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Overview

This bill limits the maximum individual income tax rate on active trade or business income (e.g., of a sole proprietor, partner, or shareholder of an S corporation) to 7.85 percent, rather than the 9.85 rate that now applies and would continue to apply under the bill to all other types of income, such as wages, interest, dividends, and passive business income.

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1 **Maximum rate for active pass-through income.** Provides a maximum income tax rate for active pass-through income of 7.85 percent, exempting that 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.

Re-sets the income tax brackets in statute to the levels actually in effect for tax year 2017.

Effective date: Tax year 2017.

2 **Income tax bracket indexing.** Updates the base year for indexing the income tax brackets to 2017, corresponding to the re-setting of the brackets to 2017 levels in section 1.

Effective date: Tax year 2017.

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

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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 date: Tax year 2017.