

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Alternative Minimum Tax; Exemption Amounts

April 24, 2006

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 3958 (Erhardt)

	Fund Impact			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
		(000's)		
General Fund	\$0	(\$4,000)	(\$8,400)	(\$11,700)

Effective for tax years beginning after December 31, 2005.

EXPLANATION OF THE BILL

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 and head of household filers.

Proposed Law: The AMT exemption amounts and the phase-out thresholds are adjusted for inflation starting with tax year 2006. The proposal also extends the phase-out range. For tax year 2006, the AMT exemption amounts are: \$41,240 for married-joint filers, \$20,620 for married-separate filers, and \$30,930 for single and head of household filers. The exemption amounts are phased out at a rate of 25 percent over the following threshold ranges: \$154,660 to \$319,620 for married-joint filers, \$77,330 to \$159,810 for married-separate filers, \$116,000 to \$239,720 for single and head of household filers. The following tables show exemption and phase-out threshold amounts under current law and adjusted for inflation in tax year 2006.

Current Law

Filing Status	Exemption	Phase-Out Begins	Phase-Out Ends
Married Joint	\$40,000	\$150,000	\$310,000
Married Separate	\$20,000	\$75,000	\$155,000
Single	\$30,000	\$112,500	\$232,500
Head of Household	\$30,000	\$112,500	\$232,500

**Proposal
Tax Year 2006**

Filing Status	Exemption	Phase-Out Begins	Phase-Out Ends
Married Joint	\$41,240	\$154,660	\$319,620
Married Separate	\$20,620	\$77,330	\$159,810
Single	\$30,930	\$116,000	\$239,720
Head of Household	\$30,930	\$116,000	\$239,720

REVENUE ANALYSIS DETAIL

- Simulation results are obtained using the House Income Tax Simulation (HITS 5.4) model. The simulations assume the same economic conditions used by the Minnesota Department of Finance for the forecast published in February 2006. The model uses a stratified sample of 2003 individual income tax returns compiled by the Minnesota Department of Revenue.
- Tax year impact was allocated to the following fiscal year.

Number of Taxpayers: For tax year 2006, an estimated 43,400 returns would receive a reduction in the Minnesota alternative minimum tax of an average of \$92 per tax return, including 6,100 returns which 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