

HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 2, 2002 First Special Session **DATE:** September 18, 2002
Version: As introduced
Authors: Abrams and others
Subject: Individual Income Tax, Charitable Contribution Deduction Under AMT
Analyst: Joel Michael (651-296-5057)

This publication can be made available in alternative formats upon request. Please call 651-296-6753 (voice); or the Minnesota State Relay Service at 1-800-627-3529 (TTY) for assistance. Summaries are also available on our website at: www.house.mn/hrd.

Overview

This bill responds to the Minnesota Supreme Court decision in *Chapman v. Commissioner of Revenue*. In *Chapman*, the court held the limitation of the charitable contribution deduction under the alternative minimum tax (AMT) discriminated against interstate commerce in violation of the Commerce Clause. The court remedied this discrimination by eliminating the entire charitable contribution deduction. This bill allows the deduction to both Minnesota and non-Minnesota charities to the extent contributions exceed 1.3 percent of the taxpayer's adjusted gross income (or AGI). The change is effective beginning with the current tax year, 2002.

Section

- 1 Charitable contributions; AMT.** Excludes all charitable contributions from the tax base for the alternative minimum tax under the individual income tax for the amount of the taxpayer's total contributions that exceeds 1.3 percent of adjusted gross income.

Background. The present statute allows all contributions that are made to or for the use of Minnesota charities, but does not allow contributions to non-Minnesota charities. The Minnesota Supreme Court in *Chapman v. Commissioner of Revenue* held that the restriction to Minnesota charities discriminated against interstate commerce in violation of the U.S. Constitution. To remedy this discrimination, the court held that no charitable contributions would be allowed in computing the AMT. The court imposed this remedy "prospectively." (It is unclear whether by "prospectively" the court meant contributions made after the date of the decision, taxable years beginning after the date of the decision, taxable years beginning in

2002, or something else.) The issue of the remedy to apply retrospectively was remanded to the Tax Court.

2 **Effective date.** Effective beginning for tax year 2002.