

March 8, 2023

To Tax committee members
From Sean Williams, Legislative Analyst
Subject Income tax modeling; 100% Social Security subtraction

Executive summary

This memo contains modeling results for H.F. 300, which allows a 100% Social Security subtraction and a subtraction for a portion of public pension benefits. **The modeling in this memo addresses only the Social Security changes in the bill**, because the tax sample used by the model does not have detailed data on public pensions.

My modeling estimates that the bill would reduce revenues by about \$596.7 million in tax year 2023. About 445,800 returns would see an average tax cut of about \$1,339. These results are based on the February forecast assumptions.

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 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

The HITS model estimates that the bill would reduce revenues by about \$596.7 million in tax year 2023. About 445,800 returns would see an average tax cut of about \$1,339. These results are based on the February forecast assumptions.

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

**Table 1: 100% Social Security Subtraction, Distribution by Income
Tax Year 2023**

Income (AGI)	Decreases in tax			
	# of Returns	Total (\$1,000)	% of Total Decrease	Average Decrease (\$)
Under \$50,000	70,900	19,900	3.3%	281
\$50,000 to \$100,000	172,200	163,400	27.4%	949
\$100,000 to \$150,000	111,500	196,000	32.9%	1,758
\$150,000 to \$250,000	56,500	123,600	20.7%	2,189
\$250,000 to \$500,000	24,600	68,100	11.4%	2,768
\$500,000 and above	10,100	25,760	4.3%	2,543
Total	445,800	596,700	100.0%	1,339

**Table 2: 100% Social Security Subtraction, Distribution by Size of Change
Tax Year 2023**

\$ of Change	Tax Increases		Tax Decreases	
	Returns	% of Total Returns	Returns	% of Total Returns
1 to 25	0	0	5,800	0.2
26 to 50	0	0	4,000	0.1
51 to 100	0	0	10,500	0.4
101 to 250	0	0	33,000	1.1
251 to 500	0	0	52,600	1.8
501 to 750	0	0	53,200	1.8
751 to 1000	0	0	46,100	1.6

\$ of Change	Tax Increases		Tax Decreases	
	Returns	% of Total Returns	Returns	% of Total Returns
1001 +	0	0	240,500	8.1
Total Change	0	0	445,800	15

SW/mc