

April 1, 2019

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 2756 (Sandell), As Proposed to be Amended (H2756DE2)

	Fund Impact			
	<u>F.Y. 2020</u>	<u>F.Y. 2021</u>	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>
		(000's)		
General Fund	\$207,500	\$173,600	\$160,400	\$159,000

Effective beginning tax year 2019.

EXPLANATION OF THE BILL

The bill creates a 3% tax on capital gains and dividend income over \$500,000. Income that is subject to the tax includes qualified dividend income and net long-term capital gains or federal taxable income, whichever is smaller.

The tax does not apply to gains from the sale of class 2a agricultural property.

For nonresidents and part-year residents, the tax is apportioned by the amount of gains from the sale of property located in Minnesota, plus the amount of capital gains and dividends received while the taxpayer was domiciled in Minnesota, as a percentage of total eligible gains and dividends.

The additional tax would be excluded from the calculation of the credit for taxes paid to another state.

REVENUE ANALYSIS DETAIL

- The House Income Tax Simulation (HITS 6.7) 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 2019. The model uses a stratified sample of 2016 individual income tax returns compiled by the Minnesota Department of Revenue.
- Since capital gains can vary widely from year to year, the tax year 2019 impact was estimated using the average impact for tax years 2017 through 2019. Other years were estimated based on the projected annual change in capital gains and dividend income.
- The tax was estimated for full-year residents and nonresidents separately. For nonresidents and part-year residents, 2% of gains were assumed to be attributable to Minnesota.
- The estimate was reduced by 3.9% to account for agricultural property that would not be subject to tax, based on estimated gains from sales of agricultural land in 2016 and 2017.

REVENUE ANALYSIS DETAIL (Cont.)

- All of tax year 2019 was allocated to fiscal year 2020. Other tax years were allocated to fiscal years using a standard formula.
- Since capital gains and dividends can vary considerably from year to year, the tax could be volatile.

Number of Taxpayers: About 2,700 full-year resident returns would be affected in tax year 2019. The average increase in tax would be about \$64,100. An unknown number of nonresidents and part-year residents would also be affected.

Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research/stats/Pages/Revenue-Analyses.aspx