

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Alternative Minimum Tax

March 16, 2004

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

Department of Revenue

Analysis of H.F. 2643 (Abrams)/ S.F 2683 (Rest) Analysis Revised to Report Additional Information on Number of Taxpayers Affected

	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	\$0	(\$5,400)	(\$6,300)	(\$13,100)

Effective for tax years beginning after December 31, 2003.

EXPLANATION OF THE BILL

Alternative Minimum Tax (AMT) Deduction of Charitable Contributions

Current Law: A deduction is allowed for charitable contributions over a threshold of 1.0 % of federal adjusted gross income (FAGI) for the Minnesota alternative minimum tax.

Proposed Law: This proposal would change the threshold to 0.5 % of FAGI for tax years 2004 and 2005. For tax years 2006 and after, the full extent of the deduction is allowed.

Alternative Minimum Tax (AMT) Exemption Amounts

Current Law: The current AMT exemption amounts are listed in the table on page 2. The exemption amounts are phased out at a rate of 25 percent over the following threshold ranges: \$150,000 to \$310,000 for married joint filers, \$75,000 to \$155,000 for married separate filers, \$112,500 to \$232,500 for single filers, and \$112,500 to \$232,500 for head of household filers.

Proposed Law: As summarized in the table on page 2, the proposal would increase the AMT exemption amounts by \$2,000 each year for married joint filers, \$1,000 for married separate filers, and \$1,500 for single and head of household filers with the exception of tax year 2005 which remains the same as tax year 2004. The income level at which the AMT exemption is reduced to zero also increases each year although the threshold at which point the exemption begins to phase out remains unchanged as prescribed under section 55(d) (3) of the Internal Revenue Code. For example, for tax years 2004 and 2005, the income level at which the AMT exemption is reduced to zero is increased from \$310,000 to \$318,000 for married joint filers, from \$155,000 to \$159,000 for married separate filers, and from \$232,500 to \$238,500 for single filers and head of household filers.

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EXPLANATION OF THE BILL (Cont.)

	Current <u>Law</u>	<u>Proposal</u>				
		2004 & 2005	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Married Joint	\$40,000	\$42,000	\$44,000	\$46,000	\$48,000	\$50,000
Married Separate	\$20,000	\$21,000	\$22,000	\$23,000	\$24,000	\$25,000
Single	\$30,000	\$31,500	\$33,000	\$34,500	\$36,000	\$37,500
Head of Household	\$30,000	\$31,500	\$33,000	\$34,500	\$36,000	\$37,500

The exemption amounts are adjusted for inflation starting with tax year 2010. The percentage increase must be determined from the year starting September 1, 2008, and ending August 31, 2009, as the base year for the inflation adjustment.

REVENUE ANALYSIS DETAIL

- The House Income Tax Simulation (HITS) Model version 5.2 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 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: For tax year 2004, an estimated 54,600 taxpayers would receive a reduction in the Minnesota alternative minimum tax for an average of \$98 per tax return, including 13,000 taxpayers who would no longer be subject to the AMT.

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