

MINNESOTA • REVENUE

ALL TAX TYPES

Tax Amnesty

February 19, 2002

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

PRELIMINARY ESTIMATE

Department of Revenue

Analysis of H.F. 2666 (Dorman) / S.F. 3007 (Schwab)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>
General Fund		\$13,500	\$1,000	\$1,000
Adjustment for Collectable Debts		(\$7,200)	(\$1,900)	(\$1,000)
Net Amnesty Collections		\$6,300	(\$900)	\$0

Effective the day following final enactment.

EXPLANATION OF THE BILL

Current Law: A tax amnesty provision was previously enacted in 1984. Included in this amnesty program was the requirement that another amnesty program not be enacted for at least 10 years. Current law allows discounts from actual amounts on a case by case basis in the collection process.

Proposed Law: The bill would create a tax amnesty period. The program excludes taxes collected on behalf of local governments. Taxpayers are excluded from the amnesty program if they have a civil fraud penalty or have failed to file a return and received a written notice of non-filing. It is assumed that the tax discount rate is the same as the 1984 amnesty (20%) and applies to both individuals and businesses.

- Amnesty period: 8/1/02 to 11/1/02 (3 months).
- Qualifications: Tax debtor has an unpaid liability on the Department of Revenue accounts receivable system as of 2/1/02 or has not filed a return that would be considered delinquent as of 2/1/02 (unless they have received notice of non-filing) or has certain underreported debts and files an amended return.
- Reduction amounts for tax debtors:
 - With an account receivable: Full payment = 80% tax + interest from 2/1/02.
Discount = 20% of tax, all penalties, and most interest.
 - Filing an amended return: Full payment = 100% tax w/some percentage of interest.
Discount = all penalties, some interest.

Filing original returns (non-filers): Full payment = 100% tax and 100% interest.
Discount = all penalties.

Department of Revenue
Analysis of H.F. 2666 (Dorman) // S.F. 3007 (Schwab)
Page 2 of 3

February 19, 2002

REVENUE ANALYSIS DETAIL

- It is estimated that our experience for this amnesty program will be similar to other states that have had a repeat amnesty program. Most recently Wisconsin and Maryland have had repeat amnesty programs that generated approximately 15% more than the original program. The Minnesota amnesty program in 1984 generated \$11,720,000.
- The previous Minnesota amnesty program comprised collections that were 70% from existing accounts receivable and 30% from non-filers.
- Penalty, on average, represents 12% of the total.
- Interest, on average, represents 20% of the total.
- It is estimated that there will be approximately 5,000 tax debtors that have accounts receivable and 1,500 non-filers participating in the amnesty program.
- Estimates are included for the portion of the accounts receivable that would have been collected if there were no amnesty program.
- There are current initiatives in the Department of Revenue that could reduce non-filer collections. No reduction has currently been included in this estimate due to the uncertainty of the impact. It is expected that the bill language excluding tax debtors that have received a written notice of non-filing from participating will tend to preserve the current DOR non-filer initiative.
- An advertising budget is assumed to be included (of \$800,000 for media campaign), along with an adequate operational budget.

Discussion of Assumptions

- To determine the baseline for expected collections via amnesty, a review of the 1984 Minnesota amnesty program and a review of a portion of other state amnesty programs since 1982 (52 programs for 40 states) was undertaken. The 1984 Minnesota amnesty program produced gross revenues of approximately \$11,700,000 with no reductions accounted for in future years. Prior to 1998, the Wisconsin Department of Revenue advises that no state had raised more revenue as part of a second amnesty program that was similar in nature to its first program. Since 1998, two states have had second amnesty programs. Maryland and Wisconsin recently increased their revenues by about 15% over their first programs. As a starting point, it is estimated that the second Minnesota amnesty program would produce \$13,500,000 (a 15% increase). Consistent with previous experience, it is estimated that this total amount would be split \$9,500,000 to accounts receivable and \$4,000,000 to non-filer payments (a 70-30 split).
- The following information was used to estimate the expected reduction from the ongoing revenue stream:
1) that the distribution of the A/R amnesty participants is relatively the same as the current A/R

distribution, 2) the majority of A/R is collected (87% in the first year, 5% in the second year, and 3% in the third year), 3) an adjustment for a portion of the collections from A/R cases that are more than 3 years old is included, 4) in general terms, various sources indicate amnesty programs, that include both non-filers and A/R, generate new money at a rate of about 50% of the total.

Department of Revenue
Analysis of H.F. 2666 (Dorman) // S.F. 3007 (Schwab)
Page 3 of 3

February 19, 2002

REVENUE ANALYSIS DETAIL (cont.)

- There are two current non-filer initiatives underway at the Department of Revenue that could have an impact on the collection outcomes of the proposed amnesty program: 1) the Income Tax Division has a project underway that is estimated to produce \$15 million in fiscal year 2003. The discovery phase of this project has been completed and these debtors have been contacted and advised of pending collection actions. Collection sources (primarily wages) have been identified for this group of non-filers. It is assumed that these tax debtors will not qualify for the amnesty program, 2) the 2001 legislative non-filer initiatives total \$32.2 million for fiscal year 2003, \$21.0 million for 2004, and \$25.7 million for 2005. It is expected that some portion of the filers that were expected to be included in these programs will come forward during the amnesty period, but that the initiatives can re-direct and complete another discovery process. This replacement process will probably cause some lost revenues to the initiatives but no estimate is currently included regarding the impacts to or from these initiatives due to the uncertainty of the size of the loss. Prior to the amnesty program in 1984 there was a non-filer initiative, as well.
- It is assumed that non-filers that come forward during the amnesty period will continue to file regularly. An estimate of the impact of this effect is included (\$1,000,000 in fiscal years 2004 and 2005).

Number of Taxpayers: It is estimated that approximately 6,500 tax debtors would use the proposed amnesty opportunity.

ADMINISTRATIVE/OPERATIONAL IMPACT:

There will be administrative/operational costs incurred by DOR if this bill is adopted (see fiscal note).

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