

Background Briefing on Tax Benefits

Presentation to Legislative Health Care
Workforce Commission

August 18, 2015

Tax Deductions

- A *deduction* is a subtraction from taxable income
 - reduces the amount of income subject to tax

Tax Deductions

- Tax benefit of a deduction varies with taxpayer's income
 - Benefit equals taxpayer's marginal rate multiplied by the lesser of
 - The amount deducted
 - Taxable income

Tax Deductions

- In TY 2015, a married couple with two dependents first has state tax liability when gross income exceeds \$28,600
- A \$10,000 deduction reduces taxes by
 - \$535 for a filer in the 5.35% bracket
 - \$985 for a filer in the 9.85% bracket

Tax Credits

Nonrefundable credits offset liability, but not to less than zero

Refundable credits offset liability, with any excess paid as a refund

MN Deductions TY 2015

- 3 Required by federal law
- 3 Required by past deviations from federal taxable income
- 9 State-authorized deductions

Tax Deductions

- K-12 education expenses
 - \$18.6 million in FY 15; 216,000 filers
- Organ donation expenses *and* disposition of farm property by insolvent taxpayers
 - Less than \$50,000 each in FY 15; unknown # of filers

Tax Credits

- 5 nonrefundable
- 9 refundable
 - 3 targeted to lower-income filers
 - 5 targeted to business/economic development
 - 1 for military service in combat zones

Tax Credits

- Working family credit
 - \$245.5 million in FY 15; 324,600 filers
- Greater MN internship credit
 - About 10 returns in TY 2014

Tax Expenditures vs. Direct Spending

- Tax expenditures
 - Don't have to be reauthorized
 - Not always transparent (i.e. a \$10,000 deduction isn't "worth" \$10,000)
 - Offset by federal tax increase for itemizers (smaller state income tax deduction)
 - Administrative efficiency if large share of taxpayers eligible

Tax Expenditures vs. Direct Spending

- Direct spending
 - Have to be reauthorized each budget cycle
 - Transparent (a \$10,000 grant is “worth” \$10,000)
 - Subject to tax
 - Can be more effective for delivering \$ to a small number of eligible claimants

Tax Expenditure Considerations

- What is objective of expenditure?
- Deduction or credit?
- Reward existing behavior or stimulate changes?
- Plan for measuring success

Volunteer Retention Stipend Aid Pilot

- Originally proposed as tax credit
- Enacted as stipend aid
- Administered by State Fire Marshal
 - Conducted outreach at regional meetings
 - Gathering data on pilot area and comparison counties
 - Report due in 2018; program sunsets in 2018