MN HOUSE RESEARCH

Memorandum

March 3, 2025

To Tax Committee Members

From Sean Williams, Legislative Analyst

Subject Income tax modeling; elimination of first tier rate (H.F. 812)

Executive summary

This memo contains modeling results for H.F. 812, which eliminates the first tier (5.35%) of the individual income tax. House Research modeling estimates that the bill would reduce revenues by about $3.79 billion in tax year 2025. About 2,390,100 returns would see an average tax cut of about $1,586. Modeling results imply that the bill would cause a significant increase in the alternative minimum tax, and would increase the progressivity of the individual income tax as a whole.

This memo provides a cost estimate of the bill within the budget window, and shows the distribution of tax cuts by income and by size of change.

Background: House modeling capabilities

House Research can model some individual income tax proposals using the House Income Tax Simulation (HITS) model, version 7.5. The model uses a stratified sample of 2022 individual income tax returns, and forecasts changes in tax years 2025 to 2029 based on the February forecast from Minnesota Management and Budget (MMB).

The House, Senate, Department of Revenue (DOR), and MMB all use the same model to estimate certain income tax proposals, but DOR has a broader sample of high-income returns than the other agencies. This may result in differences between House Research modeling and DOR revenue estimates.

The model can only estimate tax policy changes if the data needed to model the provision is included on a tax return. All of the data used by the model comes from amounts that taxpayers entered on a state or federal income tax return.

HITS model estimates are not precise and are subject to several sources of error. The model relies on a sample of income tax records, which introduces sampling error into the estimates. Estimates for years outside of the sample year are based on the February economic forecast produced by MMB—this introduces forecasting error into the model. For some tax system components for which the model does not have precise data, the model uses imperfect assumptions about taxpayers to interpolate missing numbers; this process also introduces error.

House Research modeling results are preliminary, and cannot replace formal estimates from the Department of Revenue.

Modeling results; H.F. 812 as introduced

Estimated cost by fiscal and tax year

The table below shows the estimated change in revenues under H.F. 812, as introduced. Changes in a single tax year are allocated to one or more fiscal year based upon MMB's assumptions about how income tax withholding changes as a result of changes in rates.

Tax Year	Tax Year Change	FY 2026	FY 2027	FY 2028	FY 2029
2025	-3,791,172	-3,791,172			
2026	-3,896,113	-1,351,859	-2,544,254		
2027	-3,997,566		-1,244,880	-2,752,686	
2028	-4,104,873			-1,273,310	-2,831,563
2029	-4,201,964				-1,284,391
Total	-19,991,688	-5,143,031	-3,789,134	-4,025,996	-4,115,954

House Research modeling estimates that the bill would reduce revenues by about $3.79 billion in tax year 2025. About 2,390,100 returns would see an average tax cut of about $1,586. These results are based on the November 2024 forecast assumptions.

Tables 1 and 2 show the distribution of tax decreases by income and size of change.

Alternative minimum tax

By significantly reducing ordinary income tax liability without changing the rate on the alternative minimum tax (AMT), the bill pushes many more taxpayers on to the AMT. Under current law, the model predicts about 4,700 taxpayers will pay $20.0 million in AMT liability. If the bill were enacted, the model expects a total of about 235,000 taxpayers would pay a total of $162.8 million in AMT.

Progressivity

House Research modeling indicates that the bill significantly increases the progressivity of the Minnesota individual income tax.

For tax year 2025, the baseline Suits Index for the income tax after all credits is .3019. Under the bill, the progressivity increases to .5043.

Table 1: H.F. 812, as introduced, distribution of tax reductions by income Tax Year 2025

Income (AGI)	Decreases in Tax			
	# of Returns	Total ($1,000)	% of Total Decrease	Average Decrease ($)
Less than $30,000	243,500	-76,835	2.0%	-$316
$30,000 to $50,000	382,700	-402,573	10.6%	-$1,052
$50,000 to $75,000	464,200	-682,599	18.0%	-$1,470
$75,000 to $100,000	329,300	-592,458	15.6%	-$1,799
$100,000 to $125,000	233,500	-478,397	12.6%	-$2,049
$125,000 to $150,000	185,400	-394,158	10.4%	-$2,127
$150,000 to $250,000	335,300	-708,226	18.7%	-$2,112
$250,000 and more	216,200	-455,942	12.0%	-$2,108
Total	2,390,200	-3,791,188	100%	-$1,586

Table 2: H.F. 812, as introduced; distribution of tax reductions by size of change
Tax Year 2025

	Tax Decreases	
Size of Decrease	Returns	% of Total Returns
No change	605,000	20.2%
1 to 25	29,900	1.0%
25 to 49	21,100	0.7%
50 to 99	35,700	1.2%
100 to 249	103,000	3.4%
250 to 499	142,500	4.8%
500 to 749	128,700	4.3%
750 to 999	135,700	4.5%
1000 +	1,793,400	59.9%
Total returns with a change	2,390,200	79.8%
Total returns	2,995,100	100%

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