MINNESOTA · REVENUE

INDIVIDUAL INCOME TAX
Rate Increases

March 15, 2005

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

Department of Revenue
Analysis of S.F. 1333 (Hottinger)/ H.F. 1516 (Paymar)

	Fund Impact			
	F.Y. 2006	F.Y. 2007	F.Y. 2008	F.Y. 2009
		(000's)		
General Fund	$412,600	$472,000	$490,700	$527,000

Effective for tax years beginning after December 31, 2004.

EXPLANATION OF THE BILL

Individual Income Tax Rate Increase

This proposal increases the individual income tax rates in tax year 2005 for the first bracket from 5.35 percent to 5.38 percent, the second bracket from 7.05 percent to 7.38 percent, and the third bracket from 7.85 percent to 8.28 percent. For tax years 2006 and after, the proposal increases the first bracket from 5.35 percent to 5.40 percent, the second bracket from 7.05 percent to 7.70 percent, and the third bracket from 7.85 percent to 8.70 percent. The tax year 2005 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 2006.

	Current Law	Proposed Law	
	Tax Year 2005	Tax Year 2005	Tax Year 2006 & After
1st Bracket	5.35%	5.38%	5.40%
2nd Bracket	7.05%	7.38%	7.70%
3rd Bracket	7.85%	8.28%	8.70%

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 returns would receive an average tax increase of $115 in tax year 2005. For tax year 2006, 1,922,100 returns 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

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