Y. 2015</u></b>
	(000's)			
Minnesota Science and Technology Fund	\$1,000	\$12,500	\$25,000	\$25,000
General Fund	(\$1,000)	(\$12,500)	(\$25,000)	(\$25,000)

Effective beginning with tax year 2011 withholding. The provisions expire June 30, 2018.

### EXPLANATION OF THE BILL

**Current Law:** Income tax withholding revenue is deposited in the General Fund.

**Proposed Law:** The bill would dedicate a portion of the growth in income tax withholding remitted by businesses in selected industries to the Minnesota Science and Technology Fund. The bill creates the Minnesota Science and Technology Fund in the State Treasury. The dedicated amount equals 85% of any increase in aggregate withholding from the designated industries above calendar year 2010 levels, after adjusting for inflation. The consumer price index for the Minneapolis-St. Paul metropolitan area is used to adjust the base-year 2010 withholding annually for inflation. The dedicated amount cannot exceed \$25 million per year.

The bill specifies the purposes for which amounts in the new fund may be used.

### REVENUE ANALYSIS DETAIL

- Withholding tax remitted by businesses in the designated industries totaled \$436 million in calendar year 2009 (down from \$486 million in 2008). Totals include tax remitted by businesses of all types. Nonprofit organizations and government entities are excluded.
- Total wages in the designated sectors are assumed to grow at the rate forecast for all Minnesota manufacturing, based on the February 2011 forecast. Because the average manufacturing wage is forecast to grow at roughly the same rate as inflation, withholding tax amounts are assumed to increase at the same rate as wages.
- Inflation assumptions are based on the February 2011 forecast for increases in the U.S. consumer price index (CPI-U).
- Based on these assumptions, the \$25 million cap would apply starting in fiscal year 2014 (calendar year 2013 withholding).
- The proposal allows estimated payments to be made to the new fund prior to annual certification by the Commissioner of Revenue. Certification is required within 120 days of the end of the calendar year. The estimates assume transfers occur in the same fiscal year as certification. Earlier payments would increase fiscal impact in fiscal years 2012 and 2013.

- Designated industries are listed on the table below.

NAICS Code	Description	Percent of Group's 2009 Withholding
3241	Petroleum and Coal Products Manufacturing	0.4%
3251	Basic Chemical Manufacturing	0.5%
3252	Resin, Synthetic Rubber, Artificial Synthetic Fibers & Filaments Manufacturing	0.1%
3253	Pesticide, Fertilizer, and Other Agricultural Chemical Manufacturing	0.2%
3254	Pharmaceutical and Medicine Manufacturing	1.9%
3255	Paint, Coating, and Adhesive Manufacturing	0.6%
3259	Other Chemical Product and Preparation Manufacturing	1.2%
3331	Agriculture, Construction, and Mining Machinery Manufacturing	1.9%
3332	Industrial Machinery Manufacturing	2.2%
3333	Commercial and Service Industry Machinery Manufacturing	1.6%
3336	Engine, Turbine, and Power Transmission Equipment Manufacturing	0.2%
3339	Other General Purpose Machinery Manufacturing	4.7%
3341	Computer and Peripheral Equipment Manufacturing	10.3%
3342	Communications Equipment Manufacturing	0.6%
3343	Audio and Video Equipment Manufacturing	0.5%
3344	Semiconductor and Other Electronic Component Manufacturing	2.3%
3345	Navigational, Measurement, Electromedical, & Control Instruments Equip. Manuf.	6.8%
3353	Electrical Equipment Manufacturing	0.9%
3359	Other Electrical Equipment and Component Manufacturing	1.4%
3364	Aerospace Product and Parts Manufacturing	0.4%
3369	Other Transportation Equipment Manufacturing	1.7%
3391	Medical Equipment and Supplies Manufacturing	20.4%
5112	Software Publishers	3.8%
5172	Wireless Communications Carriers (except Satellite)	0.2%
5182	Data Processing, Hosting, and Related Services	7.9%
5415	Computer Systems Design and Related Services	13.7%
5417	Scientific Research and Development Services	5.6%
541330	Engineering Services	5.5%
541380	Testing Laboratories	0.6%
541620	Environmental Consulting Services	1.2%
541690	Other Scientific and Technical Consulting Services	0.4%

**Number of Taxpayers:** In 2009, withholding payments were made by 7,000 businesses in the designated industries.

Source: Minnesota Department of Revenue  
 Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)