

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Alternative Minimum Tax

March 23, 2005

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

Department of Revenue
Analysis of S.F. 461 (Rest) / H.F. 711 (Abrams)

	<u>Fund Impact</u>			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
	(000's)			
General Fund	(\$19,900)	(\$24,000)	(\$27,800)	(\$32,200)

Effective for tax years beginning after December 31, 2004.

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 2005, 0.50 % of FAGI for tax year 2006, 0.25 % for tax year 2007, and for tax years 2008 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 2005, 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 2006. The proposal eliminates the phase out of the exemption amounts.

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 2005. The \$5,000 maximum deduction is adjusted for inflation starting with tax year 2006.

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.
- 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.
- The exemption amounts are not phased out.
- The exemption amounts and the mortgage interest deduction are adjusted for inflation starting with tax year 2006.
- Tax year impact would be reflected in the following fiscal year.

Number of Taxpayers: An estimated 40,800 returns would receive a reduction in the Minnesota alternative minimum tax at an average of \$490 per tax return, including 30,700 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