

**INDIVIDUAL INCOME TAX
CORPORATE FRANCHISE TAX
Tax Rate Reduction**

April 25, 2018

Revised to Correct Timing of Rate Reduction

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of S.F. 4010 (Chamberlain) As Proposed To Be Amended (SCS4010A-2)

	Fund Impact			
	<u>F.Y. 2018</u>	<u>F.Y. 2019</u>	<u>F.Y. 2020</u>	<u>F.Y. 2021</u>
		(000's)		
General Fund	\$0	\$0	(Unknown)	(Unknown)

Effective the day following final enactment.

EXPLANATION OF THE BILL

The bill requires a one-tenth percentage point reduction of tax rates for the individual income tax and the corporate franchise tax, if a triggering event occurs. The individual and corporate alternative minimum tax rates would be reduced by the same amount. The rate reductions are cumulative over time, up to a maximum of a one-percentage point rate reduction.

The rate reductions are required if, based on a November forecast, a budget surplus is expected and a surplus would still be expected if the rate reductions were implemented. In addition, the budget reserve account, the cash flow account, and the school aids and credits account including net aids reductions must have been fully funded. The rate reductions would take effect one year after January 1 of the year following the forecast year. For example, if all conditions were met in the November 2018 forecast, the rate reduction would take effect on January 1, 2020.

REVENUE ANALYSIS DETAIL

- When a future forecast would predict a surplus is unknown and would depend on actions of the legislature and future economic conditions. As an example, assuming that the November 2018 forecast predicted a surplus, the income tax revenue foregone in tax year 2020 would be about \$185.4 million. The corporate franchise tax revenue foregone in that year would be about \$11.4 million.
- The House Income Tax Simulation Model (HITS 6.6a) was used to estimate the revenue impact of the individual income tax portion of the bill. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2018. The model uses a stratified random sample of tax year 2015 individual income tax returns compiled by the Minnesota Department of Revenue.

Number of Taxpayers: About 2.38 million income tax returns and about 60,000 corporate franchise returns would be affected if a rate reduction occurred in 2020.

Source: Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx