INDIVIDUAL INCOME TAX
CORPORATE FRANCHISE TAX
Federal Update

February 27, 2013

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 318 (Davids) As Proposed to be Amended (H0318A4)

	Fund Impact				
	F.Y. 2013	**F.Y. 2014**	**F.Y. 2015**	**F.Y. 2016**	**F.Y. 2017**
			(000's)		
Individual Income Tax	($9,650)	($182,420)	($99,025)	($110,980)	($118,505)
Corporate Franchise Tax	($5,455)	($6,900)	$15,855	$1,075	($6,280)
General Fund Total	($15,105)	($189,320)	($83,170)	($109,905)	($124,785)

EXPLANATION OF THE BILL

The bill would update reference to the Internal Revenue Code as amended through January 3, 2013, and thereby adopt provisions contained in the American Taxpayer Relief Act of 2012, Public Law 112-240, enacted January 2, 2013.

With the enactment of H.F. 6 (Laws 2013, Chapter 3), Minnesota has adopted for tax year 2012 all of the provisions of the federal bill. As proposed to be amended, H.F. 318 would be effective for tax years after 2012.

Provisions that would be adopted are listed on pages 3 through 6. The estimates for Section 179 expensing are for full conformity to the increased limits. The estimates for bonus depreciation include the addback of 80% in the first year and five-year recovery, as under current law.

For the limitation on itemized deductions, the addition under current law is maintained and a subtraction is created for the limitation under the recently-enacted federal law. The effect is to retain the treatment under current Minnesota law. Likewise, for the phaseout of personal exemptions, the addition under current law is maintained, and a subtraction is created for the phaseout amount under the new federal law, thereby retaining the treatment under current law.

REVENUE ANALYSIS DETAIL

- The House Income Tax Simulation Model was used for several provisions: the increased standard deduction for married filers, the changes in the dependent care credit and, for the working family credit, the higher phaseout range for married-joint returns.
- 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 January 1, 2013.

REVENUE ANALYSIS DETAIL (Cont.)

- 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.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx

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	FY 2013	FY 2014	FY 2015 ($000s)	FY 2016	FY 2017
Provisions Made Permanent					
Increase the Standard Deduction for Married Filers (1/1/13)	$0	($111,900)	($79,100)	($81,300)	($83,400)
For Education Savings Accounts, Increase Contribution Limit and Other Changes (1/1/13)	$0	($100)	($100)	($100)	($100)
Exclusion of Employer-Provided Education Assistance (1/1/13)	$0	($7,300)	($7,800)	($8,000)	($8,200)
For the Student Loan Interest Deduction, Increase the Income Phaseout, Other Changes (1/1/13)	$0	($5,900)	($6,000)	($6,100)	($6,400)
Exclusion for Awards under the National Health Service Corps Scholarship Program and Similar Programs (1/1/13)	$0	($600)	($600)	($600)	($600)
For the Dependent Care Credit, Increase Eligible Expense Limit and Credit Rate (1/1/13)	$0	($1,800)	($1,800)	($1,800)	($1,800)
Exclusion for Employer-Provided Adoption Assistance (1/1/13)	$0	($400)	($400)	($400)	($400)
Provisions Temporarily Extended					
For the Working Family Credit, Increase the Phaseout Range for Married-Joint Filers by $5,000, Indexed (tax years 2013 - 2017)*	$0	($17,100)	($17,300)	($17,600)	($17,900)
Deduction for Educator Expenses to $250 (tax year 2013)	$0	($1,100)	$0	$0	$0
Exclusion of Discharge of Indebtedness Income on Principal Residence (tax year 2013)	$0	($7,200)	$0	$0	$0

	FY 2013	FY 2014	FY 2015 ($000s)	FY 2016	FY 2017
Parity for Exclusion of Employer-Provided Mass Transit and Parking Benefits (tax year 2013)	$0	(Negl.)	$0	$0	$0
Premiums for Mortgage Insurance Deductible as Qualified Residence Interest (tax year 2013)	$0	($3,900)	$0	$0	$0
Special Rule for Contributions of Qualified Conservation Property (tax year 2013)	$0	($320)	($30)	($20)	($10)
Deduction for Qualified Tuition and Related Expenses (tax year 2013)	$0	($5,600)	$0	$0	$0
Tax-Free IRA Distributions, up to $100,000, to Certain Public Charities for Individuals Age 70 ½ and Older (tax year 2013)	($500)	($2,020)	($120)	($120)	($120)
15-Year Straight-Line Depreciation for Qualified Leasehold, Restaurant, and Retail Improvements (tax year 2013)					
Individual Income Tax	($100)	($300)	($300)	($300)	($300)
Corporate Franchise Tax	($150)	($500)	($500)	($500)	($500)
7-Year Recovery Period for Certain Motorsports Racing Track Facilities (tax year 2013)					
Corporate Franchise Tax	($20)	($40)	($10)	($5)	($5)
Accelerated Depreciation for Business Property on Indian Reservations (tax year 2013)					
Individual Income Tax	($100)	($400)	($100)	$50	$120
Corporate Franchise Tax	($75)	($360)	($80)	$45	$100

	FY 2013	FY 2014	FY 2015 ($000s)	FY 2016	FY 2017
Enhanced Charitable Contribution Deduction for Food Inventory by Other Than C Corporations (tax year 2013)	($100)	($600)	$0	$0	$0
Increased Section 179 Expensing, Full Conformity (tax year 2013)					
Individual Income Tax	($8,200)	($16,100)	$9,200	$5,600	$3,800
Corporate Franchise Tax	($3,500)	($6,700)	$3,800	$2,300	$1,600
Election to Expense Mine Safety Equipment (tax year 2013)					
Corporate Franchise Tax	($10)	($10)	Negl.	Negl.	Negl.
Special Expensing Rules for Certain Film and Television Productions (tax year 2013)					
Individual Income Tax	($100)	($350)	$55	$40	$35
Corporate Franchise Tax	($100)	($240)	$45	$35	$25
Treatment of Certain Payments to Controlling Exempt Organizations for the Unrelated Business Income Tax (tax year 2013)					
Corporate Franchise Tax	$0	($150)	$0	$0	$0
Treatment of Certain Dividends of Regulated Investment Companies (tax year 2013)	($50)	($350)	$0	$0	$0
Exception under Subpart F for Active Financing Income (tax year 2013)					
Corporate Franchise Tax	($500)	($1,200)	$0	$0	$0
Increase from 50% to 100% the Exclusion of Gain on Certain Small Business Stock (acquired 1/1/13 – 12/31/13)**	$0	$0	$0	$0	$0

	FY 2013	FY 2014	FY 2015 ($000s)	FY 2016	FY 2017
Basis Adjustment to S Corporation Stock for Charitable Contributions of Property (tax year 2013)	($100)	($280)	($30)	($30)	($30)
Reduction in Recognition Period for S Corporation Built-In Gains Tax (tax year 2013)					
Corporate Franchise Tax	($100)	($600)	$0	$0	$0
50% Bonus Depreciation, with 80% Addback and 5-Year Recovery (tax year 2013)					
Individual Income Tax	($400)	$1,200	$5,400	($300)	($3,200)
Corporate Franchise Tax	($1,000)	$2,900	$12,600	($800)	($7,500)

* Beginning with tax year 2018, the increased working family credit phaseout range for married-joint filers would be $3,000, indexed, instead of $5,000.

** Revenue loss occurs after FY 2017.