

**INDIVIDUAL INCOME TAX
Reduce Income Tax Rates**

March 7, 2001

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 1 (Jacobson)
Identical Bill: S.F. 416 (Schwab)/H.F. 554 (Dorman)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
			(000's)	
General Fund	(\$863,000)	(\$604,300)	(\$645,300)	(\$685,000)

Effective beginning with tax year 2001.

EXPLANATION OF THE BILL

This proposal reduces the individual income tax rates for the first bracket from 5.35 percent to 4.85 percent, the second bracket from 7.05 percent to 6.3 percent, and the third bracket from 7.85 percent to 7.35 percent. In addition, the proposal would change the alternative minimum tax rate from 6.4 percent to 5.8 percent. The tax year 2001 brackets, as indexed under current law, are specified in the bill, and the income tax brackets will be indexed for inflation, starting with tax year 2002. The bill also reduces the border cities credit rate from 7.85% to 7.35%.

REVENUE ANALYSIS DETAIL

- The House Income Tax Simulation (HITS) Model was used to estimate the tax year revenue impact of the change in the tax rates.
- These simulations assume the same economic conditions used by the Minnesota Department of Finance for the forecast published in February 2001. The model uses a stratified sample of 1998 individual income tax returns compiled by the Minnesota Department of Revenue.
- In allocating the tax year impacts to fiscal years, a standard rule of thumb formula was applied.
- The revenue impact from the decrease in the border cities credit rate is negligible.

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Number of Taxpayers Affected: This proposal will affect 2,079,100 taxpayers for an average tax reduction of \$261 per taxpayer for tax year 2001. This reduction amounts to 9 percent of their average tax liability.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational costs or savings to DOR in administration of this bill.

Source: Minnesota Department of Revenue
Tax Research Division
<http://www.taxes.state.mn.us/polic.html#analyses>

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