

March 24, 2025

**To** Tax Committee Members  
**From** Sean Williams, Legislative Analyst  
**Subject** Income tax modeling; H.F. 2197; child credit phaseouts increased and working family credit disallowed for childless claimants

## Executive summary

This memo contains modeling results for H.F. 2197, which increases the phaseout on the child credit to \$75,000 for married joint returns and \$37,500 for other filers. The bill also disallows childless filers from claiming the working family credit.

House Research modeling estimates that on net, the bill would increase revenues by about \$8.53 million in tax year 2025. However, the net revenue effect is close to neutral in tax year 2026, and negative in tax years 2027 and 2028.

In tax year 2025, about 99,000 returns would see total tax reductions of about \$102.4 million, for an average tax cut of about \$1,034. About 296,400 returns would see tax increases totaling \$111.0 million, for an average tax increase of \$374.

Modeling results imply that the bill would slightly reduce the progressivity of the individual income tax as a whole.

This memo provides a cost estimate of the bill within the budget window, and shows the distribution of tax cuts by income and by size of change.

## 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. 2197 as introduced**

### **Estimated cost by fiscal and tax year**

The table below shows the estimated change in revenues under H.F. 2197, as introduced. Changes in a tax year are allocated to the following fiscal year.

The bill raises revenue on net in tax years 2025 and 2026, but results in a net revenue decrease in tax years 2027 and 2028.

<b>Tax Year</b>	<b>Tax Year Change</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>26-27 Total</b>	<b>28-29 Total</b>
2025	8,531	8,531				8,531	0
2026	206		206			206	0
2027	-3,308			-3,308		0	-3,308
2028	-8,421				-8,421	0	-8,421
<b>Total</b>	<b>-2,992</b>	<b>8,531</b>	<b>206</b>	<b>-3,308</b>	<b>-8,421</b>	<b>8,737</b>	<b>-11,729</b>

### **Progressivity**

House Research modeling indicates that the bill slightly reduces the progressivity of the Minnesota individual income tax.

For tax year 2025, the baseline Suits Index for the income tax after all credits is .3019. Under the bill, the progressivity decreases to .3013.

## Distributional analysis by income and size of change

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

**Table 1: H.F. 2197, as introduced, distribution of tax reductions by income  
Tax Year 2025**

Income (AGI)	Increases in Tax				Decreases in Tax			
	# of Returns	Total (\$1,000)	% of Total Decrease	Average Increase	# of Returns	Total (\$1,000)	% of Total Decrease	Average Decrease
Less than \$30,000	241,600	94,275	85.0%	\$390	3,200	-3,770	3.7%	-\$1,166
\$30,000 to \$50,000	54,800	16,691	15.0%	\$304	72,300	-54,865	53.6%	-\$759
\$50,000 to \$75,000	0	0	0.0%	\$0	23,400	-43,437	42.4%	-\$1,857
\$75,000 to \$100,000	0	0	0.0%	\$0	100	-364	0.4%	-\$2,716
\$100,000 to \$125,000	0	0	0.0%	\$0	0	0	0.0%	\$0
\$125,000 to \$150,000	0	0	0.0%	\$0	0	0	0.0%	\$0
\$150,000 to \$250,000	0	0	0.0%	\$0	0	0	0.0%	\$0
\$250,000 and more	0	0	0.0%	\$0	0	0	0.0%	\$0
<b>Total</b>	296,400	110,966	100.0%	\$374	99,000	-102,436	100.0%	-\$1,034

**Table 2: H.F. 2197, as introduced; distribution of tax reductions by size of change  
Tax Year 2025**

Size of Decrease	Tax Increases		Tax Decreases	
	Returns	% of Total Returns	Returns	% of Total Returns
1 to 25	3,500	0.1%	700	0.0%
25 to 49	4,100	0.1%	700	0.0%
50 to 99	9,300	0.3%	1,100	0.0%
100 to 249	30,700	1.1%	4,200	0.1%
250 to 499	248,900	8.6%	8,900	0.3%
500 to 749	0	0.0%	9,200	0.3%
750 to 999	0	0.0%	54,000	1.8%
1000 +	0	0.0%	20,200	0.7%
<b>Total</b>	296,400	9.9%	99,000	3.3%

About 2,608,500 returns experience no change under the proposal.

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