

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX CORPORATE FRANCHISE TAX Federal Update, Tax Year 2010 Only Repeal Delay in Refund Payments

March 16, 2011

Department of Revenue
Analysis of H.F. 79 (Davids), 3rd Engrossment

	Yes	No
DOR Administrative Costs/Savings	X	

	Fund Impact				
	<u>F.Y. 2011</u>	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>
	(000's)				
Health Care Bills	(\$350)	\$0	\$0	\$0	\$0
Small Business Jobs Act of 2010					
Individual Income Tax	(\$530)	\$5,920	(\$170)	(\$3,130)	(\$4,430)
Corporate Franchise Tax	<u>(\$1,450)</u>	<u>\$10,600</u>	<u>\$920</u>	<u>(\$5,400)</u>	<u>(\$8,100)</u>
Total	(\$1,980)	\$16,520	\$750	(\$8,530)	(\$12,530)
Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010					
Individual Income Tax	(\$8,405)	\$480	(\$300)	(\$790)	(\$975)
Corporate Franchise Tax	<u>(\$2,360)</u>	<u>\$1,475</u>	<u>(\$360)</u>	<u>(\$1,605)</u>	<u>(\$2,090)</u>
Total	(\$10,765)	\$1,955	(\$660)	(\$2,395)	(\$3,065)
Individual Income Tax Subtotal	(\$9,285)	\$6,400	(\$470)	(\$3,920)	(\$5,405)
Corporate Franchise Tax Subtotal	<u>(\$3,810)</u>	<u>\$12,075</u>	<u>\$560</u>	<u>(\$7,005)</u>	<u>(\$10,190)</u>
Federal Update Total	(\$13,095)	\$18,475	\$90	(\$10,925)	(\$15,595)
Repeal Required Delay in					
Payment of Refunds	(\$152,000)	\$152,000	\$0	\$0	\$0
Change in Interest on Refunds	(\$74)	\$664	\$0	\$0	\$0
General Fund Net Impact	(\$165,169)	\$171,139	\$90	(\$10,925)	(\$15,595)

¹ Depending upon the enactment date, revenue impact for FY 2011 could shift to FY 2012

Effective for tax year 2010 only.

EXPLANATION OF THE BILL

For tax year 2010, the bill would update reference to the Internal Revenue Code as amended through December 31, 2010. The provisions in these federal bills would be adopted for Minnesota tax purposes:

- The Patient Protection and Affordable Care Act, Public Law 111-148, enacted March 23, 2010, in combination with the Health Care and Education Reconciliation Act of 2010, Public Law 111-152, enacted March 30, 2010.

EXPLANATION OF THE BILL (Cont.)

- The Small Business Jobs Act of 2010, Public Law 111-240, enacted September 27, 2010.
- The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, Public Law 111-312, enacted December 17, 2010.

All provisions would be adopted. Bonus depreciation and increased Section 179 expensing would be adopted, but these provisions would be subject to an addback of 80% in the first year and five-year recovery, as under current state law.

The provisions that would be adopted are listed on the following pages. In cases where an election made in tax year 2010 affects subsequent years, the estimates assume the effects on subsequent years would be included. These provisions involve the timing of when income is recognized or deductions are allowed, such as bonus depreciation and increased Section 179 expensing.

The bill would also repeal the requirement that the Department of Revenue hold \$152 million in corporate franchise tax and sales tax refunds from fiscal year 2011 and pay them in fiscal year 2012.

REVENUE ANALYSIS DETAIL

Federal Update

- The estimate for the exclusion under state loan forgiveness programs was based on information provided by the Minnesota Department of Health.
- For other provisions, the estimates are based on the estimates for the federal legislation prepared at the time of enactment by the staff of the Joint Committee on Taxation.
- Where appropriate, the estimates were divided between the individual income tax and corporate franchise tax.
- The estimates for each provision were apportioned to Minnesota based on information applicable to that provision.
- The estimates were adjusted for the difference between federal and state tax rates and federal and state fiscal years.

Payment of Refunds

- Repeal of the requirement to hold \$152 million in refunds would allow the payment of the refunds to be shifted from FY 2012 to FY 2011.
- The estimated change in interest is based on the release of the refunds in March 2011.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

	FY2011¹	FY2012	FY2013	FY2014	FY2015
			(\$000s)		
<i>Health Care Bills</i>					
Income Exclusion for Specified Indian Tribe Health Benefits (3/24/10)	(Negl.)	\$0	\$0	\$0	\$0
Exclusion under State Loan Forgiveness Programs for Certain Health Professionals	(\$100)	\$0	\$0	\$0	\$0
Increase Maximum Exclusion for Employer-Provided Adoption Assistance	(\$50)	\$0	\$0	\$0	\$0
Health Benefits for Children up to Age 26: Exclusion for Employer-Provided Amounts, Deduction for Self-Employed Persons	(\$200)	\$0	\$0	\$0	\$0
Health Care Bills Total	(\$350)	\$0	\$0	\$0	\$0
<i>Small Business Jobs Act of 2010</i>					
Increase from 75% to 100% the Capital Gains Exclusion for Small Business Stock ² (acquired 9/28/10 – 12/31/10)	\$0	\$0	\$0	\$0	\$0
Section 179 Expensing: Increase Limits and Expand Eligible Property, with 80% Addback and 5-Year Recovery					
Individual Income Tax	\$500	\$1,500	\$50	(\$700)	(\$1,000)
Corporate Franchise Tax	\$200	\$600	\$20	(\$300)	(\$400)
50% Bonus Depreciation, with 80% Addback and 5-Year Recovery					
Individual Income Tax	\$600	\$4,300	(\$300)	(\$2,500)	(\$3,500)
Corporate Franchise Tax	\$1,500	\$10,100	(\$600)	(\$6,000)	(\$8,200)
Special Rule for Long-Term Contract Accounting³					
Corporate Franchise Tax	(\$3,300)	(\$100)	\$1,500	\$900	\$500
Increase in Allowable Deduction for Start-Up Expenditures ³	(\$1,450)	\$50	\$50	\$70	\$70
Remove Cellular Phones from Listed Property ³	(\$80)	\$0	\$0	\$0	\$0

