INDIVIDUAL INCOME TAX
Capital Gains Exclusion

April 3, 2013

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 1507 (Runbeck)

	Fund Impact			
	F.Y. 2014	**F.Y. 2015**	**F.Y. 2016**	**F.Y. 2017**
		(000's)		
General Fund	($139,600)	($180,100)	($213,100)	($223,800)

Effective for tax years beginning after December 31, 2012

EXPLANATION OF THE BILL

Current Law: For the Minnesota individual income tax, capital gains are treated the same as other income; no exclusion or lower rate applies.

Proposed Law: The bill would allow a subtraction from taxable income equal to a 30% of the adjusted net capital gain, as defined, to the extent that it is included in federal taxable income. For farm assets, the percentage is equal to 60% of adjusted net capital gain. Farm assets are defined as livestock, farm equipment, farm real property, and farm depreciable property. The subtraction would also apply in computing alternative minimum taxable income for purposes of the alternative minimum tax.

REVENUE ANALYSIS DETAIL

- The House Income Tax Simulation (HITS 6.1) Model was used to estimate the tax year revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2013. The model uses a stratified sample of 2010 individual income tax returns compiled by the Minnesota Department of Revenue.
- According to the report *The Tax Benefit, Distribution and Asset Composition of Capital Gains in Wisconsin* published by the Wisconsin Department of Revenue in February 2002, capital gains from farm assets make up 4.5% of all capital gains in Wisconsin for the year 1999. For purposes of this study, farm assets include livestock, farmland, depreciable farm real estate, and farm equipment.
- The revenue impact of this proposal was determined by taking 95.5% of the revenue impact by modeling for 30% exclusion and adding 4.5 % of the revenue impact by modeling for 60% exclusion.
- Tax year impact was allocated to the following fiscal year.

Number of Taxpayers: An estimated 159,800 returns would receive a reduction in tax in tax year 2013.

Source: Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx

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