

March 18, 2025

To Tax Committee Members
From Sean Williams, Legislative Analyst
Subject Income tax modeling for H.F. 2502; child credit phaseout increased for married joint returns

Executive summary

This memo contains modeling results for H.F. 2502, which increases the phaseout on the child credit from \$37,910 to \$63,900 for married joint returns.

House Research modeling estimates that the bill would reduce revenues by about \$65.2 million in tax year 2025. About 61,700 returns would see an average reduction in tax of about \$1,058. The bill slightly increases the overall progressivity of the individual income tax.

House Research modeling of child credit proposals may differ slightly from DOR estimates, because the income tax model cannot estimate different credit amounts for older and younger children.

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. 2502 as introduced

Change in credits and revenues

House Research modeling estimates that the bill would increase the cost of the credit by about \$65.2 million. About 61,700 returns would see an average tax decrease of about \$1,058.

House Research modeling of child credit proposals may differ slightly from DOR estimates, because the HITS model cannot estimate different credit amounts for older and younger children.

Distributional details

Table 1 below shows the distribution in changes of tax by adjusted gross income (AGI).

**Table 1: H.F. 2502, as introduced, distribution of tax reductions by income
Tax Year 2025, based on February forecast assumptions, return totals rounded**

Income (AGI)	Decreases in Tax			
	# of Returns	Total (\$1,000)	% of Total Decrease	Average Decrease (\$)
Less than \$30,000	2,400	-2,818	4.3%	-\$1,169
\$30,000 to \$50,000	22,000	-17,985	27.6%	-\$818
\$50,000 to \$75,000	37,200	-44,180	67.7%	-\$1,187
\$75,000 to \$100,000	100	-242	0.4%	-\$3,612*
\$100,000 to \$125,000	0	0	0.0%	\$0
\$125,000 to \$150,000	0	0	0.0%	\$0
\$150,000 to \$250,000	0	0	0.0%	\$0
\$250,000 and more	0	0	0.0%	\$0
Total	61,700	-65,225	100.0%	-\$1,058

*The average decrease for returns in this group is likely an overstatement due to rounding error.

Table 2 below shows the distribution of tax decreases by the size of the decrease.

**Table 2: H.F. 2502, as introduced; distribution of tax reductions by size of change
Tax Year 2025, February forecast assumptions, return totals rounded**

Size of Decrease	Tax Decreases	
	Returns	% of Total Returns
No change	2,942,300	97.9%
1 to 25	900	0.0%
25 to 49	1,000	0.0%
50 to 99	1,300	0.0%
100 to 249	5,200	0.2%
250 to 499	29,000	1.0%
500 to 749	1,800	0.1%
750 to 999	1,900	0.1%
1000 +	20,400	0.7%
Total returns with a change	61,700	2.1%
Total returns	3,004,000	100.0%

Progressivity

House Research modeling indicates that the bill slightly 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 .3023. Under the bill, the progressivity increases to .3073.

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