Minnesota’s Individual Income Tax

How much are income tax revenues?

Minnesota’s income tax revenues equaled $10.4 billion in fiscal year 2015, about 46 percent of state tax collections and 40 percent of all state revenues.

What is the tax base used to calculate Minnesota’s income tax?

Minnesota’s income tax applies to a base of Minnesota taxable income (MTI). The starting point for calculating MTI is federal taxable income (FTI), which is the income measure used in determining federal income tax liability. In calculating MTI, taxpayers are required to add certain types of income to FTI and allowed to subtract other kinds of income. Some of the subtractions are required under federal law. For more detail on these adjustments, see the House Research publication Minnesota Taxable Income, June 2015.

What are the income tax rates and brackets?

Minnesota’s income tax is a graduated tax, with four rates: 5.35 percent, 7.05 percent, 7.85 percent, and 9.85 percent. The rates are applied to income brackets that vary by filing status. Married couples filing joint returns are allowed the most generous (widest) brackets, followed by head of household filers (single parents maintaining a household), unmarried single filers, and married separate filers.

The table shows the income tax brackets in effect for each rate in tax year 2016 (brackets for married taxpayers, filing separately, are half the width of the married joint brackets):

<table>
<thead>
<tr>
<th>Rate</th>
<th>Married Joint</th>
<th>Single</th>
<th>Head of Household</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.35%</td>
<td>$0 to $36,820</td>
<td>$0 to $25,180</td>
<td>$0 to $31,010</td>
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<tr>
<td>7.05%</td>
<td>$36,821 to $146,270</td>
<td>$25,181 to $82,740</td>
<td>$31,011 to $124,600</td>
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<tr>
<td>7.85%</td>
<td>$146,271 to $259,420</td>
<td>$82,741 to $155,650</td>
<td>$124,601 to $207,540</td>
</tr>
<tr>
<td>9.85%</td>
<td>Over $259,420</td>
<td>Over $155,650</td>
<td>Over $207,540</td>
</tr>
</tbody>
</table>

A married couple filing a joint return owes income tax equal to 5.35 percent of their first $36,820 of taxable income, 7.05 percent of income from $36,821 to $146,270, 7.85 percent of taxable income from $146,271 to $259,420, and 9.85 percent of taxable income over $259,420. The income tax brackets are adjusted each year for inflation.

What income tax credits does Minnesota allow?

Minnesota allows taxpayers to claim several credits against tax liability. Credits that may be used only to reduce liability, called nonrefundable credits, include the following (and the amount claimed most recently):

- Credit for taxes paid to other states ($233 million in tax year 2014)
- Marriage credit ($83.3 million in fiscal year 2016)
- Credit for past military service ($400,000 in fiscal year 2016)
- Long-term care insurance credit ($8.8 million in fiscal year 2016)
• Research and development credit ($17.4 million in fiscal year 2016)
• Employer transit pass credit (less than $50,000 in fiscal year 2016)

In addition, in tax year 2016 Minnesota allows nine refundable credits, which are paid as refunds to taxpayers even if the credit amount is greater than their income tax liability (and the amount refunded most recently):

• Working family (earned income) credit ($260.3 million in fiscal year 2016)
• Dependent care credit ($14.2 million in fiscal year 2016)
• K-12 education credit ($13.3 million in fiscal year 2016)
• Military combat zone credit ($0.8 million in fiscal year 2016)
• Job opportunity building zone (JOBZ) credit ($2.0 million in fiscal year 2016)
• Bovine tuberculosis testing credit (none allowed in fiscal year 2016; no testing required)
• Enterprise zone credit ($400,000 in fiscal year 2016)
• Angel investment credit ($15.0 million in fiscal year 2016)
• Historic structure rehabilitation credit ($53.5 million in fiscal year 2016)
  o the historic credit is available to both corporate and individual taxpayers; to date most claims have come from corporate taxpayers.

Credit amounts are from the Minnesota Department of Revenue’s Tax Expenditure Budget, Fiscal Years 2016-2019, and income tax return processing data.

For more information: Contact legislative analyst Nina Manzi at 651-296-5204 or Joel Michael at joel.michael@house.mn. Also see the House Research publications, Minnesota Taxable Income, June 2015; The Minnesota Income Tax Marriage Credit, November 2013; The Minnesota and Federal Dependent Care Tax Credits, February 2014; The Federal Earned Income Credit and the Minnesota Working Family Credit, March 2013; Income Tax Deductions and Credits for Public and Nonpublic Education in Minnesota, September 2011; and Income Tax Terms: Deductions and Credits, July 2015.