

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Subtraction for Organ Donor Expenses

March 19, 2004

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

Department of Revenue
Analysis of H.F. 2048 (Paulsen) As Proposed to be Amended (NM49-1)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
		(000's)		
General Fund	\$0	(\$102)	(\$107)	(\$112)

Effective beginning with tax year 2004.

EXPLANATION OF THE BILL

Under the proposed amendment, up to \$10,000 of an individual's qualified expenses related to a qualified donor's living donation of one or more organs for human organ transplantation may be subtracted from federal taxable income. **As amended**, qualified expenses means unreimbursed expenses for both the individual and the qualified donor for travel, lodging, and lost wages net of sick pay, except that such expenses may be subtracted under this clause only once. The expenses qualifying under this proposal are the first expenses considered in determining the itemized medical expense deduction. The subtraction would also be allowed for the alternative minimum tax. Organ refers to all or a part of an individual's liver, pancreas, kidney, intestine, lung, or bone marrow. **As amended**, a qualified donor means the individual or the individual's dependent. An individual may claim the subtraction only once for each instance of organ donation.

REVENUE ANALYSIS DETAIL

- According to the United Network for Organ Sharing, there were an average of 443 living organ donors annually in Minnesota from 2001 to 2003 – 423 kidney, 15 liver, 4 lung, and 1 pancreas.
- From the 2000 Census, 25% of Minnesotans ages 16-64 are either unemployed, self-employed, or not in the labor force, and thus not receiving wages. It is assumed that 75% of living donors would have lost wages due to the transplant.
- Living donors miss an estimated 35 workdays on average as a result of the transplant.
- The average hourly Minnesota wage was \$17.93 in 2002 according to the Bureau of Labor Statistics. Living donors with no paid leave lose an average of \$5,020, while living donors with some paid leave lose an average of \$2,725 in wages.

REVENUE ANALYSIS DETAIL (continued)

- **As amended**, individuals could subtract qualified expenses for both themselves and the qualified donor if the qualified donor is a dependent. None of the living donors in recent years were younger than age 18. It is assumed that 15% of living donors with no wages would qualify to be claimed as a dependent and that the individual claiming the donor as a dependent would miss an average of ten workdays as a result of the transplant. The average subtraction claimed for unreimbursed lost wages would be \$1,463.
- Travel and lodging expenses would vary greatly and are estimated to average \$500 for all donors.
- It is assumed that 5% of living donors earning wages will claim the maximum \$10,000 subtraction. The average subtraction claimed for those below the maximum is estimated to be about \$4,000.
- There are an estimated 400 bone marrow donations annually in Minnesota. The procedure is often performed in a single day on an outpatient basis. It is assumed donors would miss only two days of work on average, and their subtraction for qualifying expenses would be about \$130.
- Assuming an effective marginal tax rate of 6.0%, this proposal would have reduced 2002 state individual income tax revenues by \$92,000. This amount is estimated to grow 5% annually.
- Tax year impact would occur in the following fiscal year.

Number of Taxpayers: An average of about 840 living organ donors in Minnesota annually.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy