

February 18, 2022

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 2805 (Senjem)

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
		(000's)		
General Fund	\$0	(\$172,700)	(\$245,900)	(\$337,200)

Effective beginning the day following final enactment.

EXPLANATION OF THE BILL

Current Law: A taxpayer may subtract a portion of social security income when calculating Minnesota taxable income. For 2022, the maximum subtraction is \$5,450 for married joint filers, \$2,725 for married separate filers, and \$4,260 for single and head of household filers.

The subtraction is reduced by 20% of provisional income over the following thresholds for 2022: \$82,770 for married joint filers, \$41,385 for married separate filers, and \$64,670 for single and head of household filers. Provisional income is income used to calculate the federally taxable portion of social security benefits. The thresholds and maximum subtractions are adjusted annually for inflation.

Proposed Law: The proposal allows an additional subtraction equal to a percentage of any remaining taxable social security income after the current subtraction. The percentage is 32% in tax year 2022, 43% in tax year 2023, 55% in tax year 2024, 67% in tax year 2025, 77% in tax year 2026, 89% in tax year 2027, and 100% beginning in tax year 2028.

REVENUE ANALYSIS DETAIL

- The House Income Tax Simulation (HITS 7.1) Model was used to estimate the tax year revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in November 2021. The model uses a stratified sample of 2019 individual income tax returns compiled by the Minnesota Department of Revenue.
- Tax year impacts were allocated to the following fiscal year.
- The fiscal impact would continue to grow significantly until fiscal year 2029 (tax year 2028) when the subtraction is fully phased in. Assuming a 7.2% annual growth rate in taxable social security benefits past tax year 2025, the estimated fiscal year impacts are as follows:
 - FY 2026: 67% (\$448.7 million)
 - FY 2027: 77% (\$552.9 million)
 - FY 2028: 89% (\$685.1 million)
 - FY 2029: 100% (\$825.3 million)

Number of Taxpayers: About 410,900 tax returns would be affected in tax year 2022. The average decrease in tax would be \$263. The average subtraction will grow each year until it is fully phased in beginning in tax year 2028.

Minnesota Department of Revenue
Tax Research Division
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