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Minnesota House of Representatives

Introduced By: Garek Antonio Garcia-Galindo, The Institute for Youth in Policy
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A BILL

To revise Minnesota's estate tax laws by increasing the exemption threshold and lowering marginal tax rates in order to enhance economic competitiveness, align more closely to federal standards, and prevent capital flight from wealthy residents.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA

Section 1. Title.
Minnesota Estate Tax Modernization Act of 2025

Section 2. Findings and Purpose.

- (a) Findings:

WHEREAS, Minnesota currently has one of the nation's lowest estate tax exemption thresholds at $3 million per individual, significantly below the federal exemption of $13.99 million;
WHEREAS, of the twelve states (plus D.C.) that still levy estate taxes, Minnesota ranks among the three most aggressive, with both a low exemption and high rates;
WHEREAS, this low exemption encourages outmigration of high-net-worth individuals, leading to revenue loss for the state over the long-term;

WHEREAS, according to the Tax Foundation, states with lower or no estate taxes tend to attract high-net-worth retirees, leading to capital flight and permanent relocation of taxable wealth from states like Minnesota to more tax-friendly jurisdictions such as Florida, Arizona, and Texas;
WHEREAS, IRS data and research from the Minnesota Center for Fiscal Excellence clearly indicate a pattern of taxpayer relocation correlated with estate tax burdens, particularly among older and wealthier residents;
WHEREAS, the existing estate tax structure includes a "recapture tax" which triggers if an estate is even slightly above the exemption, creating a tax cliff that greatly disincentivizes growth in wealth;
WHEREAS, the complexity and punitive nature of the current system increase estate planning costs for Minnesota families and small business owners, forcing them to spend disproportionately on legal and financial services to minimize tax burden;
WHEREAS, reducing the marginal tax rates and increasing the exemption would make the tax system competitive for Minnesota families;
WHEREAS, reducing the marginal tax rates and increasing the exemption would negatively impact state revenue immediately, revenue would quickly balance out as has been repeatedly seen by the reforms introduced recently in other states with estate taxes like Maryland and Connecticut;
WHEREAS, Maryland and Connecticut have reported much greater estate tax compliance, and revenue stability since they enacted reform;
WHEREAS, without reform, Minnesota risks not only continued outmigration of affluent individuals, but also a shrinking tax base, and disincentivized reinvestment in local communities.

- (b) Purpose:

The purpose of this legislation is to modernize Minnesota's estate tax code by increasing the exemption threshold, reducing the marginal tax rates, and updating outdated structural elements. This will align Minnesota with the modern estate tax policy standards seen in other states, and reduce incentives for capital flight.

Section 3. Definitions.

- **(a)** For the purposes of this Act, "estate tax exemption" shall mean the amount of an estate's value excluded from estate taxation under Minnesota Statutes Section 291.016.
- **(b)** For the purposes of this Act, "recapture tax" shall mean any statutory mechanism by which the estate tax exemption is retroactively removed based on an estate's total value.
- **(c)** For the purposes of this Act, "portability" shall mean the ability for a surviving spouse to inherit the unused portion of their deceased spouse's estate tax exemption, which would effectively increase their own exemption.
- **(d)** For the purposes of this Act, "marginal tax rates" shall mean the rates applied to specific portions of the estate that fall within specific tax brackets above the exemption amount.
- **(e)** For the purposes of this Act, "effective tax rate" shall mean the overall percentage of the estate that an individual owes in taxes.

Section 4. Provisions.

(a) Exemption Increase

Minnesota Statutes Section 291.016, subdivision 3, shall be amended as follows:

- The estate tax exemption shall increase from $3,000,000 to $5,000,000 for individuals dying after December 31, 2025.

- Beginning in tax year 2026, the exemption amount shall be indexed annually to inflation based on the Consumer Price Index for All Urban Consumers (CPI-U), rounded to the nearest $10,000.

(b) Rate Structure Reform

Minnesota Statutes Section 291.05, subdivision 1, shall be amended to reflect the following marginal estate tax rates:

Taxable Estate Amount	Marginal Rate

Up to $6,000,000	6%
$6,000,001 to $10,000,000	8%
Above $10,000,000	12%

(c) Elimination of Recapture Tax

Minnesota Statutes Section 291.016, subdivision 4 (the recapture provision), is hereby repealed in its entirety.

(d) Portability Between Spouses

Minnesota Statutes Section 291.016 is amended to include:

- The unused portion of the estate tax exemption from the first deceased spouse shall be transferable to the surviving spouse if a federal estate tax return (Form 706) is properly filed electing portability.

Section 5. Enforcement and Implementation.

The Minnesota Department of Revenue shall be responsible for implementing and enforcing the provisions of this Act.

- The Minnesota Department of Revenue shall update all relevant tax forms, guidance documents, and filing procedures by December 31, 2025.

- The Minnesota Department of Revenue shall issue a detailed public report by January 15, 2031 evaluating the fiscal and demographic impacts of this legislation, including revenue impacts and population migration trends.

Section 6. Appropriations

- To implement this Act, $1,000,000 is appropriated from the general fund in fiscal year 2026 to the Minnesota Department of Revenue for the proper implementation of administrative updates, public communication, and staff training. No further appropriations shall be authorized under this Act.

Section 7. Severability.

- If any provision of this Act or its application to any person or circumstance is held invalid, the invalidity does not affect other provisions or applications of this Act that can be given effect without the invalid provision or application, and to this end the provisions of this Act are severable.

Section 8. Effective Date.

- This Act shall take effect on January 1, 2026.