

February 1, 2022

| | | |
|----------------------------------|------------|-----------|
| | Yes | No |
| DOR Administrative Costs/Savings | X | |

Department of Revenue
Analysis of H.F. 2765 (Stephenson), As Proposed to be Amended (H2765A2)

| | Fund Impact | | | |
|--------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | <u>F.Y. 2022</u> | <u>F.Y. 2023</u> | <u>F.Y. 2024</u> | <u>F.Y. 2025</u> |
| | (000's) | | | |
| General Fund | \$0 | (\$160,900) | \$0 | \$0 |

Effective retroactively for tax year 2021 only.

EXPLANATION OF THE BILL

The bill creates a temporary subtraction for taxable unemployment insurance compensation for tax year 2021 only. An individual taxpayer is allowed a subtraction equal to the taxpayer’s regular and supplemental unemployment compensation up to a limit.

The maximum subtraction is \$10,200. For taxpayers filing a joint return, the limit is \$10,200 in unemployment compensation received by each spouse. The limit is reduced by five percent of adjusted gross income in excess of \$150,000 for married joint filers or \$75,000 for all other filers. In no case is the subtraction less than \$0.

REVENUE ANALYSIS DETAIL

- About 433,000 individuals are expected to receive \$5.7 billion in unemployment insurance payments in 2021, according to information provided by the Department of Employment and Economic Development.
- It was assumed that about 79% of unemployment insurance claims would result in taxable income on individual returns, based on the number of returns that received refunds for unemployment insurance in 2020 compared to the total number of individuals with unemployment benefits reported by DEED for the same year.
- Subtractions are expected to total \$2.5 billion under the bill.
- A marginal rate of 6.5% was assumed, based on the estimated marginal rate for unemployment insurance subtractions in 2020.
- The tax year 2021 impact was allocated to fiscal year 2023, assuming that returns would have to be amended or modified to include the subtraction.

Number of Taxpayers: About 320,600 returns will have an average tax reduction of \$500 in tax year 2021.

Minnesota Department of Revenue
Tax Research Division
<https://www.revenue.state.mn.us/revenue-analyses>