

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. 2929 (Abrams)/ S.F. 2701 (Rest) Analysis Revised to Report Additional Information on Number of Taxpayers Affected

	<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	(\$21,000)	(\$25,400)	(\$30,600)

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 0.75 % of FAGI for tax year 2004, 0.50 % of FAGI for tax year 2005, 0.25 % for tax year 2006, and for tax years 2007 and after, the full extent of the deduction is allowed.

Alternative Minimum Tax (AMT) Exemption Amounts

Current Law: For computing the alternative minimum tax, the current AMT exemption amounts are: \$40,000 for married joint filers, \$20,000 for married separate filers, and \$30,000 for single and head of household filers. 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: For tax year 2004, the proposal would increase the AMT exemption from \$40,000 to \$45,000 for married joint filers, and from \$30,000 to \$33,750 for single and head of household. (For purposes of the analysis, the exemption for married-separate filers is assumed to be half the exemption for married-joint filers.) The exemption amounts are adjusted for inflation starting with tax year 2005. The proposal eliminates the phase out of the exemption amounts.

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Mortgage Interest Deduction from Alternative Minimum Tax Income (AMTI)

Current Law: A mortgage interest deduction is not allowed under current law for the AMT.

Proposed Law: A mortgage interest deduction from alternative minimum taxable income up to a maximum of \$5,000 is allowed for tax year 2004. The \$5,000 maximum deduction is adjusted for inflation starting with tax year 2005.

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.
- The exemption amounts are not phased out.
- The exemption amounts and the mortgage interest deduction are adjusted for inflation starting with tax year 2005.
- Tax year impact would be reflected in the following fiscal year.

Number of Taxpayers: For tax year 2004, an estimated 55,600 taxpayers would receive a reduction in the Minnesota alternative minimum tax of an average of \$378 per tax return, including 39,000 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