DEPARTMENT OF REVENUE

INDIVIDUAL INCOME TAX
Nonresident Income Exemption

March 4, 2020

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 3188 (Chamberlain)

	Fund Impact			
	F.Y. 2020	**F.Y. 2021**	**F.Y. 2022**	**F.Y. 2023**
	(000's)			
General Fund	$0	$0	($7,800)	($8,100)

Effective beginning tax year 2021.

EXPLANATION OF THE BILL

The bill proposes to exclude from taxable income wages a qualifying nonresident individual receives for employment duties performed in Minnesota.

Qualifying nonresident individual means an individual:
- Whose residency is in another state;
- Is paid wages for employment duties (excluding duties as an entertainer) in Minnesota on 30 or fewer days in the taxable year;
- Who performed employment duties in more than one state during the calendar year; and
- Whose state of residence provides a similar exclusion or does not impose an individual income tax, or whose income is exempt from taxation in Minnesota under the United States Constitution, or the Internal Revenue Code.

Employment duties include professional or personal services performed for an employer by an employee who is a qualifying nonresident individual.

An employee is considered to be performing duties within Minnesota for a day if the employee performs more duties in Minnesota than in any other state during that day. Time spent in transit between states is not considered in determining the location of an employee's performance of duties.

An employer means any person, including individuals, fiduciaries, estates, trusts, partnerships, limited liabilities companies, and corporations transacting business in or deriving any income sourced within the state of Minnesota if that person has control of the payment of such wages.

Wages paid to a qualifying nonresident individual are exempt from withholding and filing requirements unless the number of days an employee spends performing duties in Minnesota exceeds the 30-day threshold.

If the number of days spent in Minnesota exceeds 30 days, the withholding requirements and filing requirements apply for every day in that calendar year, including the first 30 days on which the employee performs duties in Minnesota.

REVENUE ANALYSIS DETAIL

- There are seven states in the United States that do not impose an individual income tax, including Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. New Hampshire and Tennessee have an individual income tax but do not tax wages. In addition, Illinois does not tax wage income of nonresidents who work in the state for 30 days or less, and Maine does not tax nonresidents who work in the state for 12 days or less.
- The analysis assumes that nonresidents whose residency belongs to one of those 11 states mentioned above may be qualifying individuals.
- About 124,400 nonresidents reported wages earned in Minnesota and in other state(s). Of those, 29,700 are residents of one of the 11 states listed above.
- The number of days worked in Minnesota is not reported on the return. It is assumed that if wages earned in Minnesota are less than 8% of total wages, that individual worked less than 30 days in Minnesota in a taxable year.
- About 3,400 nonresident returns who earned less than 8% of their total wages in Minnesota would qualify for the exemption, with total wages earned in Minnesota of about $74.2 million.
- The estimate was increased by 10% to account for nonresidents who worked in MN for less than 30 days, but the wages they earned here are more than 8% of their total wages.
- A marginal rate of 8.5% is applied, based on the median Minnesota taxable income of those returns.
- No adjustment was made to exclude entertainers, since they are subject to the separate nonresident entertainer tax.
- A growth rate of 3% is assumed, based on projected wage growth.
- Tax year impacts are allocated to the following fiscal year.

Number of Taxpayers: About 3,400 returns would be affected in tax year 2021.

Minnesota Department of Revenue
Tax Research Division
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