TAX AMNESTY

April 8, 2011

	Yes	No
DOR Administrative Costs/Savings	X	

Preliminary Analysis

Department of Revenue
Analysis of S.F. 652 (Chamberlain) As Proposed to be Amended (SCS0652A-1)

	Fund Impact			
	F.Y. 2012*	**F.Y. 2013**	**F.Y. 2014**	**F.Y. 2015**
	(000's)			
Amnesty Payments	$8,400	$0	$0	$0
Penalty and Interest Forgiveness	($1,700)	$0	$0	$0
Foregone Revenues – Staff Reallocations	($6,200)	$0	$0	$0
New Filer Compliance	$0	$1,000	$1,000	$1,000
Additional 5% Penalty	$2,000	$5,000	$3,000	$2,000
General Fund Total	$2,500	$6,000	$4,000	$3,000

* The fiscal year 2012 amount is further impacted by the appropriation to the Commissioner of Revenue that is left blank in the bill. The fiscal note estimates the administrative costs to be $1.6 million.

Effective the day following final enactment.

EXPLANATION OF THE BILL

Current Law: A tax amnesty provision was previously enacted in 1984. A targeted collection program for debts more than two years old was enacted in 2003.

Proposed Law: The bill would create a two-month tax amnesty period ending not later than October 31, 2011. The amnesty applies to all taxes payable to the Commissioner of Revenue including sales taxes to local governments.

Taxpayers qualify if: 1) they submit a return that would have been considered delinquent if filed on March 1, 2011, and have not received a written notice of non-filing from the Commissioner, 2) they have an underreported tax liability on a return filed and due before March 1, 2011 unless a notice of assessment has been issued or an audit applies to the return, or 3) they have an unpaid tax liability on the Department's accounts receivable system as of March 1, 2011. To be eligible, a taxpayer must file all tax returns and make full payment.

Taxpayers are excluded from the amnesty program if they: 1) have a civil fraud penalty, 2) have been convicted of a federal or state tax crime, 3) are party to a criminal investigation or to any civil or criminal litigation for nonpayment, delinquency, or fraud related to any Minnesota tax, 4) are currently subject to a voluntary disclosure agreement, or 5) have been notified in writing of an audit or are currently being audited.

EXPLANATION OF THE BILL (Cont.)

Reduction amounts for tax debtors:

Filing an amended return:	Full payment = 100% tax and 50% of interest and penalties. Discount = 50% of interest and penalties.
Filing an original return:	Full payment = 100% tax and 50% interest and penalties. Discount = 50% of interest and penalties.
With an account receivable:	Full payment = 100% tax and 70% of interest and penalties. Discount = 30% of interest and penalties.

An additional 5% penalty on the amount that would have been due on the last day of the amnesty period will be added to all accounts where the taxpayer was eligible for the amnesty program and failed to file and pay. This penalty must not be waived or abated.

REVENUE ANALYSIS DETAIL

- The three primary reference points for the estimates are: 1) the 2003 advance collection program, 2) information that was received from the tax divisions at the Department of Revenue, and 3) information from a recent amnesty program in Kansas.
- The 2003 advance collection program provided forgiveness levels based on the total debt. For obligations more than two years old the discount was up to 35% and for debts more than 4 years old the discount was up to 50%. This program generated $850,000 (about 500 debtors). The proposed amnesty would apply to potential payments several times greater than the targeted collections program.
- Minnesota is a national leader in tax compliance efforts. Minnesota has a much higher ratio of compliance staff to population than most states. There have been ongoing compliance initiatives over the last 10 years that are generating over $50 million of additional revenue annually. This is expected to limit the impact of an amnesty.
- While the tax amnesty experience of most other states may not compare well with Minnesota given the unique recent compliance history, there are some similarities that make a comparison with the 2010 Kansas amnesty relevant.
- Previous amnesty and collections information indicates that 65% of collections would be from accounts receivable and 35% from non-filers and amended returns.
- It is estimated that there will be approximately 4,000 qualifying taxpayers for the proposed amnesty.
- It is estimated that the average paid per taxpayer will be $2,100.
- The estimates are for payments received. It is estimated the average penalty and interest forgiven represents 20% of the total amnesty payments.

REVENUE ANALYSIS DETAIL (Cont.)

- According to the fiscal note prepared by the Department of Revenue, Financial Management Division, the reallocation of current staff to administration of an amnesty program would result in an estimated $6.2 million in foregone revenues.
- It is assumed that non-filers who come forward during the amnesty period will continue to file returns regularly and an estimate of the impact of this effect is included.
- The additional 5% penalty is calculated based on annual accounts receivable collections of about $300 million.
- There are a variety of factors that could further limit the success of an amnesty, including current economic conditions. The current economic conditions, including limited borrowing, limited available home equity, and higher unemployment, may cause some interested debtors to not use the amnesty.

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

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