

**INDIVIDUAL INCOME TAX
Personal and Dependent Exemption
Subtraction**

February 15, 2001

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

Department of Revenue

Analysis of S.F. 307 (Neuville) / H.F. 773 (Kielkucki)

Identical bill S.F. 484 (Robling)/S.F. 690(Wiger)/H.F. 1262 (Wenzel)

	Revenue Gain or (Loss)			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
			(000's)	
General Fund	(\$823,900)	(\$554,200)	(\$567,000)	(\$578,500)

Effective beginning with tax year 2001.

EXPLANATION OF THE BILL

S.F. 307 would allow a subtraction from federal taxable income equal to \$2,200 for each of the taxpayer's personal and dependent exemptions as allowed on the taxpayer's federal income tax return. The \$2,200 amount is adjusted for inflation beginning with tax year 2002.

REVENUE ANALYSIS DETAIL

- The House Income Tax Simulation (HITS) Model was used to estimate the tax year revenue impact.
- These simulations assume the same economic conditions used by the Minnesota Department of Finance for the forecast published in November 2000. The model uses a stratified sample of 1998 individual income tax returns compiled by the Minnesota Department of Revenue.
- A standard rule of thumb formula was applied in allocating the tax year impacts to fiscal years.

Number of Taxpayers Affected: About 1,904,000 taxpayers would receive an average tax benefit of \$276 in tax year 2001.

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 administration of a subtraction that affects all taxpayers.

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