HOUSE RESEARCH

Bill Summary

FILE NUMBER: DATE: H.F. 63 January 16, 2015

> Version: with author's amendment (H0063A2)

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Maximum 7.85% income tax rate for active pass-through income Subject:

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Overview

Provides for a maximum income tax rate of 7.85 percent on active pass-through income (from sole proprietorships, farms, S corporations, and partnerships).

Section

- 1 Maximum rate for active pass-through income. Provides a maximum income tax rate for active pass-through income of 7.85 percent, exempting such income from the 9.85 percent maximum rate that would continue to apply to all other types of taxable income. Defines "active trade or business income" as income from a business, farm, S corporation, or partnership in which the taxpayer materially participates, and that has either employees or tangible property in Minnesota. Also re-sets the income tax brackets for tax year 2015 in statute to the levels actually in effect for tax year 2015 under the indexing provided in §290.06, subdivision 2d. Effective for tax year 2015.
- 2 **Income tax bracket indexing.** Updates the base year for indexing the income tax brackets to 2015, corresponding the re-setting of the brackets to current year levels in section 1. Effective for tax year 2015.
- 3 **Marriage credit.** Incorporates the maximum 7.85 percent rate on active pass-through income into the calculation of the marriage credit. Since this income would no longer be subject to the 9.85 percent rate, the marriage penalty on couples in which one or both spouses have self-employment income and have total income otherwise subject to the 9.85 percent rate would be smaller; this section provides for a corresponding reduction in the marriage credit. Effective for tax year 2015.

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