

April 30, 2025

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 370 (Murphy), as Proposed to be Amended (H0370DE1)

	Fund Impact			
	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>	<u>F.Y. 2028</u>	<u>F.Y. 2029</u>
	(\$000s)			
Overtime Pay Subtraction	(\$21,000)	(\$21,700)	(\$22,500)	(\$23,200)
Exemption	<u>\$0</u>	<u>(\$43,200)</u>	<u>(\$44,500)</u>	<u>(\$45,900)</u>
General Fund Total	(\$21,000)	(\$64,900)	(\$67,000)	(\$69,100)

The subtraction is effective beginning tax year 2025.

The exemption is effective beginning tax year 2026.

EXPLANATION OF THE BILL

The bill creates a subtraction from an individual's federal adjusted gross income (FAGI) for taxpayers who are eligible direct support professionals (DSPs) that receive overtime pay. DSPs are employees of an eligible facility in Minnesota during the taxable year and worked at least 1,000 hours there.

The bill also creates an exemption from individual income tax for DSPs with FAGI below the starting point of the second tier of the individual income tax bracket based on the taxpayer's filing status. Eligible DSPs are employees of an eligible facility in Minnesota during the taxable year who worked at least 1,000 hours there and had FAGI of less than \$32,570 if filing single, \$47,620 if filing married joint or widowed, \$23,810 if filing married separately, or \$40,100 if filing as head of household for tax year 2025. Married joint filers are eligible for the exemption if either spouse is an eligible DSP.

DSPs at the following eligible facilities are eligible for the exemption: nursing facilities, assisted living facilities, an adult foster care, a community residential setting, or intermediate care facilities for persons with developmental disabilities.

REVENUE ANALYSIS DETAIL

- DSPs are individuals that fall into the two Bureau of Labor Statistics (BLS) labels of "Nursing Assistants" and "Home Health and Personal Care Aides." The BLS provided counts and wages as of May 2023. The count of the workforce is assumed to be constant. Wages have an annual growth rate of 3.3% based on a 10-year average of BLS data.
- Using BLS data, 83% of workers are full-time and the remaining 17% are part-time. 53% of those part-time workers are estimated to work 25 hours per week and are eligible for the income tax exemption/subtraction. This results in about 127,700 eligible taxpayers based on time worked.
- Total annual wages for eligible DSPs were calculated based on a standard 40-hour work week if full-time or a 25-hour work week if part-time. Wages are assumed to equal FAGI. Using a sample of 2021 Minnesota Department of Revenue (MDOR) data, about 35% of taxpayers have FAGI below the starting point of the second tier of their respective individual income tax bracket. This results in about 44,000 eligible DSPs qualifying for the income tax exemption.

REVENUE ANALYSIS DETAIL (Cont.)

- Based on a 2023 Department of Health and Human Services study of the DSP workforce, of those full-time DSP workers, about 26% worked between 41-50 hours per week and approximately another 11% worked more than 50 hours per week. It is assumed that each category of these workers worked 5 and 15 hours of overtime per week respectively. This results in approximately 29,400 eligible DSPs qualifying for the income tax subtraction.
- Current eligible taxpayers' filing status is assumed to follow the distribution of 2021 MDOR data.
- Minnesota's standard deduction has an annual growth rate of 3.5% based on a six-year average. It is assumed all eligible taxpayers take the standard deduction. Eligible DSPs are assumed to take no other exemptions or subtractions in determining their Minnesota taxable income (MTI).
- A marginal tax rate of 6.2% is assumed among eligible taxpayers for the income tax subtraction.
- A marginal tax rate of 5.35% is assumed among eligible taxpayers for the income tax exemption.
- Tax year impacts are allocated for the following fiscal year.

Number of Taxpayers: An estimated 29,400 taxpayers would have an average reduction in tax of \$717 in tax year 2025.

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