

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX 60% Capital Gains Exclusion AMT Rate Reduction

April 14, 2003

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

Department of Revenue
Analysis of H.F. 1171 (Kohls) / S.F. 1333 (Michel)

	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	(\$141,900)	(\$169,800)	(\$201,900)	(\$219,600)

Effective for tax years beginning after December 31, 2002

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 60% of the adjusted net capital gain, as defined, to the extent that it is included in federal taxable income.

The bill also reduces the alternative minimum tax rate from 6.4% to 5.0%.

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 February 2003. The model uses a stratified sample of 2000 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.
- Tax year impact would be reflected in the following fiscal year.

Number of Taxpayers Affected: An estimated 327,800 taxpayers would benefit from the proposal in tax year 2003.

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