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State of Minnesota

HOUSE OF REPRESENTATIVES

SPECIAL SESSION

H. F. No. **11**

06/09/2025 Authored by Gomez, Freiberg and Rehrauer
The bill was read for the first time and referred to the Committee on Taxes

1.1 A bill for an act
1.2 relating to taxation; individual income; establishing a fifth tier of the individual
1.3 income tax at a rate sufficient to offset lost federal Medicaid funds; amending
1.4 Minnesota Statutes 2024, section 290.06, subdivisions 2c, as amended, 2d.

1.5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.6 Section 1. Minnesota Statutes 2024, section 290.06, subdivision 2c, as amended by Laws
1.7 2025, chapter 20, section 231, is amended to read:

1.8 Subd. 2c. **Schedules of rates for individuals, estates, and trusts.** (a) The income taxes
1.9 imposed by this chapter upon married individuals filing joint returns and surviving spouses
1.10 as defined in section 2(a) of the Internal Revenue Code must be computed by applying to
1.11 their taxable net income the following schedule of rates:

1.12 (1) On the first ~~\$38,770~~ \$47,620, 5.35 percent;

1.13 (2) On all over ~~\$38,770~~ \$47,620, but not over ~~\$154,020~~ \$189,180, 6.8 percent;

1.14 (3) On all over ~~\$154,020~~ \$189,180, but not over ~~\$269,010~~ \$330,410, 7.85 percent;

1.15 (4) On all over ~~\$269,010~~ \$330,410, but not over \$1,667,000, 9.85 percent; and

1.16 (5) On all over \$1,667,000, the percentage determined under paragraph (g).

1.17 Married individuals filing separate returns, estates, and trusts must compute their income
1.18 tax by applying the above rates to their taxable income, except that the income brackets
1.19 will be one-half of the above amounts after the adjustment required in subdivision 2d.

1.20 (b) The income taxes imposed by this chapter upon unmarried individuals must be
1.21 computed by applying to taxable net income the following schedule of rates:

- 2.1 (1) On the first ~~\$26,520~~ \$32,570, 5.35 percent;
- 2.2 (2) On all over ~~\$26,520~~ \$32,570, but not over ~~\$87,110~~ \$106,990, 6.8 percent;
- 2.3 (3) On all over ~~\$87,110~~ \$106,990, but not over ~~\$161,720~~ \$198,630, 7.85 percent;
- 2.4 (4) On all over ~~\$161,720~~ \$198,630, but not over \$1,000,000, 9.85 percent; and
- 2.5 (5) On all over \$1,000,000, the percentage determined under paragraph (g).

2.6 (c) The income taxes imposed by this chapter upon unmarried individuals qualifying as

2.7 a head of household as defined in section 2(b) of the Internal Revenue Code must be

2.8 computed by applying to taxable net income the following schedule of rates:

- 2.9 (1) On the first ~~\$32,650~~ \$40,100, 5.35 percent;
- 2.10 (2) On all over ~~\$32,650~~ \$40,100, but not over ~~\$131,190~~ \$161,130, 6.8 percent;
- 2.11 (3) On all over ~~\$131,190~~ \$161,130, but not over ~~\$214,980~~ \$264,050, 7.85 percent;
- 2.12 (4) On all over ~~\$214,980~~ \$264,050, but not over \$1,334,000, 9.85 percent; and
- 2.13 (5) On all over \$1,334,000, the percentage determined under paragraph (g).

2.14 (d) In lieu of a tax computed according to the rates set forth in this subdivision, the tax

2.15 of any individual taxpayer whose taxable net income for the taxable year is less than an

2.16 amount determined by the commissioner must be computed in accordance with tables

2.17 prepared and issued by the commissioner of revenue based on income brackets of not more

2.18 than \$100. The amount of tax for each bracket shall be computed at the rates set forth in

2.19 this subdivision, provided that the commissioner may disregard a fractional part of a dollar

2.20 unless it amounts to 50 cents or more, in which case it may be increased to \$1.

