



ISSUE BRIEF

What is a Revenue Analysis?

A revenue analysis is an objective analysis of the direct impact of a state tax law change on state tax revenue over the four year period included in the financial forecast window. Like fiscal notes, revenue analyses are used to help legislators make informed decisions on proposed legislation and are also important to the legislative process. The estimates within the Department of Revenue’s revenue analysis are the official numbers for proposed legislation and are included in the state budget for legislation that is enacted.

Minnesota Statutes, Section 270C.11, subdivisions 4-5, outline the process of obtaining a revenue analysis and its required contents. This issue brief will describe the contents of a revenue analysis and the process of obtaining a completed revenue analysis for a tax committee hearing.

Required Contents of a Revenue Estimate

The Minnesota Department of Revenue (DOR) is statutorily required to prepare an analysis with an estimate for the effect on the state’s tax revenue which would result from the passage of a legislative bill establishing, extending or restricting tax expenditure. In practice, revenue analyses are not limited to proposals affecting tax expenditures; they are prepared for bills that make any change to a tax or tax-related aids and credits. These analyses are prepared by two divisions within DOR, the Tax Research Division for state taxes and the Property Tax Division for property taxes and tax-related spending programs including property tax refunds, aids to local government, and property tax credits.

Typically, these estimates include the following components in each analysis:

Format of a Revenue Analysis	
Title of Proposed Estimate	This may be identified with a House file or Senate File number. If the estimate has a House/Senate file number and an estimate is completed, the analysis will be posted on DOR’s official website. Analysis is also prepared for draft legislation. Analysis for draft legislation may have a revisor number or draft number in the title of the estimate. These estimates are not posted to DOR’s website.
Budget Impact	Budget numbers are in thousands and are shown by the fund affected. Positive budget numbers are a gain to the affected fund(s) and negative numbers are a loss to the fund(s).

Format of a Revenue Analysis	
	<p>For tax changes, a positive number is a revenue gain and a negative number is a revenue loss.</p> <p>For tax-related spending programs, an increase in expenditure is shown as a negative number because it results in a decrease to the affected fund. A decrease in expenditure is shown as a positive number.</p> <p>The state fiscal years included in the estimate are the same as the fiscal years included in the financial forecast by Minnesota Management & Budget (MMB)</p>
Description of Proposal	The analysis contains a description of the proposal relative to current law. The effective date is included in this section.
Data Sources and Methodology	Provides information on: <ul style="list-style-type: none">• Data sources;• Assumptions including elasticity;• Any interactions with other taxes; and• Projected growth rate

Revenue analyses are posted on the official DOR website by legislative session at: http://taxes.state.mn.us/legal_policy/pages/revenue_analysis_revenue_analyses.aspx

Revenue estimate do not include:

- The impact on the overall level of economic activity (such as job creation, employment, investments, and consumer spending)¹;
- The change in the cost of state tax administration, although the analyses do include an indicator as to whether or not administrative costs would be affected²;
- The change in federal taxes (property taxes and, in some cases, other local taxes *are* included)

Like fiscal notes, revenue estimates are a static analysis of the revenue or fiscal impact of proposed legislation.

What is Negligible?

A revenue analysis may contain the term “*negligible*” in the budget impact section. Negligible indicates the budget impact is less than \$5,000. Sometimes, the term “unknown” is also listed in the budget section. Unknown indicates that DOR does not have enough information to make a quantitative estimate for the analysis.

¹Memo from Dr. Paul Wilson, Director Tax Research, Minnesota Department of Revenue, January 26, 2010.

² Administrative cost estimates on a tax proposal can be obtained using the fiscal note process managed by Minnesota Management and Budget.

How to Request a Revenue Analysis

Requesting a revenue analysis for a tax bill is very different from the process for requesting a fiscal note. First, an official revenue analysis may be requested from a fiscal analyst assigned to the House Tax Committee for publicly introduced legislation or draft legislation. The fiscal analyst will provide the following assistance and coordination in conjunction with DOR:

- submits the proposed legislation (or draft legislation) including any amendments for analysis;
- in consultation with the author of the legislation, provides information about the legislation's intent, and
- as applicable, provides to DOR available background information.

Revenue estimates are completed by DOR throughout the year. Depending on the time of year and the number of requests for analysis, the completion of revenue analyses may be ranked by priority when demand intensifies. In past years, DOR has prioritized requests for revenue analysis as follows:

- Bills scheduled for the Tax Committee
- Governor's Office, Commissioner and Assistant Commissioners
- House and Senate Tax Committee Staff
- House Research, Senate Counsel and Research, and Fiscal Staff
- House and Senate Majority and Minority Research
- Individual Legislators
- Minnesota Management and Budget (MMB) Fiscal Notes
- Key Outside Organizations (Minnesota Taxpayers Association, State Bar Association)
- Other Outside Organizations

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