INDIVIDUAL INCOME TAX
CORPORATE FRANCHISE TAX
Federal Update, P.L. 111-312

February 23, 2011

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 451 (Davids) / S.F. 379 (Ortman)

	Fund Impact				
	F.Y. 2011[1]	**F.Y. 2012**	**F.Y. 2013**	**F.Y. 2014**	**F.Y.2015**
			(000's)		
Individual Income Tax	($22,305)	($159,655)	($105,780)	$6,050	($5,465)
Corporate Franchise Tax	($6,100)	$1,250	$21,010	$10,140	($12,310)
General Fund Total	($28,405)	($158,405)	($84,770)	$16,190	($17,775)

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

EXPLANATION OF THE BILL

The bill would adopt for Minnesota tax purposes the provisions of the federal Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, Public Law 111-312, enacted December 17, 2010.

Four provisions would not be adopted: the deduction for educator classroom expenses up to $250; the deduction for qualified tuition and related expenses; the enhanced charitable contribution deduction by corporations of computer inventory for educational purposes; and for the working family credit, the increased income phase-out range for married-joint returns. 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.

REVENUE ANALYSIS DETAIL

- The House Income Tax Simulation Model was used for several provisions: the repeal of the overall limitation on itemized deductions and the phaseout of personal exemptions; the increase in the standard deduction for married filers; the change in the income limits for the student loan interest deduction; and the changes in the dependent care credit that flow through to the state credit.
- For other provisions, the estimates are based on the estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation dated December 10, 2010.

REVENUE ANALYSIS DETAIL (Cont.)

- 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.

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

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	FY2011[1]	**FY2012**	**FY2013** ($000s)	**FY2014**	**FY2015**
Repeal Overall Limitation on Itemized Deductions and Phaseout of Personal Exemptions (tax years 2011 and 2012)	$0	($73,100)	($75,500)	$0	$0
Increase the Standard Deduction for Married Filers (tax years 2011 and 2012)	($13,200)	($68,400)	($28,700)	$0	$0
For Education Savings Accounts, Increase Contribution Limit and Other Changes (tax years 2011 and 2012)	$0	($100)	($100)	$0	$0
Exclusion of Employer-Provided Education Assistance (tax years 2011 and 2012)	($3,100)	($6,300)	($3,200)	$0	$0
For the Student Loan Interest Deduction, Increase the Income Phaseout (tax years 2011 and 2012)	$0	($5,800)	($5,200)	$0	$0
Exclusion for Awards under the National Health Service Corps Scholarship Program and Similar Programs (tax years 2011 and 2012)	$0	($100)	($100)	$0	$0
For the Dependent Care Credit, Increase Eligible Expenses and Credit Rate That Affect the State Credit (tax years 2011 and 2012)	$0	($2,300)	($2,400)	$0	$0
Extend and Increase the Exclusion for Employer-Provided Adoption Assistance (tax year 2012)	$0	($100)	($100)	$0	$0
100% Bonus Depreciation (9/9/10 – 12/31/11) and 50% Bonus Depreciation (1/1/12 – 12/31/12), with 80% Addback and 5-Year Recovery					
Individual Income Tax	($1,100)	$1,900	$9,200	$4,300	($5,100)
Corporate Franchise Tax	($2,500)	$4,400	$21,400	$10,100	($11,800)
Increased Section 179 Expensing, with 80% Addback and 5-Year Recovery (tax year 2012)					
Individual Income Tax	$0	($50)	$800	$2,200	$75

	FY2011[1]	FY2012	FY2013 ($000s)	FY2014	FY2015
Corporate Franchise Tax	$0	($10)	$200	$600	$20
	FY2011[1]	**FY2012**	**FY2013** ($000s)	**FY2014**	**FY2015**
Suspension of 100% of Net Income Limit on Percentage Depletion for Oil and Natural Gas from Marginal Properties (tax years 2010 and 2011)	($30)	($25)	$0	$0	$0
Special Rule for Contributions of Qualified Conservation Property (tax years 2010 and 2011)	($300)	($200)	$0	$0	$0
Tax-Free IRA Distributions, up to $100,000, to Certain Public Charities for Individuals Age 70 ½ and Older (tax years 2010 and 2011)	($1,700)	($1,400)	($130)	($130)	($140)
Parity for Exclusion for Employer-Provided Mass Transit and Parking Benefits (tax year 2011)	(Negl.)	(Negl.)	$0	$0	$0
15-Year Straight-Line Depreciation for Leasehold, Restaurant, and Retail Improvements and New Restaurants (tax years 2010 and 2011)					
Individual Income Tax	($300)	($500)	($500)	($500)	($500)
Corporate Franchise Tax	($400)	($800)	($800)	($800)	($800)
Accelerated Depreciation for Business Property on Indian Reservations (tax years 2010 and 2011)					
Individual Income Tax	($125)	($80)	$10	$30	$50
Corporate Franchise Tax	($100)	($60)	$10	$20	$40
Enhanced Charitable Contribution Deduction of Food Inventory by Other Than C Corporations (tax years 2010 and 2011)	($300)	($250)	$0	$0	$0
Enhanced Charitable Contribution Deduction of Book Inventory to Public Schools (tax years 2010 and 2011)					
Corporate Franchise Tax	($80)	($70)	$0	$0	$0
Election to Expense Mine Safety Equipment (tax years 2010 and 2011)					

	FY2011[1]	FY2012	FY2013 ($000s)	FY2014	FY2015
Corporate Franchise Tax	($20)	($10)	Negl.	Negl.	Negl.
Special Expensing Rules for Certain Film and Television Productions (tax years 2010 and 2011)					
Individual Income Tax	($300)	($250)	$80	$70	$60
Corporate Franchise Tax	($250)	($200)	$70	$60	$50
Expensing of Brownfields Environmental Remediation Costs (tax years 2010 and 2011)					
Individual Income Tax	($700)	($600)	$80	$100	$110
Corporate Franchise Tax	($1,100)	($900)	$130	$160	$180
Treatment of Certain Payments to Controlling Exempt Organizations for the Unrelated Business Income Tax (tax years 2010 and 2011)					
Corporate Franchise Tax	($150)	($100)	$0	$0	$0
Treatment of Certain Dividends of Regulated Investment Companies (tax years 2010 and 2011)	($450)	($400)	$0	$0	$0
Exception under Subpart F for Active Financing Income (tax years 2010 and 2011)					
Corporate Franchise Tax	($1,500)	($1,000)	$0	$0	$0
Basis Adjustment to S Corporation Stock for Charitable Contributions of Property (tax years 2010 and 2011)	($200)	($100)	($20)	($20)	($20)
Premiums for Mortgage Insurance Deductible As Qualified Residence Interest (tax year 2011)	($500)	($1,500)	$0	$0	$0
Exclusion of 100% of Gain on Certain Small Business Stock[2] (acquired 1/1/11 – 12/31/11)	$0	$0	$0	$0	$0

[1] Depending upon the enactment date, revenue impact for FY 2011 could shift to FY 2012.
[2] Revenue loss occurs after FY 2015.