

April 8, 2019

	<b>Yes</b>	<b>No</b>
<b>DOR Administrative Costs/Savings</b>	<b>X</b>	

Department of Revenue  
Analysis of H.F. 2208 (Mahoney), 1<sup>st</sup> Division Engrossment, as Amended (H2208A30)  
Article 2 and 3 Only

	<b>Fund Impact</b>			
	<b><u>F.Y. 2020</u></b>	<b><u>F.Y. 2021</u></b>	<b><u>F.Y. 2022</u></b>	<b><u>F.Y. 2023</u></b>
		(000's)		
General Fund	\$0	\$0	\$0	(\$25,400)

Effective beginning in tax year 2022.

**EXPLANATION OF THE BILL**

**Current Law:** Employer-paid leaves are taxable income under current law. Under current law, Minnesota lacks a family and medical benefit insurance program.

**Proposed Law:** The bill would create a family and medical benefit insurance program. Individuals would apply to the Department of Employment and Economic Development (DEED) for paid leave related to time away from work for medical and family events.

Medical events cover those related to an applicant’s own serious health condition or pregnancy. Family events cover the following: bonding, family care, safety and qualifying exigency types of leave. Qualifying exigency covers events arising out of a military member’s active duty service.

The bill has a formula that ties leave benefits to the relationship between the applicant’s wages and the state’s average weekly wage (\$1,076 in 2019). Under the formula, benefits can replace 90% of income for wage earners under \$28,000. As wages increase, benefits replace a smaller percent of income. At \$60,000, benefits replace 76% of income. The maximum benefit is the state’s average weekly wage. When the benefit reaches the maximum amount, it replaces 71% of income.

The paid leave benefits paid out by DEED would be exempt from taxation.

The bill allows employers to opt out of the program. Benefits paid by employers opting out of the program would continue to be taxable.

Self-employed and contract workers are allowed to opt in as participants in the program.

The minimum amount of leave associated with medical and family events is seven days.

The maximum length of leave depends on the whether the leave event is classified as medical or family. For medical events, the maximum length of leave is 12 weeks per year. For family benefits, the program allows an addition 12 weeks of leave. In addition, a special subset of family leave called qualifying exigency is permitted 12 weeks of leave.

## REVENUE ANALYSIS DETAIL

- Benefits can be paid out starting on January 1, 2022. Amounts paid as benefits will be exempt from the income tax. This exemption will be first claimed in tax year 2022.
- The sum of benefits associated with tax year 2022 is \$780 million, based on estimates prepared by DEED.
- The revenue estimate assumes exemptions associated with tax year 2022 will affect collections in the following fiscal year, FY 2023.
- The revenue loss from the exemption of benefits from the program that replace previously taxed leave amounts or other income earned to pay leave events covered by this bill. The revenue estimate assumes 50% of \$780 million of leave benefits represents previously taxed leave amounts or income otherwise earned by the recipients applying for the leave benefits.
- A marginal rate of 6.5% was used to estimate the impact of the subtraction.

**Number of Taxpayers:** About 200,000 returns in 2022, based on estimates prepared by DEED.

Minnesota Department of Revenue  
Tax Research Division  
[www.revenue.state.mn.us/research/stats/Pages/Revenue-Analyses.aspx](http://www.revenue.state.mn.us/research/stats/Pages/Revenue-Analyses.aspx)