Individual Income Tax
Reciprocity

February 21, 2002

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

Department of Revenue
Analysis of H.F. 3159 (Rifenberg)

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**F.Y. 2005**
	(000's)			
General Fund*	$0	$0	$0	$0

*Although there would be no impact compared to the November 2001 forecast, the proposal would eliminate the current opportunity for one-time and ongoing revenue gain from the termination of reciprocity with Wisconsin.

Effective the day following final enactment.

EXPLANATION OF THE BILL

Current Law: Minnesota Statutes, Section 290.081, gives the Commissioner of Revenue authority to enter into an income tax reciprocity agreement with another state and, when it is deemed to be in the best interests of the people of this state, to terminate such an agreement.

Under the general principle of state taxation, the state in which income is earned has the primary right to tax that income. When a resident of one state works in another state, tax is paid to the state of employment, and a credit for that tax is allowed against the tax for the home state. An income tax reciprocity agreement provides for an exception to the income sourcing rule. Under reciprocity, a resident of one state who works in the other state pays tax on wage income only to the home state.

Minnesota has had income tax reciprocity with Wisconsin since 1968, North Dakota since 1969, and Michigan since 1984. Minnesota Statutes, Section 290.081, provides that Wisconsin make annual payments to reimburse Minnesota for its net revenue loss due to reciprocity.

Proposed Law: The proposal would eliminate the authority of the Commissioner of Revenue to terminate an income tax reciprocity agreement with another state. The commissioner would retain the authority to enter into such an agreement. Because the bill does not provide another means by which Minnesota could terminate an agreement, only the other state could make that decision.

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REVENUE ANALYSIS DETAIL

- Because Minnesota has had income tax reciprocity with Wisconsin, North Dakota, and Michigan for a number of years, the impact of reciprocity is reflected in collections and in the November 2001 forecast.
- The November 2001 forecast includes the projected annual reciprocity reimbursement from Wisconsin under the current method.
- The current calculation and timing of the payment from Wisconsin do not fully compensate Minnesota for its net revenue loss. For that reason, the Governor's 2002 Budget proposes the termination of income tax reciprocity with Wisconsin, effective beginning with tax year 2003. The revenue permanent gain for Minnesota would be about $8 million annually. Due to the lag in the current payment schedule, Minnesota would also experience a one-time gain that would occur over fiscal years 2003 and 2004. The revenue gain under the governor's proposal would be:

FY 2003	$30 million
FY 2004	$60 million
FY 2005	$8 million

- The estimates of the annual payments from Wisconsin and the increased revenues from the termination of reciprocity are based on the 1995 reciprocity benchmark study conducted by the Minnesota and Wisconsin Departments of Revenue. Results of the 1995 study are projected for subsequent years based on the income tax receipts in both states and the most recent county population estimates for both states from the U.S. Census Bureau.
- It was assumed that the additional receipts for a tax year would be split evenly between two fiscal years.

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