

HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 3159

DATE: February 22, 2002

Version: As introduced

Authors: Rifenberg and others

Subject: Income tax reciprocity

Analyst: Nina Manzi, 651 296-5204 Joel Michael, 651 296-5057

This publication can be made available in alternative formats upon request. Please call 651-296-6753 (voice); or the Minnesota State Relay Service at 1-800-627-3529 (TTY) for assistance. Summaries are also available on our website at: www.house.mn/hrd.

Overview

Eliminates the commissioner of revenue's authority to suspend income tax reciprocity.

Background. Income tax reciprocity provides for individuals who live in one state and work in another to file income tax returns only in their state of residence. Without reciprocity, an individual who lives in Minnesota and works in Wisconsin would be required to file income tax returns with both states. The individual would pay Wisconsin income tax on income earned in Wisconsin, and then file a Minnesota return and claim a credit for taxes paid to Wisconsin.

Reciprocity is in effect between Minnesota and three states: Wisconsin, North Dakota, and Michigan. Minnesota and Wisconsin have an agreement that requires calculation of the revenue effect of reciprocity on each state and a compensating payment from one state to the other.

Section

1 **Income tax reciprocity.** Eliminates the commissioner of revenue's authority to suspend income tax reciprocity with other states.

Present law provides for the exclusion of income earned in Minnesota by residents of other states, on the conditions that the individual's state of residence

applies its income tax to the income earned in Minnesota, and

excludes from its income tax the income earned by Minnesota residents who work in the other state.

Present law allows the commissioner of revenue to suspend income tax reciprocity if the commissioner determines continuation to be not in the best interests of Minnesotans. Under this bill, reciprocity would remain in effect as long as the other state met the two required conditions.