

April 27, 2026

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 4845 (Hollins)

	Fund Impact			
	F.Y. 2026	F.Y. 2027	F.Y. 2028	F.Y. 2029
	(000's)			
5 th Income Tax Bracket at 10.85%	\$0	\$389,300	\$299,000	\$313,300
LGA Appropriation Increase	\$0	(\$155,500)	(\$155,500)	(\$155,500)
Property Tax Refund Interaction	\$0	\$0	\$4,600	\$4,600
Income Tax Interaction	\$0	\$0	\$1,490	\$1,490
CPA Appropriation Increase	\$0	(\$155,500)	(\$155,500)	(\$155,500)
Property Tax Refund Interaction	\$0	\$0	\$4,600	\$4,600
Income Tax Interaction	<u>\$0</u>	<u>\$0</u>	<u>\$1,490</u>	<u>\$1,490</u>
General Fund Total	\$0	\$78,300	\$180	\$14,480

Effective beginning tax year 2026.

EXPLANATION OF THE BILL

5th Income Tax Bracket

The bill creates a 5th income tax bracket at 10.15% for individuals earning over \$1,000,000 if filing married Joint or widowed, \$500,000 if filing married separate, \$600,000 if filing single, or \$800,000 if filing as head of household. The new statutory year for adjusting income tax brackets for inflation is tax year 2026.

LGA Appropriation Increase

Under current law, the appropriation for local government aid (LGA) is \$644,398,012 for aids payable in 2026 and thereafter. The proposal would increase the LGA appropriation by \$155.5 million for aids payable in 2026 and thereafter. Aid amounts for 2026 would be recalculated and recertified.

CPA Appropriation Increase

Under current law, the appropriation for county program aid (CPA) is \$151,197,053 for need aid and \$190,471,391 for tax base equalization aid for aids payable in 2026 and thereafter. The proposal would increase the CPA appropriation by \$155.5 million for aids payable in 2026 and thereafter. The appropriation increase would be split with need aid increasing \$68.8 million and tax base equalization aid increasing \$86.7 million. Aid amounts for 2026 would be recalculated and recertified.

REVENUE ANALYSIS DETAIL

5th Income Tax Bracket

- The House Income Tax Simulation Model (HITS 7.6) 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 February 2026. The model uses a stratified random sample of tax year 2023 individual income tax returns compiled by the Minnesota Department of Revenue.
- All of tax year 2026 was allocated to fiscal year 2027. In allocating other tax years to fiscal years, a standard formula was applied that accounts for changes in withholding and estimated payments.
- Approximately 30,900 tax returns were impacted, with an average tax increase of \$9,591.

LGA Appropriation Increase

- Increasing the appropriation for LGA to cities would increase state general fund costs by \$155.5 million in fiscal year 2027 and thereafter.
- It is assumed that the permanent increase in aid to cities would reduce property tax levies by a portion of the increase. This would reduce property taxes on all property including homesteads.
- The reduced property tax burden would reduce state-paid homeowner property tax refunds and income tax deductions beginning in fiscal year 2028, resulting in a savings to the state general fund.

CPA Appropriation Increase

- Increasing the appropriation for CPA would increase state general fund costs by \$155.5 million in fiscal year 2027 and thereafter.
- It is assumed that the permanent increase in aid to counties would reduce property tax levies by a portion of the increase. This would reduce property taxes on all property including homesteads.
- The reduced property tax burden would reduce state-paid homeowner property tax refunds and income tax deductions beginning in fiscal year 2028, resulting in a savings to the state general fund.

Minnesota Department of Revenue
Tax Research Division
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