

# MINNESOTA • REVENUE

## INDIVIDUAL INCOME TAX CORPORATE FRANCHISE TAX Federal Update for Tax Year 2012

January 25, 2013

*Senate Author Added*

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue  
Analysis of H.F. 63 (Davids) / S.F. 122 (Ortman)

	<b>Fund Impact</b>				
	<b><u>F.Y. 2013</u></b>	<b><u>F.Y. 2014</u></b>	<b><u>F.Y. 2015</u></b>	<b><u>F.Y. 2016</u></b>	<b><u>F.Y. 2017</u></b>
	(000's)				
American Taxpayer Relief Act					
Individual Income Tax	(\$14,100)	\$470	(\$260)	(\$650)	(\$705)
Corporate Franchise Tax	(\$3,010)	\$40	(\$280)	(\$410)	(\$445)
Total	(\$17,110)	\$510	(\$540)	(\$1,060)	(\$1,150)
FAA Modernization Act					
Individual Income Tax	(\$1,400)	(\$20)	(\$20)	(\$20)	(\$20)
General Fund Total	(\$18,510)	\$490	(\$560)	(\$1,080)	(\$1,170)

Effective for tax year 2012 only.

### EXPLANATION OF THE BILL

For tax year 2012 only, the bill would update reference to the Internal Revenue Code from April 14, 2011, to January 3, 2013, thereby adopting the applicable provisions of the American Taxpayer Relief Act of 2012, Public Law 112-240, enacted January 2, 2013, and an individual income tax provision in the FAA Modernization and Reform Act of 2012, Public Law 112-95, enacted February 14, 2012.

The provisions of the American Taxpayer Relief Act that are effective for tax year 2012 are listed on pages 3 through 5. The estimates for increased Section 179 expensing assume an addback of 80% in the first year and five-year recovery, as under current law.

The provision in the FAA Act allows a qualified airline employee who received a settlement payment from an airline company in bankruptcy to roll over that amount into a traditional IRA. The provision applied to airlines that filed for bankruptcy after September 11, 2001, and before January 1, 2007. A 2008 federal law allowed for the rollover of the settlement payments into a Roth IRA. The settlement payments were taxable compensation to employees and would have remained taxable if rolled over into a Roth IRA. If the amount is now rolled over into a traditional IRA, it would be excluded from income. The rollover must have occurred within 180 days of the bill's enactment date (February 14, 2012). An amended return for the year the payment was received would be required in order to claim a refund. The bill would allow the amended Minnesota return to be filed until April 15, 2013.

## **EXPLANATION OF THE BILL (Cont.)**

In cases where an election made in tax year 2012 affects subsequent years, the estimates include the impact on the other years. These provisions involve mainly the timing of when income is recognized or deductions allowed.

## **REVENUE ANALYSIS DETAIL**

### *American Taxpayer Relief Act of 2012*

- The estimates are based on the estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation, dated January 1, 2013.
- Where applicable, 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 relevant to that provision. The estimates were adjusted for the difference between federal and state tax rates and federal and state fiscal years.

### *FAA Modernization and Reform Act of 2012*

- The estimate was developed during the 2012 Legislative Session for H.F. 2773 / S.F. 2427. The revenue analysis dated March 19, 2012, explains the data sources and assumptions used in estimating the revenue impact of the bill.
- The Internal Revenue Service has not separately tracked the amended federal returns filed due to this legislation. Because additional information was not available, the estimate made in March 2012 was not revised.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.revenue.state.mn.us/research\\_stats/Pages/Revenue-Analyses.aspx](http://www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx)

	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b> (\$000s)	<b>FY 2016</b>	<b>FY 2017</b>
Deduction for Educator Expenses up to \$250	(\$1,100)	\$0	\$0	\$0	\$0
Parity for Exclusion of Employer-Provided Mass Transit and Parking Benefits (Negligible)		\$0	\$0	\$0	\$0
Premiums for Mortgage Insurance Deductible as Qualified Residence Interest	(\$3,900)	\$0	\$0	\$0	\$0
Special Rule for Contributions of Qualified Conservation Property	(\$300)	(\$30)	(\$20)	(\$10)	(\$10)
Deduction for Qualified Tuition and Related Expenses	(\$5,300)	\$0	\$0	\$0	\$0
Tax-Free IRA Distributions, up to \$100,000, to Certain Public Charities for Individuals Age 70 ½ & Older	(\$1,700)	(\$80)	(\$80)	(\$80)	(\$80)
15-Year Straight-Line Depreciation for Qualified Leasehold, Restaurant, and Retail Improvements					
Individual Income Tax	(\$150)	(\$200)	(\$200)	(\$200)	(\$200)
Corporate Franchise Tax	(\$250)	(\$300)	(\$300)	(\$300)	(\$300)
7-Year Recovery Period for Certain Motorsports Racing Track Facilities					
Corporate Franchise Tax	(\$40)	(\$10)	(\$10)	(\$5)	(\$5)
Accelerated Depreciation for Business Property on Indian Reservations					
Individual Income Tax	(\$400)	(\$50)	(\$25)	\$30	\$80
Corporate Franchise Tax	(\$350)	(\$40)	(\$20)	\$25	\$50

	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b> (\$000s)	<b>FY 2016</b>	<b>FY 2017</b>
Enhanced Charitable Contribution Deduction for Food Inventory by Other Than C Corporations	(\$600)	\$0	\$0	\$0	\$0
Increased Section 179 Expensing, with 80% Addback, 5-Year Recovery					
Individual Income Tax	\$300	\$800	\$50	(\$400)	(\$500)
Corporate Franchise Tax	\$100	\$350	\$20	(\$150)	(\$200)
Election to Expense Mine Safety Equipment					
Corporate Franchise Tax	(\$20)	(Negl.)	Negl.	Negl.	Negl.
Special Expensing Rules for Certain Film and Television Productions					
Individual Income Tax	(\$300)	\$50	\$35	\$30	\$25
Corporate Franchise Tax	(\$250)	\$40	\$30	\$20	\$10
Treatment of Certain Payments to Controlling Exempt Organizations for the Unrelated Business Income Tax					
Corporate Franchise Tax	(\$100)	\$0	\$0	\$0	\$0
Treatment of Certain Dividends of Regulated Investment Companies	(\$350)	\$0	\$0	\$0	\$0
Exception under Subpart F for Active Financing Income					
Corporate Franchise Tax	(\$1,500)	\$0	\$0	\$0	\$0
Increase from 50% to 100% the Exclusion of Gain on Certain Small Business Stock (acquired 1/1/12 – 12/31/12)*	\$0	\$0	\$0	\$0	\$0
Basis Adjustment to S Corporation Stock for Charitable Contributions of Property	(\$300)	(\$20)	(\$20)	(\$20)	(\$20)

	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b> (\$000s)	<b>FY 2016</b>	<b>FY 2017</b>
Reduction in Recognition Period for S Corporation Built-In Gains Tax					
Corporate Franchise Tax	(\$600)	\$0	\$0	\$0	\$0
Individual Income Tax	(\$14,100)	\$470	(\$260)	(\$650)	(\$705)
Corporate Franchise Tax	<u>(\$3,010)</u>	<u>\$40</u>	<u>(\$280)</u>	<u>(\$410)</u>	<u>(\$445)</u>
Total	(\$17,110)	\$510	(\$540)	(\$1,060)	(\$1,150)

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\* Revenue loss occurs after FY 2017.