INDIVIDUAL INCOME TAX
Credit for Taxes Paid to Other States

April 6, 2001

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

Department of Revenue
Analysis of H.F. 377 (Harder)/S.F. 330 (Vickerman)

	Revenue Gain or (Loss)			
	F.Y. 2002	F.Y. 2003	F.Y. 2004	FY2005
	(000's)			
General Fund	$255	$265	$270	$280

Effective beginning with tax year 2001.

EXPLANATION OF THE BILL

Current Law: A resident taxpayer may claim a nonrefundable credit for the amount of income tax paid to another state or Canadian province or territory to the extent that income taxed in the other state is included in Minnesota income. The credit is the lesser of the tax owed to the other state or the amount computed by multiplying the Minnesota gross tax computed on all income times the percentage that the income earned in the other state is to federal adjusted gross income. Currently there is no limitation on a person claiming a credit for a tax paid to a Canadian province or territory and also using it as part of a federal foreign tax credit.

Proposed Law: This bill would extend the credit to include taxes paid to states ("lands") of Germany to the extent such tax exceeds the amount of foreign tax credit allowed on the federal return. The same limit would apply to taxpayers with taxable Canadian income; only tax paid to a Canadian province in excess of the federal foreign tax credit could be used for computing the Minnesota credit.

REVENUE ANALYSIS DETAIL

- Based on the 1998 Individual Income Tax Sample, there were an estimated 4,024 returns filed that year that claimed both the federal foreign tax credit and the Minnesota credit for taxes paid to another state or to a province of Canada.

- For Minnesota residents who pay income tax to a Canadian province, hypothetical taxpayer calculations indicate that it would be primarily higher income taxpayers who would receive a smaller Minnesota credit under this proposal and that the percentage reduction would vary with amounts of foreign tax and foreign tax credit.
- Of the 4,024 returns in the above group, 2,288 had federal adjusted gross income of $150,000 or more. This group claimed 95% of the Minnesota credit at an average credit amount of $12,000.
- It will be assumed that five percent of this higher income group, or 114 returns, are those with credit for taxes paid on Canadian income and that their credit amounts will be reduced by an average of 20%, or $2,400, for a total revenue gain of $274,000.
- Part of this gain will be offset by revenue loss for the extension of the Minnesota credit to taxes paid on income from German lands. Considering the high tax rates in Germany, this will be estimated at $40,000 the first year, which reduces the revenue gain to $234,000.
- Growth of three percent is used.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational costs or savings to DOR in administration of this bill.

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

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