

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Refund for Tax Year 2011 Standard Deduction for 2012

March 5, 2012

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of S. F. 2002 (Ortman) As Proposed to be Amended (SCS2002A-1)

	<u>Fund Impact</u>			
	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>
		(000's)		
Refund for Tax Year 2011	\$0	(\$62,400)	\$0	\$0
Conformity for Tax Year 2012	<u>\$0</u>	<u>(\$62,200)</u>	<u>\$0</u>	<u>\$0</u>
General Fund Total	\$0	(\$124,600)	\$0	\$0

Effective the day following final enactment.

EXPLANATION OF THE BILL

Minnesota has not adopted the federal law change which increased the standard deduction for married filers for tax years 2011 and 2012. Because the federal standard deduction was not adopted, an addition is required on the state return equal to the difference between the two amounts for 2012, as occurred on the tax year 2011 return. The difference between the state and federal standard deduction also affects the computation of the marriage credit and the calculation of the addition for itemized state income taxes. After 2012, federal law reverts to pre-2011 provisions, and the addition and other adjustments are not necessary.

The bill would conform Minnesota law to federal law for tax year 2012 by eliminating the addition for the difference between the state and federal standard deduction. The effect is to increase the standard deduction from \$9,900 to \$11,900 for married-joint returns and from \$4,950 to \$5,950 for married-separate filers. The other two adjustments - to the marriage credit and to the addition for itemized state income taxes - would also be eliminated.

The bill also provides a refund for taxpayers whose liability for tax year 2011 was greater than it would have been had Minnesota conformed to the federal standard deduction in that year. **As proposed to be amended**, the refund must be calculated by the Department of Revenue and paid by December 31, 2012. Eligibility for a refund can come from three sources: married filers who claimed the standard deduction and had to add back the difference between the state and federal standard deduction; married filers who itemized deductions and for whom the addition for state income taxes was affected by the level of the standard deduction; and filers claiming the marriage credit whose credit was smaller than it would have been without the addback. Only taxpayers whose liability was higher than it otherwise would have been are affected by the proposal. Taxpayers whose liability was lower would not be required to pay additional tax.

EXPLANATION OF THE BILL (Cont.)

Refund amounts for the three categories of taxpayers noted above are shown as follows:

	<u>Total Refund</u>	<u>Number of Returns</u>	<u>Average Refund</u>
Addition for standard deduction filers	\$46,700,000	407,000	\$115
For itemizers, calculation of state income tax addition	\$15,500,000	153,000	\$101
Marriage credit	<u>\$200,000</u>	<u>17,000</u>	\$12
Total	\$62,400,000	577,000	

The total amount of the refunds may be less than shown. For some taxpayers the refund would be offset for an outstanding tax liability or revenue recapture.

Note: For paper returns, information is not available to calculate the refund that is attributable to the difference in the addition for state income taxes for itemizers. Nor is sufficient information available to recompute the marriage credit, whether the return is filed electronically or on paper.

REVENUE ANALYSIS DETAIL

- The House Income Tax Simulation Model (HITS 6.0) was used to estimate the revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2012. The model uses a stratified random sample of tax year 2009 individual income tax returns compiled by the Minnesota Department of Revenue.
- It is assumed that all refunds for tax year 2011 would be paid in the second half of calendar 2012, so that the effect on the general fund appears in fiscal year 2013.
- Tax year impact for conformity in 2012 was allocated to fiscal year 2013.

Number of Taxpayers: For tax year 2011, 577,000 taxpayers would receive a refund. For tax year 2012, about 560,500 returns would have an average tax decrease of \$113 per return, and about 76,500 returns would have an average tax increase of about \$12.

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