CORPORATE FRANCHISE TAX
INDIVIDUAL INCOME TAX
30% Tax on Interest Income

March 9, 2009 *Preliminary Estimate*

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 507 (Ortman) / H.F. 716 (Rukavina)

	Fund Impact			
	F.Y. 2010	F.Y. 2011	F.Y. 2012	F.Y. 2013
	(000's)			
General Fund	$56,800	$46,900	$49,400	$52,700

Effective beginning tax year 2009.

EXPLANATION OF THE BILL

The bill enacts a 30% tax on interest earned in excess of 15%. The 30% tax would be imposed on interest earned by a business that engages in the business of making loans of money, credit or goods. The bulk of the tax would be collected on the outstanding balances of credit extended to consumers by credit card companies. The bill also applies to short-term loans made by pawn shops and other similar short-term loan operations.

REVENUE ANALYSIS DETAIL

- Federal Reserve figures show that the total amount of outstanding revolving credit in 2007 was $942 billion. The average rate of growth of revolving credit during 1999-2007 was used to estimate future amounts. The Minnesota portion of revolving credit is assumed to equal the Minnesota percentage of the total U.S. population.
- The total amount of interest income is assumed to equal the amount of Minnesota outstanding revolving credit multiplied times an average interest rate. In 2007, the Federal Reserve reported the finance rates on credit card plans at 13.38%.
- This estimate assumes that 50% of the outstanding revolving credit earns interest income in excess of 13.38%. The average interest rate on this portion of revolving credit is estimated to be about 18%.
- It is estimated that 50% of revolving credit is securitized. Interest received in excess of 15% earned by the owners of securitized debt would not be subject to the 30% tax. The owners of this debt are assumed to be in the business of buying and selling securities. The 30% tax applies to those in the business of making loans.
- The total estimate was increased by 10% to account for interest earned by lenders other than credit card companies.
- All of tax year 2009 revenue gain is allocated to FY 2010. Other tax years are allocated 30/ 70 to fiscal years.

REVENUE ANALYSIS DETAIL (continued)

- It is possible that some the revenue may not be collected because creditors may lack the necessary connections required by Minnesota nexus rules. Without nexus, taxpayers are not subject to tax.
- At this time, the estimates should be considered very preliminary.

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

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