

**REVENUE RECAPTURE
Priority of Claims**

March 2, 2001

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

Department of Revenue
Analysis of H.F. 633 (Osskopp)/ S.F. 696 (Murphy)

	Revenue Gain or (Loss)			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
		(000's)		
Refunds to Child Support Instead of Tax Debts		(\$3,920)	(\$4,230)	(\$4,530)
State Share of Public Assistance Portion of Above (40% x 49% = 19.6%)		<u>\$770</u>	<u>\$830</u>	<u>\$890</u>
General Fund Net Impact		(\$3,150)	(\$3,400)	(\$3,640)

Effective July 1, 2002.

EXPLANATION OF THE BILL

Current Law: Tax refunds payable by the Department of Revenue are applied to any tax debts that the taxpayer owes to the Department of Revenue. The Revenue Recapture Act, Chapter 270A, allows specified agencies to file claims with the Department of Revenue for debts owed to them, and tax refunds are used to offset these debts. If a taxpayer has both a tax debt and a debt to an agency under the Revenue Recapture Act, the tax refund is applied first to the tax debt.

Proposed Law: Tax refunds would be applied to child support debts before tax debts.

REVENUE ANALYSIS DETAIL

- The estimate is based on Department of Revenue information on the number of cases with both types of debts, the amount of the debts, and the expected number of these cases that will have tax refunds. This information was developed during the 2000 legislative session for a similar proposal.
- The projected average tax refund was based on refunds paid in years before the two property tax rebates which were on the 1997 and 1998 returns.
- The average claim for child support debts greatly exceeds the average refund. Therefore, it is assumed that virtually no refund dollars would be available for tax debts after child support claims are satisfied.

- Due to the large child support debts of these taxpayers, it is assumed that little, if any, of the tax debts could be collected from these taxpayers through other means.
- According to the Department of Human Services, an estimated 40% of the child support paid under this proposal would involve public assistance cases. Of that amount, the state would recover about 49%. Therefore, of the total child support debts estimated to be paid under the proposal, about 19.6% would be returned to the general fund.

ADMINISTRATIVE/OPERATIONAL ISSUES

There will be costs incurred in changing DOR computer systems and investing in resources to use other methods of collecting A/R debt.

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