

# MINNESOTA • REVENUE

## INDIVIDUAL INCOME TAX Mortgage Interest Deduction Limit

March 8, 2004

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

Department of Revenue

Analysis of S.F. 1499 (Marty) / H.F. 1558 (Jaros) **Updated Analysis**

	<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)	
Addition for Mortgage Interest	\$0	\$20,400	\$24,600	\$29,100
Appropriations for Specified Purposes	<u>\$0</u>	<u>(\$20,400)</u>	<u>(\$24,600)</u>	<u>(\$29,100)</u>
General Fund Net Impact	\$0	\$0	\$0	\$0

Assumed effective for tax years beginning after December 31, 2003.

### EXPLANATION OF THE BILL

This proposal would add back to Minnesota taxable income the amount of the federal itemized deduction for interest on home mortgages in excess of \$25,000. Under current law, a federal itemized deduction for debt secured by a principal or second residence is not added back to Minnesota taxable income. The revenue collected as a result of the addition would be dedicated and appropriated for specified purposes.

**Note:** The bill as written would also apply to mortgage interest taken on Schedule C (Proprietors), Schedule F (Farm Income), and Schedule E (Partnerships and S Corporations). The estimates reflect only the mortgage interest taken as an itemized deduction on Schedule A; the estimates would be higher if the mortgage interest on the other schedules were included.

### REVENUE ANALYSIS DETAIL

- The House Income Tax Simulation (HITS) Model version 5.2 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 2004. The model uses a stratified sample of tax year 2000 individual income tax returns compiled by the Minnesota Department of Revenue.
- Tax year impact would be reflected in the following fiscal year.

**Number of Taxpayers:** The number of taxpayers affected for the above scenarios is approximately 41,300 for tax year 2004 for an average tax increase of \$494.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)