

**INDIVIDUAL INCOME TAX
Contingent 5th tier tax bracket**

April 2, 2025

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 2591 (Gomez) / S.F. 2867 (Mann)

	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
	(\$000s)			
General Fund	Unknown	Unknown	Unknown	Unknown

Effective beginning tax year 2025.

EXPLANATION OF THE BILL

Current law: There are four individual income tax brackets under current law. The brackets for tax year 2025 are shown below.

Income Tax Brackets: Tax Year 2025

	5.35% Up To	6.80%	7.85%	9.85% Over
Married Joint	\$47,620	\$47,621 to \$189,180	\$189,181 to \$330,410	\$330,410
Married Separate	\$23,810	\$23,811 to \$94,590	\$94,591 to \$165,205	\$165,205
Single	\$32,570	\$32,571 to \$106,990	\$106,991 to \$198,630	\$198,630
Head of Household	\$40,100	\$40,101 to \$161,130	\$161,131 to \$264,050	\$264,050

Proposed Law: The bill establishes a fifth income tax bracket starting in tax year 2025. The 5th tier threshold is set at \$1,667,000 for married joint filers, \$1,000,000 for married separate filers, \$1,000,000 for single filers, and \$1,334,000 for head of household filers. The tax rate is undetermined.

By December 31, 2025, the Commissioner of Management and Budget would have to certify the estimated total loss of federal Medicaid revenue in fiscal years 2026 and 2027 that is the result of executive actions or changes to federal law or administrative rules. The Commissioner of Revenue would set the rate for the 5th tier at a level necessary to offset the revenue loss in fiscal years 2026 and 2027. The rate would remain in effect beyond fiscal year 2027.

The other income tax brackets are unchanged but are restated as tax year 2025 amounts. Beginning in tax year 2026, the thresholds would be adjusted for inflation in the same manner as existing brackets.

REVENUE ANALYSIS DETAIL

- The amount of any revenue loss in fiscal years 2026 and 2027 due to federal policy changes is unknown.
- As an example, for an estimated revenue loss of \$500 million, the rate would be set at 10.91% to generate approximately \$500 million dollars during fiscal years 2026 and 2027. The potential impact by fiscal year is shown below.

REVENUE ANALYSIS DETAIL (Cont.)

- FY 2026: \$278.4 million
- FY 2027: \$219.7 million
- FY 2028: \$233.1 million
- FY 2029: \$243.0 million
- The House Income Tax Simulation Model (HITS 7.5) was used to estimate the revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the budget forecast published in February 2025. The model uses a stratified random sample of tax year 2022 individual income tax returns compiled by the Minnesota Department of Revenue.
- All of tax year 2025 was allocated to fiscal year 2026. In allocating other tax years to fiscal years, a standard formula was applied that accounts for changes in withholding and estimated payments.

Number of Taxpayers: For tax year 2025, an estimated 16,160 returns (about 0.5% of all returns) could have an increase in tax, if federal Medicaid funding is reduced. The amount of the increase would depend on the tax rate.

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