

April 10, 2023

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 442 (Her) / S.F. 678 (Murphy)

	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	\$1,109,300	\$977,100	\$967,400	\$1,018,000

Effective beginning tax year 2023.

EXPLANATION OF THE BILL

Current Law: The income tax rates and brackets for tax year 2023 are shown in the following table:

Income Tax Brackets: Tax Year 2023

	5.35% Up To	6.80%	7.85%	9.85% Over
Married Joint	\$43,950	\$43,950 to \$174,610	\$174,610 to \$304,970	\$304,970
Married Separate	\$21,975	\$21,975 to \$87,305	\$87,305 to \$152,485	\$152,485
Single	\$30,070	\$30,070 to \$98,760	\$98,760 to \$183,340	\$183,340
Head of Household	\$37,010	\$37,010 to \$148,730	\$148,730 to \$243,720	\$243,720

Proposed Law: The bill adds a new top income tax bracket at a rate of 12.45% starting in tax year 2023. The 12.45% bracket is set at \$500,000 for married joint filers, \$250,000 for married separate and single filers, and \$400,000 for head of household filers. Beginning in tax year 2024, the thresholds would be adjusted for inflation in the same manner as existing brackets.

Note: Because the married separate brackets are exactly half of the married joint brackets and the single brackets are rounded to the nearest \$10, in some years there will be a \$5 difference between the married separate brackets and the single brackets after adjusting for inflation.

The tax year impact is as follows:

Tax Year Impact	
(\$000s)	
TY 2023	\$879,500
TY 2024	\$905,800
TY 2025	\$952,100
TY 2026	\$1,000,800
TY 2027	\$1,055,200

REVENUE ANALYSIS DETAIL

- The House Income Tax Simulation Model (HITS 7.2) was used to estimate the revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the budget forecast published in February 2023. The model uses a stratified random sample of tax year 2019 individual income tax returns compiled by the Minnesota Department of Revenue.
- All of tax year 2023 was allocated to fiscal year 2024. In allocating other tax years to fiscal years, a standard formula was applied.

Number of Taxpayers: For tax year 2023, an estimated 65,700 returns would have an average increase in tax of \$13,395 per return.

Minnesota Department of Revenue
Tax Research Division
[https://www.revenue.state.mn.us/
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