

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX CORPORATE FRANCHISE TAX Federal Update through Sept. 27, 2010

January 28, 2011

State Taxes Only – See Separate Analysis for Property Tax and Local Aid Provisions

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 60 (Robling), 1st Engrossment, Article 5

	Fund Impact				
	<u>F.Y. 2011¹</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	(\$2,280)	(\$4,110)	(\$4,260)	\$3,840	\$2,940
Small Business Jobs Act of 2010					
Individual Income Tax	(\$10,830)	(\$8,150)	\$3,880	\$3,405	\$220
Corporate Franchise Tax	<u>(\$5,800)</u>	<u>\$5,500</u>	<u>\$3,220</u>	<u>(\$2,100)</u>	<u>(\$5,600)</u>
Total	(\$16,630)	(\$2,650)	\$7,100	\$1,305	(\$5,380)
Individual Income Tax Subtotal	(\$13,110)	(\$12,260)	(\$380)	\$7,245	\$3,160
Corporate Franchise Tax Subtotal	<u>(\$5,800)</u>	<u>\$5,500</u>	<u>\$3,220</u>	<u>(\$2,100)</u>	<u>(\$5,600)</u>
General Fund Total	(\$18,910)	(\$6,760)	\$2,840	\$5,145	(\$2,440)

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

EXPLANATION OF THE BILL

The bill would update reference to the Internal Revenue Code as amended through September 27, 2010. The changes 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.
- The Small Business Jobs Act of 2010, Public Law 111-240, enacted September 27, 2010.

The provisions that would be adopted are listed on the following pages. Full conformity to Section 179 expensing would apply to tax year 2011.

REVENUE ANALYSIS DETAIL

- The House Income Tax Simulation Model was used to estimate the increase in the adjusted gross income floor for the itemized deduction for medical expenses.
- For other provisions, the estimates in most cases are based on the estimates for the federal legislation prepared 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.

	FY2011¹	FY2012	FY2013	FY2014	FY2015
	(\$000s)				
<i>Health Care Bills</i>					
For the Itemized Deduction for Medical Expenses, Increase AGI Floor from 7.5% to 10% (1/1/13)	\$0	\$0	\$0	\$8,900	\$9,500
Income Exclusion for Specified Indian Tribe Health Benefits (3/24/10)	(Negl.)	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Exclusion Under State Loan Forgiveness Programs for Certain Health Professionals (1/1/09)	(\$180)	(\$60)	(\$60)	(\$60)	(\$60)
Exclusion for Employer-Provided Adoption Assistance: Increase Maximum (tax year 2010); Extend for One Year (tax year 2011)	(\$200)	(\$150)	\$0	\$0	\$0
Health Benefits for Children up to Age 26: Exclusion for Employer-Provided Amounts, Deduction for Self-Employed Persons	(\$1,900)	(\$3,900)	(\$4,200)	(\$5,000)	(\$6,500)
Health Care Bills Total	(\$2,280)	(\$4,110)	(\$4,260)	\$3,840	\$2,940
<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
Reduce from 10 to 5 years the Recognition Period for Built-In Gains Tax (tax year 2011)	(\$100)	(\$250)	\$0	\$0	\$0
Section 179 Expensing: Increase Limits and Expand Eligible Property, with 80% Addback and 5-Year Recovery (tax year 2010)					
Individual Income Tax	\$500	\$1,500	\$50	(\$700)	(\$1,000)
Corporate Franchise Tax	\$200	\$600	\$20	(\$300)	(\$400)
Section 179 Expensing: Fully Conform to Increased Limits and Expansion of Eligible Property (tax year 2011)					
Individual Income Tax	(\$10,700)	(\$13,300)	\$4,000	\$6,400	\$4,400
Corporate Franchise Tax	(\$4,600)	(\$5,700)	\$1,700	\$2,700	\$1,900

	FY2011 ¹	FY2012	FY2013	FY2014	FY2015
	(\$000s)				
50% Bonus Depreciation for Tax Year 2010, 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 Accounting ³ (tax year 2010)					
Corporate Franchise Tax	(\$3,300)	(\$100)	\$1,500	\$900	\$500
Increase in Allowable Deduction for Start-Up Expenditures ³ (tax year 2010)	(\$950)	(\$450)	\$50	\$70	\$70
Remove Cellular Phones from Listed Property ³ (1/1/10)	(\$80)	(\$120)	(\$125)	(\$140)	(\$150)
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
Permit Partial Annuitization of a Nonqualified Annuity Contract (1/1/11)	\$0	\$100	\$175	\$275	\$400
Source Rules for Income on Guarantees (9/28/10)					
Corporate Franchise Tax	\$400	\$600	\$600	\$600	\$600
Individual Income Tax	(\$10,830)	(\$8,150)	\$3,880	\$3,405	\$220
Corporate Franchise Tax	<u>(\$5,800)</u>	<u>\$5,500</u>	<u>\$3,220</u>	<u>(\$2,100)</u>	<u>(\$5,600)</u>
Small Business Jobs Act Total	(\$16,630)	(\$2,650)	\$7,100	\$1,305	(\$5,380)

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

²Revenue loss occurs after FY 2015.

³Includes individual and corporate impact.

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