

# MINNESOTA • REVENUE

## VARIOUS TAX TYPES

### Tax Amnesty

April 25, 2003

Department of Revenue  
Analysis of H.F. 540 (Dorman)

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

### Revenue Gain or (Loss)

	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
		(000's)		
General Fund	\$4,200	\$300	\$300	\$300

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 two-month tax amnesty period ending not later than December 31, 2003. The amnesty applies to all state taxes except the individual income tax. Sales taxes to local governments are included. Taxpayers are excluded from the amnesty program if they have a civil fraud penalty or if they have an account receivable that relates to a conviction on a state or federal tax crime.

Taxpayers qualify if: 1) they submit a return that would have been considered delinquent if filed on February 1, 2003 and have not received a written notice, 2) they have an underreported tax liability on a return filed and due before February 1, 2003, or 3) they have an unpaid tax liability as of February 1, 2003. To be eligible, a taxpayer must file all tax returns and make full payment.

Reduction amounts for tax debtors:

- Filing an amended return: Full payment = 100% tax and 50% of interest.  
Discount = 100% of penalties and 50% of interest.
- Filing original returns: Full payment = 100% tax and 100% interest.  
Discount = 100% of penalties.
- With an account receivable: (assume a 20% discount rate - same as 1984 program)  
Full payment = 80% tax and interest from 2/1/02.  
Discount = 20% of tax, 100% of penalties, & most interest.

## REVENUE ANALYSIS DETAIL

To determine the baseline for expected collections via amnesty, the 1984 Minnesota amnesty program and a portion of other state amnesty programs since 1982 (52 programs for 40 states) were reviewed. The 1984 Minnesota amnesty program produced gross revenues of about \$11.7 million.

- It is expected that the 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. It is estimated that the second Minnesota amnesty program would produce \$13,500,000 (a 15% increase).
- Based on the previous Minnesota amnesty program, it is estimated that 70% of collections would be from accounts receivable (\$9.5 million) and 30% from non-filers and amended returns (\$4 million).
- A review of the accounts receivable indicates that the business liabilities represent 25% of all outstanding accounts and 30% of the outstanding dollars. It is estimated that limiting the amnesty to business taxes would produce \$3.0 million in accounts receivable and \$1.2 million from non-filers and amended returns.
- 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.
- On average, penalty represents 12% of the total and interest represents 20% of the total.
- A minimal advertising and adequate operational budget are assumed to be included.

**Number of Taxpayers:** It is estimated that approximately 1,600 tax debtors would use the proposed amnesty opportunity.

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