Individual Income Tax
Constitutional Amendment:
Credit for Rescinded Tax Increases

April 11, 2001

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

Department of Revenue
Analysis of H.F. 577 (Lenczewski)

	Revenue Gain or (Loss)			
	F.Y. 2002	F.Y. 2003	F.Y. 2004	FY2005
	(000's)			
General Fund	$0	$0	Unknown	Unknown

Effective upon passage of a constitutional amendment in the 2002 general election.

EXPLANATION OF THE BILL

An amendment to the Minnesota Constitution would be submitted to the voters at the 2002 general election. The amendment would authorize enactment of a law allowing voters to approve or disapprove increases in state tax rates or state tax revenue collections.

Each year, within 21 days after the close of the legislative session, the Commissioner of Finance would be required to estimate the revenues for the individual income tax and the general sales tax for the current and the next fiscal year. If the percentage increase in the revenues for the next fiscal year over the current year exceeds the sum of the percentage increase in the implicit price deflator and the percentage increase in the number of households in the state, the commissioner would be required to publish the amount of the increase in the State Register within thirty days after the end of the legislative session.

If, within 21 days after the notice is published, a petition signed by 10% of the registered voters is filed with the Secretary of State, an election must be held on whether the increase should be refunded. The election would be held in November. If a majority of the voters at the election do not vote to sustain the tax increase, the increase must be refunded through an income tax credit.

If implemented, a refundable credit would be allowed against the individual income tax equal to a dollar amount for the taxpayer, spouse, and each dependent. The amount of the per-person credit would be equal to the tax increase (as published in the State Register) divided by the estimated total number of taxpayers, spouses, and dependents. The credit would not be allowed on the return of a person who is claimed as a dependent by another person. The credit would be included in the individual income tax forms and instructions.

REVENUE ANALYSIS DETAIL

- Tax year 2003 returns filed in 2004 would be the first year that could be affected by the proposal.
- Several items are unknown:
  - If the constitutional amendment would be adopted;
  - If the revenue increase in any year would exceed the specified percentage;
  - If a petition would be filed to have a referendum; and
  - If the referendum would not sustain the increase in income tax and sales tax revenues.
- If all of the above did occur, the amount of the increase subject to the referendum would need to be known to determine the credit. Therefore, the impact of the bill is unknown.

Number of Taxpayers: A credit could potentially be claimed for every person in the state plus nonresidents who file a Minnesota return. Because the credit is refundable, people who would not otherwise be filing an income tax return could file in order to claim the credit for the taxpayer, spouse, and dependents.

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 costs associated with increased filings for the refundable credit and processing for the credit -- if there is one.

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

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