

March 25, 2024

	<b>Yes</b>	<b>No</b>
DOR Administrative Costs/Savings	X	

Department of Revenue  
Analysis of H.F. 4572 (Greenman) / S.F. 4862 (Oumou Verbeten)

	<b>Fund Impact</b>			
	<b><u>F.Y. 2024</u></b>	<b><u>F.Y. 2025</u></b>	<b><u>F.Y. 2026</u></b>	<b><u>F.Y. 2027</u></b>
	(000's)			
General Fund	Unknown	Unknown	Unknown	Unknown

Effective beginning tax year 2025.

**EXPLANATION OF THE BILL**

**Current Law:** During federal worker classification audits, a taxpayer may be provided relief from tax liability for an individual worker if three provisions under Section 530 of the Revenue Act of 1978 are met. These requirements are reporting consistency (treating the individual as a non-employee), substantive consistency (others in same job category treated as non-employee), and reasonable basis (taxpayer relied on an alleged authority regarding job classification).

**Proposed Law:** The bill excludes Section 530 from the definition of the Internal Revenue Code for Minnesota income tax purposes. The effect is that taxpayers would not be entitled to Section 530 relief when classifying workers for Minnesota income tax purposes.

**REVENUE ANALYSIS DETAIL**

- The fiscal impact of the bill is unknown. Minnesota income tax will generally be the same regardless of whether the worker is an employee or an independent contractor, except that work-related expenses may be fully deductible as business expenses for contract workers but are limited as itemized deductions for employees.
- Employers have obligations for employees that they don't have for independent contractors.
- For instance, employers are required to pay federal FICA taxes (which fund Medicare and Social Security) for employees, but not for independent contractors.
- Employers must collect and withhold income tax for employees, but there is no withholding requirement for independent contractors. Therefore, withholding and compliance with income tax law is higher for employees than for contractors.
- Employers must also contribute to unemployment insurance and worker's compensation for employees, but not for independent contractors.
- Because of these additional costs, employers have some incentive to treat workers as contractors rather than employees. However, the extent of worker misclassification is not known.

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