MINNESOTA · REVENUE

INDIVIDUAL INCOME TAX
Charitable Contribution Subtraction

March 29, 2004

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

Department of Revenue
Analysis of H.F. 2583 (Slawik)/ S.F. 2567 (Tomassoni)

	Revenue Gain or (Loss)			
	F.Y. 2004	F.Y. 2005	F.Y. 2006	F.Y. 2007
	(000's)			
General Fund	$0	($6,900)	($7,200)	($7,500)

Effective beginning with tax year 2004.

EXPLANATION OF THE BILL

Current Law: Taxpayers who do not itemize deductions for federal income tax purposes may subtract from Minnesota taxable income an amount equal to 50% of charitable contributions in excess of $500 that would qualify for the federal deduction.

Proposed Law: The subtraction would be increased to 100% of all charitable contributions made by those who do not itemize.

REVENUE ANALYSIS DETAIL

- Simulation results are obtained using the House Income Tax Simulation (HITS 5.2) model. The simulations assume: (1) the same economic conditions used by the Minnesota Department of Finance for the forecast published in February 2004, and (2) individual income tax situations contained in a database of returns compiled for tax year 2000 by the Minnesota Department of Revenue. The HITS model extrapolates these data for the applicable tax years according to the economic assumptions of the Department of Finance.
- Simulation results show the revenue impact for the approximate 100,000 existing claimants. To this must be added the revenue loss for taxpayers who do not itemize and do not take the current subtraction because their charitable contributions are less than $500. It is assumed that the number is half of the number currently claiming the subtraction, or about 50,000, and that their average contribution is $50. A marginal tax rate of 5.5% is assumed.
- Growth is assumed to be 4% per year.
- Tax year impact is allocated to the following fiscal year.

Number of Taxpayers: About 150,000 taxpayers in 2004.

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

hf2583(sf2567) /gt