

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Alternative Minimum Tax

March 28, 2005

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

Department of Revenue
Analysis of H.F. 845 (Lenczewski)

	Fund Impact			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
	(000's)			
Elimination of Alternative Minimum Tax	(\$34,400)	(\$37,600)	(\$41,200)	(\$45,100)
Elimination of AMT Credit	\$0	\$0	\$5,100	\$5,100
Additional AMT Credit	<u>(\$3,000)</u>	<u>(\$1,000)</u>	<u>\$0</u>	<u>\$0</u>
General Fund	(\$37,400)	(\$38,600)	(\$36,100)	(\$40,000)

The elimination of the AMT is effective for tax years beginning after December 31, 2004.
The elimination of the AMT credit is effective beginning after December 31, 2006.

EXPLANATION OF THE BILL

Current Law: The alternative minimum tax (AMT) is the amount by which 6.4% of alternative minimum taxable income exceeds regular tax. The portion of the AMT that is due to timing preferences generates an AMT credit that can be used in a subsequent years(s). The AMT credit can reduce regular tax in an amount no greater than the excess of regular tax over tentative minimum tax for that year. The AMT credit cannot be used in a year that the taxpayer is subject to the AMT.

Proposed Law: The proposal eliminates the AMT starting with tax year 2005 and eliminates the AMT credit starting with tax year 2007. Rather than allowing taxpayers to use the AMT credit only to the extent that the regular tax exceeds the AMT, the proposal allows taxpayers to utilize the full AMT credit that is carried forward to reduce regular tax for tax years 2005 and 2006 only.

REVENUE ANALYSIS DETAIL

- The House Income Tax Simulation (HITS) Model version 5.3 was used to estimate the tax year revenue impact of the proposal for the elimination of the AMT and the AMT credit.
- These simulations assume the same economic conditions used by the Minnesota Department of Finance for the forecast published in February 2005. The model uses a stratified sample of tax year 2002 individual income tax returns compiled by the Minnesota Department of Revenue.

REVENUE ANALYSIS DETAIL (Continued)

- For tax year 2003, the preliminary 2003 income tax sample reported \$12.5 million of AMT credit carry-over for future years. It is estimated that this will grow to \$14 million by 2004. This is the amount of unused AMT credit that would be available under the bill to reduce regular tax without any AMT limitation for tax years 2005 and 2006. This amount was compared to the estimated AMT credit that would be taken under current law. It is estimated that the provisions of the bill will allow an additional \$3 million in AMT credit to be used in the tax year 2005 and \$1 million in tax year 2006.
- Tax year impact would be reflected in the following fiscal year for all components of the proposal.

Number of Taxpayers: It is estimated that elimination of the AMT in tax year 2005 would result in 40,800 returns receiving a tax reduction at an average of \$843 per return.

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