

March 8, 2023

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 1040 (Hanson, J.), As Proposed to be Amended (H1040DE1)

	Fund Impact			
	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>
	(000's)			
General Fund	(\$166,400)	(\$188,200)	(\$206,200)	(\$225,400)

Effective beginning with tax year 2023.

EXPLANATION OF THE BILL

Current Law: A taxpayer may subtract a portion of social security income when calculating Minnesota taxable income. For 2023, the maximum subtraction is \$5,840 for married joint filers, \$2,920 for married separate filers, and \$4,560 for single and head of household filers.

The subtraction is reduced by 20% of provisional income over the following thresholds for 2023: \$88,630 for married joint filers, \$44,315 for married separate filers, and \$69,250 for single or head of household filers. Provisional income is income used to calculate the federally taxable portion of social security benefits. The thresholds and maximum subtractions are adjusted annually for inflation.

Proposed Law: Under the bill, a taxpayer is allowed a subtraction equal to the current subtraction or the simplified subtraction as described below, whichever is greater.

The simplified subtraction equals 100% of taxable social security income, reduced by 20% of federal adjusted gross income above the following thresholds for tax year 2023: \$80,000 for married joint filers, \$40,000 for married separate filers, and \$62,500 for single or head of household filers. The thresholds will be adjusted annually for inflation beginning in tax year 2024.

REVENUE ANALYSIS DETAIL

- The House Income Tax Simulation (HITS 7.2) Model was used to estimate the tax year revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2023. The model uses a stratified sample of 2019 individual income tax returns compiled by the Minnesota Department of Revenue.
- Tax year impacts are allocated for the following fiscal year.

REVENUE ANALYSIS DETAIL (Cont.)

Number of Taxpayers: In tax year 2023, about 299,400 tax returns would have an average decrease in tax of \$556.

Minnesota Department of Revenue
Tax Research Division
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hf1040_2 SS Subtraction Expanded / sat cw