

**Individual Income Tax  
50% Capital Gains Exclusion  
AMT Subtraction**

March 13, 2001

	<b>Yes</b>	<b>No</b>
Separate Official Fiscal Note Requested		X
<b>Fiscal Impact</b>		
DOR Administrative Costs/Savings	X	

Department of Revenue  
Analysis of H.F. 10 (Johnson, J.) *Revised for Administrative Impact*

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
	(000's)			
General Fund	(\$428,700)	(\$374,100)	(\$394,500)	(\$415,800)

Effective for sales and exchanges occurring after the date of final enactment for tax years beginning after December 31, 2000.

**EXPLANATION OF THE BILL**

For the Minnesota individual income tax, capital gains are treated the same as other income; no exclusion or lower rate applies. The bill would allow a subtraction from taxable income equal to 50% of the adjusted net capital gain, as defined, to the extent that it is included in federal taxable income.

The equivalent subtraction is allowed in computing Minnesota alternative minimum taxable income.

**REVENUE ANALYSIS DETAIL**

- The House Income Tax Simulation (HITS) Model was used to estimate the tax year revenue impact of the proposal.
- These simulations assume the same economic conditions used by the Minnesota Department of Finance for the forecast published in February 2001. The model uses a stratified sample of 1998 individual income tax returns compiled by the Minnesota Department of Revenue.
- It was assumed that the proposed subtraction would not change taxpayer behavior. Therefore, no adjustment was made to the amount or timing of capital gains realizations compared to what is forecast to occur under current law.
- To take into account the enactment date, the tax year 2001 impact was reduced by one-third. The allocation of tax year impacts to fiscal years was made according to a standard rule of thumb formula.

**Number of Taxpayers Affected:** : An estimated 431,200 taxpayers would benefit from the proposal in tax year 2001.

**ADMINISTRATIVE/OPERATIONAL IMPACT**

Because the department is currently formalizing a reengineered process for the income tax, the operational impact of this provision cannot be precisely estimated. However, there will be significant additional costs associated with this subtraction that is expected to be used by 431,200 taxpayers.

Source: Minnesota Department of Revenue  
Tax Research Division  
<http://www.taxes.state.mn.us/polic.html#analyses>

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