

Minnesota's Individual Income Tax

How much are income tax revenues?

Minnesota's income tax revenues equaled \$10.7 billion in fiscal year 2016, about 47 percent of state tax collections and 41 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](#), January 2017.

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 2017 (brackets for married taxpayers, filing separately, are half the width of the married joint brackets):

	Married Joint	Single	Head of Household
5.35%	\$0 to \$37,110	\$0 to \$25,390	\$0 to \$31,260
7.05%	\$37,711 to \$147,450	\$25,391 to \$83,400	\$31,261 to \$125,600
7.85%	\$147,451 to \$261,510	\$83,401 to \$156,910	\$125,601 to \$209,210
9.85%	Over \$261,510	Over \$156,910	Over \$209,210

A married couple filing a joint return owes income tax equal to 5.35 percent of their first \$37,110 of taxable income, 7.05 percent of income from \$37,111 to \$147,450, 7.85 percent of taxable income from \$147,451 to \$261,510, and 9.85 percent of taxable income over \$261,510. 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 (\$257 million in tax year 2014)
- Marriage credit (\$87.3 million in fiscal year 2017)
- Credit for past military service (\$400,000 in fiscal year 2017)
- Long-term care insurance credit (\$9.0 million in fiscal year 2017)
- Research and development credit (\$18.5 million in fiscal year 2017)

- Employer transit pass credit (less than \$50,000 in fiscal year 2017)

In addition, in tax year 2017 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 (\$259.5 million in fiscal year 2017)
- Dependent care credit (\$13.5 million in fiscal year 2017)
- K-12 education credit (\$13.1 million in fiscal year 2017)
- Military combat zone credit (\$0.8 million in fiscal year 2017)
- Stillbirth credit (\$0.8 million in fiscal year 2017)
- Job opportunity building zone (JOBZ) credit (less than \$50,000 in fiscal year 2017)
- Enterprise zone credit (\$300,000 in fiscal year 2017)
- Angel investment credit (\$15.0 million in fiscal year 2017)
- Historic structure rehabilitation credit (\$49.6 million in fiscal year 2017)
 - The historic credit is available to both corporate and individual taxpayers; to date most claims have come from corporate taxpayers.

Minnesota also allows a refundable credit for bovine tuberculosis testing expenses. Since the federal government currently considers Minnesota to be free of bovine tuberculosis no testing is required and the credit is not in effect.

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*, January 2017; *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.

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