

INDIVIDUAL INCOME TAX
 Modify Charitable Contribution Subtraction

March 12, 2001

Department of Revenue
 Analysis of H.F. 15 (Pawlenty)/ S.F. 149 (Rest)
Revised for Administrative Impact

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

	<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	(\$3,800)	(\$4,000)	(\$4,200)	(\$4,400)

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.

REVENUE ANALYSIS DETAIL

- 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.

NUMBER OF TAXPAYERS AFFECTED: An estimated 105,000 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 105,000 taxpayers.

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