

# MINNESOTA • REVENUE

## INDIVIDUAL INCOME TAX CORPORATE FRANCHISE TAX Federal Update for Tax Year 2006

January 9, 2007

Department of Revenue  
Analysis of S.F. 17 (Bakk)/ H.F. 8 (Wollschlager)

	Yes	No
DOR Administrative Costs/Savings	X	

	<b>Fund Impact</b>				
	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
			(\$000s)		
<i>Heroes Earned Retirement Opportunities Act</i>	(Negligible)	\$0	\$0	\$0	\$0
<i>Pension Protection Act of 2006</i>					
Individual Income Tax	(\$1,275)	\$0	\$0	\$0	\$0
Corporate Franchise Tax	<u>(\$200)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total	(\$1,475)	\$0	\$0	\$0	\$0
<i>Tax Relief and Health Care Act of 2006</i>					
Individual Income Tax	(\$20,700)	(\$315)	(\$315)	(\$305)	(\$240)
Corporate Franchise Tax	<u>(\$2,025)</u>	<u>(\$570)</u>	<u>(\$570)</u>	<u>(\$560)</u>	<u>(\$505)</u>
Total	(\$22,725)	(\$885)	(\$885)	(\$865)	(\$745)
Individual Income Tax	(\$21,975)	(\$315)	(\$315)	(\$305)	(\$240)
Corporate Franchise Tax	<u>(\$2,225)</u>	<u>(\$570)</u>	<u>(\$570)</u>	<u>(\$560)</u>	<u>(\$505)</u>
<b>General Fund Total</b>	(\$24,200)	(\$885)	(\$885)	(\$865)	(\$745)

Note: A table is attached showing estimates for each provision that would be adopted.

Effective for tax year 2006 only

### EXPLANATION OF THE BILL

For purposes of the individual income and corporate franchise taxes and the property tax refund, Minnesota law references the Internal Revenue Code, as amended through May 18, 2006.

The bill would adopt for tax year 2006 the changes to the Internal Revenue Code that were included in the federal bills enacted after May 18, 2006, through December 31, 2006. The three federal bills were:

- Heroes Earned Retirement Opportunities Act, Public Law 109-227, enacted May 29, 2006.
- Pension Protection Act of 2006, Public Law 109-280, enacted August 17, 2006.
- Tax Relief and Health Care Act of 2006, Public Law 109-432, enacted December 20, 2006.

## REVENUE ANALYSIS DETAIL

- The estimates for the deductions for tuition and educator expenses are based on the recent history of these deductions taken by Minnesota taxpayers. The House Income Tax Simulation Model was used as a basis for the estimates of the tuition deduction.
- For the other provisions, the estimates are based on the estimates for the federal legislation prepared by the Joint Committee on Taxation.
- For provisions affecting both the individual and corporate taxes, the federal estimates were divided between the two taxes.
- The federal estimates were apportioned to Minnesota based on a measure appropriate to each provision. Federal and state marginal rates were then applied.
- Federal fiscal years were converted to Minnesota fiscal years.

**Number of Taxpayers:** For tax year 2004, the higher education tuition deduction was claimed on about 111,000 returns filed by Minnesota residents, and the educator expense deduction was claimed on about 54,000 returns. Each of the other provisions would affect a smaller number of returns.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)

	FY 2007	FY 2008	FY 2009	FY 2010	FY2011
			(\$000s)		
<b>Heroes Earned Retirement Opportunities Act</b>					
Treat nontaxable combat pay as earned income for determining deductible IRA contributions (Negligible)		\$0	\$0	\$0	\$0
<b>Pension Protection Act of 2006</b>					
Tax-free distributions up to \$100,000 from an IRA for charitable purposes for taxpayers age 70½ and older	(\$775)	\$0	\$0	\$0	\$0
Extend to businesses other than C corporations the enhanced deduction for contributions of food inventory	(\$350)	\$0	\$0	\$0	\$0
Extend enhanced deduction for contributions of book inventory to include contributions to public schools					
Corporate Franchise Tax	(\$75)	\$0	\$0	\$0	\$0
Basis adjustment to S corporation stock for charitable contributions	(\$150)	\$0	\$0	\$0	\$0
Treatment of certain payments to controlling exempt organizations for purposes of the unrelated business income tax					
Corporate Franchise Tax	(\$125)	\$0	\$0	\$0	\$0
Encourage contributions of real property made for conservation purposes	(\$125)	\$0	\$0	\$0	\$0
Provisions limiting charitable contribution deductions	\$125	\$0	\$0	\$0	\$0
<b>Tax Relief and Health Care Act of 2006</b>					
Extend deduction of up to \$4,000 for higher education tuition expenses	(\$18,300)	\$0	\$0	\$0	\$0
Extend deduction for educator classroom expenses up to \$250	(\$1,000)	\$0	\$0	\$0	\$0
Extend and expand the expensing of environmental remediation costs					
Individual Income Tax	(\$230)	\$10	\$10	\$20	\$20
Corporate Franchise Tax	(\$370)	\$20	\$20	\$30	\$30
	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY2011</b>

	(\$000s)				
Extend accelerated depreciation for business property on Indian reservations					
Individual Income Tax	(\$750)	\$75	\$75	\$75	\$140
Corporate Franchise Tax	(\$600)	\$60	\$60	\$60	\$115
Extend 15-year straight-line cost recovery for leasehold and restaurant improvements					
Individual Income Tax	(\$400)	(\$400)	(\$400)	(\$400)	(\$400)
Corporate Franchise Tax	(\$650)	(\$650)	(\$650)	(\$650)	(\$650)
Expand charitable contribution allowed for scientific property used for research					
Corporate Franchise Tax	(\$75)	\$0	\$0	\$0	\$0
Extend enhanced deduction for qualified computer contributions					
Corporate Franchise Tax	(\$330)	\$0	\$0	\$0	\$0
Extend suspension of income limit on percentage depletion for oil and gas from marginal wells	(\$20)	\$0	\$0	\$0	\$0