INDIVIDUAL INCOME TAX
Personal and Dependent Exemption Subtraction

March 13, 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) ***Proposed Amendment to S.F. 307***

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**FY2005**
	(000's)			
General Fund	($788,500)	($531,300)	($546,900)	($561,400)

Effective beginning with tax year 2001.

EXPLANATION OF THE BILL

As proposed to be amended, S.F. 307 would allow a subtraction from federal taxable income equal to $2,100 for each of the taxpayer's personal and dependent exemptions as allowed on the taxpayer's federal income tax return. The $2,100 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 February 2001. 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 1,895,100 taxpayers would receive an average tax benefit of $265 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

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