

# MINNESOTA • REVENUE

## INDIVIDUAL INCOME TAX Income Tax Surcharge for TY 2005 & TY 2006

April 27, 2005

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

Department of Revenue  
Analysis of H.F. 2458 (Greiling)/S.F. 2256 (Hottinger), Section 14 Only

	<u>Fund Impact</u>			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
	(000's)			
General Fund	\$412,400	\$236,000	\$0	\$00

Effective for tax years 2005 and 2006.

### EXPLANATION OF THE BILL

#### *Individual Income Tax Rates and Brackets*

This proposal imposes a surtax on all tax brackets for tax years 2005 and 2006. For tax year 2005, the proposal increases the bottom rate of 5.35% by .03%, the middle rate of 7.05% by .33% and the top rate of 7.85% by .43% for married-joint, married-separate, single, and head-of-household filers. For tax year 2006, the proposal increases the bottom rate of 5.35% by .05%, the middle rate of 7.05% by .65% and the top rate of 7.85% by .85% for married-joint, married-separate, single, and head-of-household filers. For tax years 2007 and later, all tax rates revert back to their current levels of 5.35%, 7.05%, and 7.85%.

The bill also provides increased funding for child care assistance, early childhood family education programs, general community education, adult basic education, special education and the general education formula allowance. It also suspends and reduces certain fees relating to child care and provides grants and appropriates money.

With the surtax, the new tax rates are presented in the table on the following page:

	<b>Tax Year 2005</b>					
	<b>Current Law</b>			<b>Proposed Law</b>		
Married Joint	5.35%	\$ 0	- \$29,070	5.38%	\$ 0	- \$29,070
	7.05	29,071	- 115,510	7.38	29,071	- 115,510
	7.85	Over	115,510	8.28	Over	115,510
Married Separate	5.35%	\$ 0	- \$14,540	5.38%	\$ 0	- \$14,540
	7.05	14,211	- 57,760	7.38	14,541	- 57,760
	7.85	Over	57,760	8.28	Over	57,760
Single	5.35%	\$ 0	- \$19,890	5.38%	\$ 0	- \$19,890
	7.05	19,891	- 65,330	7.38	19,891	- 65,330
	7.85	Over	65,330	8.28	Over	65,330
Head of Household	5.35%	\$ 0	- \$24,490	5.38%	\$ 0	- \$24,490
	7.05	24,491	- 98,390	7.38	24,491	- 98,390
	7.85	Over	98,390	8.28	Over	98,390

	<b>Tax Year 2006</b>					
	<b>Current Law</b>			<b>Proposed Law</b>		
Married Joint	5.35%	\$ 0	- \$29,780	5.4%	\$ 0	- \$29,780
	7.05	29,781	- 118,350	7.7	29,781	- 118,350
	7.85	Over	118,350	8.7	Over	118,350
Married Separate	5.35%	\$ 0	- \$14,890	5.4%	\$ 0	- \$14,890
	7.05	14,891	- 59,170	7.7	14,891	- 59,170
	7.85	Over	59,170	8.7	Over	59,170
Single	5.35%	\$ 0	- \$20,380	5.4%	\$ 0	- \$20,380
	7.05	20,381	- 66,930	7.7	20,381	- 66,930
	7.85	Over	66,930	8.7	Over	66,930
Head of Household	5.35%	\$ 0	- \$25,090	5.4%	\$ 0	- \$25,090
	7.05	25,091	- 100,810	7.7	25,091	- 100,810
	7.85	Over	100,810	8.7	Over	100,810

## REVENUE ANALYSIS DETAIL

- The House Income Tax Simulation (HITS) Model version 5.3 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 2005. The model uses a stratified sample of tax year 2002 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 1,819,300 taxpayers would receive an average tax increase of \$115 in tax year 2005. In tax year 2006, approximately 1,922,100 taxpayers would receive an average tax increase of \$228.

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)