

**INDIVIDUAL INCOME TAX**

Elderly Subtraction

**PRELIMINARY ANALYSIS**

February 12, 2001

Department of Revenue  
Analysis of S.F. 19 (Wiger)

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

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
			(000's)	
General Fund	(\$278,400)	(\$192,600)	(\$204,200)	(\$216,400)

Effective beginning with tax year 2001.

**EXPLANATION OF THE BILL**

**Current Law:** A subtraction is allowed for persons who are age 65 or over or totally disabled. It is computed as follows for a married couple who both qualify and file a joint return: \$12,000 minus nontaxable retirement and nontaxable social security benefits minus one half of federal adjusted gross income over \$18,000. The amounts used are different for other filing statuses.

**Proposed Law:** The proposal would repeal the current subtraction and replace it with a subtraction for all types of retirement income up to a maximum total of \$20,000 for joint returns and \$10,000 for individual returns.

**REVENUE ANALYSIS DETAIL**

- The 1998 Individual Income Tax Sample was accessed to determine the returns of over 65 taxpayers with any combination of taxable IRA income, taxable pension income and taxable social security income included on their returns.
- The maximums in the proposal were set for each return and the total allowable amount of retirement income calculated to be \$2.1 billion for returns which had a tax liability. This amount is increased an additional five percent, to \$2.21 billion, to account for filers who are under 65 but disabled or surviving spouses, and then grown to \$2.734 billion for the period 1998 to 2001.
- Using a marginal rate of 6.5%, the cost of this subtraction would be \$177.7 million in tax year 2001.
- From this is subtracted \$1.8 million for the repealed current law subtraction.
- Six percent annual growth is assumed.
- In allocating tax years to fiscal years it was assumed that withholding on pensions and quarterly estimated tax payments would be adjusted.

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**NUMBER OF TAXPAYERS AFFECTED:** 175,000 returns.

**ADMINISTRATIVE/OPERATIONAL IMPACT**

There will be no significant administrative or operational cost to the department in administering this bill.

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

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