	FY2011¹	FY2012	FY2013	FY2014	FY2015
			(\$000s)		
Rollovers from Elective Deferral Plans to Roth Designated Accounts in 2010: Income Reported 50% in 2011 and 50% in 2012	(\$100)	\$70	\$30	\$0	\$0
Source Rules for Income on Guarantees (9/28/10)					
Corporate Franchise Tax	\$150	\$0	\$0	\$0	\$0
Individual Income Tax	(\$530)	\$5,920	(\$170)	(\$3,130)	(\$4,430)
Corporate Franchise Tax	<u>(\$1,450)</u>	<u>\$10,600</u>	<u>\$920</u>	<u>(\$5,400)</u>	<u>(\$8,100)</u>
Small Business Jobs Act Total	(\$1,980)	\$16,520	\$750	(\$8,530)	(\$12,530)
<i>Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act</i>					
100% Bonus Depreciation (9/9/10 – 12/31/10), with 80% Addback and 5-Year Recovery					
Individual Income Tax	\$400	\$700	(\$100)	(\$600)	(\$800)
Corporate Franchise Tax	\$1,000	\$1,700	(\$150)	(\$1,400)	(\$1,900)
Suspension of 100% of Net Income Limit on Percentage Depletion for Oil and Natural Gas from Marginal Properties	(\$25)	\$0	\$0	\$0	\$0
Deduction for Educator Classroom Expenses up to \$250	(\$1,000)	\$0	\$0	\$0	\$0
Special Rule for Contributions of Qualified Conservation Property	(\$250)	\$0	\$0	\$0	\$0
Deduction for Qualified Tuition and Related Expenses	(\$4,200)	\$0	\$0	\$0	\$0
Tax-Free IRA Distributions, up to \$100,000, to Certain Public Charities for Individuals Age 70 ½ and Older	(\$1,400)	(\$60)	(\$60)	(\$60)	(\$60)
15-Year Straight-Line Depreciation for Leasehold, Restaurant, and Retail Improvements and New Restaurants					
Individual Income Tax	(\$200)	(\$200)	(\$200)	(\$200)	(\$200)
Corporate Franchise Tax	(\$300)	(\$300)	(\$300)	(\$300)	(\$300)

	FY2011¹	FY2012	FY2013	FY2014	FY2015
			(\$000s)		
Accelerated Depreciation for Business Property on Indian Reservations					
Individual Income Tax	(\$100)	(\$20)	Negl.	\$10	\$20
Corporate Franchise Tax	(\$75)	(\$10)	Negl.	Negl.	\$10
Enhanced Charitable Contribution Deduction of Food Inventory by Other Than C Corporations	(\$250)	\$0	\$0	\$0	\$0
Enhanced Charitable Contribution Deduction of Book Inventory to Public Schools					
Corporate Franchise Tax	(\$70)	\$0	\$0	\$0	\$0
Enhanced Charitable Contribution Deduction of Computer Inventory for Educational Purposes					
Corporate Franchise Tax	(\$500)	\$0	\$0	\$0	\$0
Election to Expense Mine Safety Equipment					
Corporate Franchise Tax	(\$15)	Negl.	Negl.	Negl.	Negl.
Special Expensing Rules for Certain Film and Television Productions					
Individual Income Tax	(\$250)	\$40	\$35	\$30	\$25
Corporate Franchise Tax	(\$150)	\$35	\$30	\$25	\$20
Expensing of Brownfields Environmental Remediation Costs					
Individual Income Tax	(\$600)	\$30	\$35	\$40	\$50
Corporate Franchise Tax	(\$900)	\$50	\$60	\$70	\$80
Treatment of Certain Payments to Controlling Exempt Organizations for the Unrelated Business Income Tax					
Corporate Franchise Tax	(\$150)	\$0	\$0	\$0	\$0
Treatment of Certain Dividends of Regulated Investment Companies	(\$400)	\$0	\$0	\$0	\$0
Exception under Subpart F for Active Financing Income					
Corporate Franchise Tax	(\$1,200)	\$0	\$0	\$0	\$0

	FY2011¹	FY2012	FY2013	FY2014	FY2015
			(\$000s)		
Basis Adjustment to S Corporation Stock for Charitable Contributions of Property	(\$130)	(\$10)	(\$10)	(\$10)	(\$10)
Individual Income Tax	(\$8,405)	\$480	(\$300)	(\$790)	(\$975)
Corporate Franchise Tax	<u>(\$2,360)</u>	<u>\$1,475</u>	<u>(\$360)</u>	<u>(\$1,605)</u>	<u>(\$2,090)</u>
Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act Total	(\$10,765)	\$1,955	(\$660)	(\$2,395)	(\$3,065)

¹ Depending upon the enactment date, revenue impact for FY 2011 could shift to FY 2012.

² Revenue loss occurs after FY 2015.

³ Includes individual and corporate impact.