

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX CORPORATE FRANCHISE TAX Rate Changes

May 3, 2004

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

Department of Revenue
Analysis of S.F. 2889 (Marty) 1st Engrossment, Tax Provisions Only

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
	(000's)			
Individual Income Tax Rates	\$0	\$120,800	\$93,500	\$95,800
10% Corporate Franchise Tax	<u>\$0</u>	<u>\$12,300</u>	<u>\$13,500</u>	<u>\$12,100</u>
General Fund Total	\$0	\$133,100	\$107,000	\$107,900

Effective for tax years beginning after December 31, 2003.

EXPLANATION OF THE BILL

Individual Income Tax Rates

This proposal increases the individual income tax rates for the first bracket from 5.35 percent to 5.39 percent, the second bracket from 7.05 percent to 7.15 percent, and the third bracket from 7.85 percent to 8.05 percent. The brackets remain the same and are indexed for inflation.

	<u>Tax Year 2004</u>					
	<u>Current Law</u>			<u>Proposed Law</u>		
Married Joint	5.35%	\$ 0	- \$28,420	5.39%	\$ 0	- \$28,420
	7.05	28,421	- 112,910	7.15	28,421	- 112,910
	7.85	Over	112,910	8.05	Over	112,910
Married Separate	5.35%	\$ 0	- \$14,210	5.39%	\$ 0	- \$14,210
	7.05	14,211	- 56,460	7.15	14,211	- 56,460
	7.85	Over	56,460	8.05	Over	56,460
Single	5.35%	\$ 0	- \$19,440	5.39%	\$ 0	- \$19,440
	7.05	19,441	- 63,860	7.15	19,441	- 63,860
	7.85	Over	63,860	8.05	Over	63,860
Head of Household	5.35%	\$ 0	- \$23,940	5.39%	\$ 0	- \$23,940
	7.05	23,941	- 96,180	7.15	23,941	- 96,180
	7.85	Over	96,180	8.05	Over	96,180

Corporate Franchise Tax

Beginning in tax year 2004, the corporate franchise tax would increase from its present law rate of 9.8% to 10.0%.

REVENUE ANALYSIS DETAIL

Individual Income Tax Rate and Brackets

- The House Income Tax Simulation (HITS) Model version 5.2 was used to estimate the tax year revenue impact of the proposal.
- These simulations assume the same economic conditions used by the Minnesota Department of Finance for the forecast published in February 2004. The model uses a stratified sample of tax year 2000 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.

Number of Taxpayers: Approximately 1,834,900 taxpayers would receive an average tax increase of \$44 in tax year 2004.

Corporate Franchise Tax

- The revenue estimate is based on data from returns received by the Department of Revenue in calendar year 2001. The model was adjusted to reflect changes in tax law made since then.
- A program was run against corporate data to calculate the revenue effect from increasing the corporate franchise tax rate from 9.8% to 10.0%.
- Growth in overall corporate tax collections as projected by the Department of Finance in the February 2004 forecast is used to project future revenue gains.
- This law change will first effect collections beginning in fiscal year 2005.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy