

March 24, 2021

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 1689 (Gomez)

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
		(000's)		
General Fund Total	\$23,800	\$96,700	\$102,900	\$109,100

Effective beginning with tax year 2021.

EXPLANATION OF THE BILL

Current Law: When an asset is sold or transferred, any increase in value over its cost to the owner is generally subject to income tax. However, when property is transferred upon the death of its owner, the cost for the heir is the value of the property at the time of death, not the original cost to the decedent. If the heir sells the asset, income tax is paid only on the appreciation of the asset over that new basis. Any appreciation in the value of the property during the lifetime of the decedent is not subject to federal or state income tax.

Proposed Law: The bill would create an addition for nontaxed capital gains on assets owned by the taxpayer at the time of death. The addition is equal to the total untaxed gain on all assets that exceeds \$1 million, excluding class 2a agricultural homestead land. The untaxed gain is calculated as the amount that would be taxable if the assets were sold on the date of the taxpayer’s death for the fair value that would be includible in the decedent’s taxable estate. Taxpayers with an addition must be given an automatic extension of 275 days to file a return and may qualify for an additional 180-day extension for good cause.

REVENUE ANALYSIS DETAIL

- The estimate is based on the Joint Committee on Taxation (JCT)’s “Estimates of Federal Tax Expenditures for Fiscal Years 2019-2023”, which includes an estimate for the lost federal tax revenue from the step-up in basis at the time of death, and information from the Federal Reserve Board’s 2019 Survey of Consumer Finances (SCF).
- Untaxed capital gains for Minnesota returns are estimated at about \$2.166 billion in 2019, based on the JCT estimates and information from the SCF.
- After the \$1 million exclusion, total additions are estimated at 48.8% of the untaxed gains, or \$1.057 billion in 2019.
- Total additions were reduced by \$26.2 million to account for agricultural homestead land.
- A marginal rate of 9.85% is assumed. The tax impact of the addition would be \$101.5 million in tax year 2019.
- The February 2021 estate tax forecast was used to project growth in the addition.

REVENUE ANALYSIS DETAIL (Cont.)

- Because of the automatic filing extension, 25% of the tax year impact is allocated to the following fiscal year and 75% is allocated to the fiscal year after that.

Minnesota Department of Revenue
Tax Research Division
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hf1689_1 Capital Gain Addition / tj cw