2.21 (e) An individual who is not a Minnesota resident for the entire year must compute the

2.22 individual's Minnesota income tax as provided in this subdivision. After the application of

2.23 the nonrefundable credits provided in this chapter, the tax liability must then be multiplied

2.24 by a fraction in which:

2.25 (1) the numerator is the individual's Minnesota source federal adjusted gross income as

2.26 defined in section 62 of the Internal Revenue Code and increased by:

2.27 (i) the additions required under sections 290.0131, subdivisions 2, 6, 8 to 10, 16, 17, 19,

2.28 and 20, and 290.0137, paragraph (a); and reduced by

2.29 (ii) the Minnesota assignable portion of the subtraction for United States government

2.30 interest under section 290.0132, subdivision 2, the subtractions under sections 290.0132,

subdivisions 9, 14, 15, 18, 27, 31, and 32, and 290.0137, paragraph (c), after applying the allocation and assignability provisions of section 290.081, clause (a), or 290.17; and

(2) the denominator is the individual's federal adjusted gross income as defined in section 62 of the Internal Revenue Code, increased by:

(i) the additions required under sections 290.0131, subdivisions 2, 6, 8 to 10, 16, 17, 19, and 20, and 290.0137, paragraph (a); and reduced by

(ii) the subtractions under sections 290.0132, subdivisions 2, 9, 14, 15, 18, 27, 31, and 32, and 290.0137, paragraph (c).

(f) If an individual who is not a Minnesota resident for the entire year is a qualifying owner of a qualifying entity that elects to pay tax as provided in section 289A.08, subdivision 7a, paragraph (b), the individual must compute the individual's Minnesota income tax as provided in paragraph (e), and also must include, to the extent attributed to the electing qualifying entity:

(1) in paragraph (e), clause (1), item (i), and paragraph (e), clause (2), item (i), the addition under section 290.0131, subdivision 5; and

(2) in paragraph (e), clause (1), item (ii), and paragraph (e), clause (2), item (ii), the subtraction under section 290.0132, subdivision 3.

(g) For taxable years beginning after December 31, 2024, and before January 1, 2027, the commissioner of revenue must calculate the tax rate that applies under paragraphs (a), clause (5); (b), clause (5); and (c), clause (5). The commissioner must set the rate at the level the commissioner estimates would be necessary to raise an amount of revenue in fiscal years 2026 and 2027 equal to the amount lost due to federal policy changes, as certified by the commissioner of management and budget under section 3. The rate established by the commissioner for taxable years beginning after December 31, 2024, and before January 1, 2027, remains in effect for taxable years beginning after December 31, 2026.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2024.

Sec. 2. Minnesota Statutes 2024, section 290.06, subdivision 2d, is amended to read:

Subd. 2d. **Inflation adjustment of brackets.** The commissioner shall annually adjust the minimum and maximum dollar amounts for each rate bracket for which a tax is imposed in subdivision 2c, except the fifth tier under paragraphs (a), clause (5); (b), clause (5); and (c), clause (5), as provided in section 270C.22. The statutory year is taxable year ~~2019~~ 2025.

The rate applicable to any rate bracket must not be changed. The dollar amounts setting forth the tax shall be adjusted to reflect the changes in the rate brackets. The rate brackets as adjusted must be rounded to the nearest \$10 amount. If the rate bracket ends in \$5, it must be rounded up to the nearest \$10 amount. The commissioner shall determine the rate bracket for married filing separate returns after this adjustment is done. The rate bracket for married filing separate must be one-half of the rate bracket for married filing joint.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2025.

**Sec. 3. COMMISSIONER OF MANAGEMENT AND BUDGET TO ESTIMATE
FEDERAL FUNDING LOSS.**

(a) No later than December 31, 2025, the commissioner of management and budget must calculate and certify to the commissioner of revenue an estimate of the total net change in federal Medicaid revenues received by the state in fiscal years 2026 and 2027 relative to the amount anticipated in the governor's budget that is the result of:

(1) executive actions implemented on or after January 20, 2025, including but not limited to executive orders, changes to administrative rules, and changes to other administrative guidance; and

(2) changes to federal law or administrative rules enacted by the 119th Congress.

(b) The commissioner of revenue must use the amount certified under this section to calculate the rate for the fifth tier of the individual income tax, as provided in Minnesota Statutes, section 290.06, subdivision 2c, paragraph (g).

(c) For the purposes of this section, "governor's budget" means the budget submitted to the legislature under Minnesota Statutes, section 16A.11, for fiscal years 2026 and 2027.