

INDIVIDUAL INCOME TAX
 Modify Charitable Contribution Subtraction

March 16, 2001

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

Department of Revenue
 Analysis of H.F. 15 (Pawlenty)/ S.F. 149 (Rest) **As Proposed to be Amended**

	<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 -NonItemizers	(\$3,800)	(\$4,000)	(\$4,200)	(\$4,400)
General Fund -Itemizers	(<u>\$29,300</u>)	(<u>\$30,800</u>)	(<u>\$32,400</u>)	(<u>\$33,300</u>)
Total	(\$33,100)	(\$34,800)	(\$36,600)	(\$37,700)

Effective beginning with tax year 2001.

EXPLANATION OF THE BILL

Current Law: The charitable contribution subtraction for non-itemizers is equal to 50% of the contributions in excess of \$500. The charitable contributions must meet the same requirements as contributions for the itemized deduction under federal law.

Proposed Law: The subtraction would be increased to 100% of the contributions in excess of \$500.

As proposed to be amended, a subtraction would also be allowed to taxpayers who itemize federally but do not get a Minnesota tax benefit for some or all of their contributions in excess of \$500 after state income taxes are added back on the Minnesota return.

REVENUE ANALYSIS DETAIL

- For non-itemizers, the number of returns using this subtraction in its first tax year of 1999 is estimated by the Preliminary Individual Income Tax Sample to be 95,600.
- These filers subtracted a total of \$53.1 million at the 50% rate.
- This bill would allow the other \$53.1 million to be subtracted for this group.
- It is estimated the more generous subtraction would increase the use by ten percent, or an additional \$5 million.
- Using a marginal rate of 6.5%, the revenue loss on \$58.1 million would be \$3.8 million.
- A growth rate of five percent is applied.

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- For the itemizing portion of this bill, the House Income Tax Simulation (HITS) Model was used to estimate the tax year revenue impact.
- 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.

NUMBER OF TAXPAYERS AFFECTED: An estimated 176,000 itemizer and 105,000 non-itemizer returns annually.

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 some additional costs associated with this expansion of a current subtraction that is expected to be used by 281,000 taxpayers.

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

hf0015(sf0149)-4 / ch

Addendum to the Analysis for H.F. 15

If the current law provision of 50% of contributions were maintained and a subtraction for itemizers added, the revenue loss would be as follows:

	FY 02	FY 03	FY 04	FY 05
General Fund -Itemizers	(\$8,200)	(\$8,400)	(\$8,600)	(\$8,700)

Number of returns: 124,000.