

**INDIVIDUAL INCOME TAX
Capital Gains Exclusion
AMT Subtraction**

March 13, 2001

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

Department of Revenue

Analysis of H.F. 337 (Erhardt)/S.F. 630 (Oliver) **As Proposed to be Amended (H337A1)**

Revised for Administrative Impact

	Revenue Gain or (Loss)			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
			(000's)	
General Fund	(\$462,900)	(\$405,100)	(\$426,300)	(\$448,300)

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 the adjusted net capital gain included in federal taxable income but limited to \$10,000 for adjusted net capitals gain under \$20,000. (The proposed amendment clarifies how the subtraction is determined for gains of less than \$10,000.) For adjusted net capital gain over \$20,000, the exclusion is equal to 50 percent of adjusted net capital gain.

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 441,300 taxpayers would receive a tax benefit from this proposal in the first full year.

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 441,300 taxpayers.

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

hf0337(sf0630)-1 / mjr