

January 31, 2023

To Interested parties
From Sean Williams, Legislative Analyst
Subject Income tax modeling; House File 721 (working family credit)

Executive summary

This memo contains modeling results for House File 721, which expands the working family credit. As compared with current law, the bill generally increases the credit rate and amount of income eligible for the credit, increases the phaseout threshold, and phases the credit out at a faster rate.

My modeling estimates that the bill would increase credits and reduce revenues by about \$75.5 million in tax year 2023. About 301,300 returns would see an average change in credit of \$250.

Background: House modeling capabilities

House Research can model some individual income tax proposals using the House Income Tax Simulation (HITS) model, version 7.2. The model uses a stratified sample of 2019 individual income tax returns, and forecasts changes in tax years 2021 to 2027 based on the November 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 November 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

The HITS model estimates that the credit expansion in H.F. 721 would reduce revenues by approximately \$75.5 million in tax year 2023. About 301,300 returns would see a credit increase of \$250.

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

**Table 1: Working Family Credit Expansion, Distribution by Income
H.F. 721, Tax Year 2023**

Income (AGI)	Increases in Credit			
	# of Returns	Total (\$1,000)	% of Total Decrease	Average Decrease (\$)
Under \$10,000	56,600	10,500	13.9%	186
\$10,000 to \$20,000	79,300	25,800	34.1%	325
\$20,000 to \$30,000	48,800	11,400	15.1%	233
\$30,000 to \$50,000	94,000	20,600	27.3%	219
\$50,000 to \$100,000	22,700	7,200	9.6%	318
\$100,000 to \$150,000	0	0	0.0%	0
\$150,000 to \$250,000	0	0	0.0%	0
\$250,000 to \$500,000	0	0	0.0%	0
\$500,000 and above	0	0	0.0%	0
Total	301,300	75,500	100.0%	250

**Table 2: Working Family Credit Expansion; Distribution by Size of Change
H.F. 721, Tax Year 2023**

\$ of Change	Decreases in credit		Increases in credit	
	Returns	% of Total Returns	Returns	% of Total Returns
1 to 25	0	0	4,400	0.1
26 to 50	0	0	7,900	0.3
51 to 100	0	0	18,900	0.6
101 to 250	0	0	115,200	3.9
251 to 500	0	0	146,200	4.9

\$ of Change	Decreases in credit		Increases in credit	
	Returns	% of Total Returns	Returns	% of Total Returns
501 to 750	0	0	8,800	0.3
751 to 1000	0	0	0	0
1001 +	0	0	0	0
Total Change	0	0	301,300	10.2

SW/mc