

**INDIVIDUAL INCOME TAX
Capital Gains Exclusion
AMT Subtraction**

February 13, 2001

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

Department of Revenue
Analysis of S.F. 529 (Scheevel)

	<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	(\$138,900)	(\$119,300)	(\$123,500)	(\$127,400)

Effective for sales and exchanges occurring after the date of final enactment for tax years beginning after December 31, 2000.

EXPLANATION OF THE BILL

For the Minnesota individual income tax, capital gains are treated the same as other income; no exclusion or lower rate applies. The bill would allow a subtraction from taxable income equal to the adjusted net capital gain, as defined, to the extent that it is included in federal taxable income but limited to a maximum of \$12,000 for married joint filers and \$6,000 for taxpayers filing as single, married separate, or head of household. The exclusion for adjusted net capital gains is also allowed as a subtraction for the Minnesota alternative minimum taxable income.

REVENUE ANALYSIS DETAIL

- The House Income Tax Simulation (HITS) Model was used to estimate the tax year revenue impact of the proposal.
- 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.
- It was assumed that the proposed subtraction would not change taxpayer behavior. Therefore, no adjustment was made to the amount or timing of capital gains realizations compared to what is forecast to occur under current law.
- To take into account the enactment date, the tax year 2000 impact was reduced by one-third. The allocation of tax year impacts to fiscal years was made according to a standard rule of thumb formula.

Number of Taxpayers Affected: An estimated 467,600 taxpayers would receive a tax benefit from this proposal in the first full year.

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 additional costs associated with increased usage of subtractions.

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