

May 11, 2023

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 1379 (Howard)

	Fund Impact			
	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>
		(000's)		
General Fund	\$9,200	\$9,500	\$9,500	\$9,700

Effective beginning with tax year 2023.

EXPLANATION OF THE BILL

Current Law: A taxpayer is allowed a deduction for interest paid on debt secured by a principal or second residence. Mortgage interest is deductible on up to \$750,000 of debt used to buy, build, or improve a principal or second residence.

Proposed Law: The bill limits the deduction to interest paid or accrued on a principal residence and excludes interest on a second home.

REVENUE ANALYSIS DETAIL

- Second mortgages are estimated to account for 7.99% of mortgage interest deductions, based on information from the American Community Survey on homes that are for seasonal, recreational or occasional use and information from a Fannie Mae 2014 report on second homes.
- The House Income Tax Simulation Model (HITS 7.2) was used to estimate the revenue impact of disallowing the home mortgage deduction for all returns. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2023. The Model uses a stratified sample of 2019 individual income tax returns compiled by the Minnesota Department of Revenue.
- The result was then multiplied by the 7.99% to yield the estimated increase in revenue.
- Tax year impacts were allocated to the following fiscal year.

Minnesota Department of Revenue
Tax Research Division
<https://www.revenue.state.mn.us/revenue-analyses>