INDIVIDUAL INCOME TAX
CORPORATE FRANCHISE TAX
Federal Update

February 12, 2013

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 318 (Davids) As Proposed to be Amended (H0318A3)

	Fund Impact				
	F.Y. 2013	F.Y. 2014	F.Y. 2015	F.Y. 2016	F.Y. 2017
			(000's)		
American Taxpayer Relief Act					
Individual Income Tax	($44,450)	($177,450)	($94,935)	($107,230)	($114,810)
Corporate Franchise Tax	($14,665)	($5,510)	$16,855	$2,015	($5,425)
Total	($59,115)	($182,960)	($78,080)	($105,215)	($120,235)
Increased Standard Deduction for Married Filers for Tax Year 2012	($68,400)	$0	$0	$0	$0
Working Family Credit Increased Phaseout Range for Married-Joint Filers for Tax Year 2012	($17,000)	$0	$0	$0	$0
FAA Modernization Act	($1,400)	($20)	($20)	($20)	($20)
Individual Income Tax	($131,250)	($177,470)	($94,955)	($107,250)	($114,830)
Corporate Franchise Tax	($14,665)	($5,510)	$16,855	$2,015	($5,425)
General Fund Total	($145,915)	($182,980)	($78,100)	($105,235)	($120,255)

EXPLANATION OF THE BILL

American Taxpayer Relief Act of 2012
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. The provisions affect the individual income tax and corporate franchise tax.

Provisions that would be adopted are listed on pages 4 through 7. The estimates for bonus depreciation include the addback of 80% in the first year and five-year recovery, as under current law. The estimates for Section 179 expensing are for full conformity to the increased limits.

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 on personal exemptions, the addition under current law is maintained and subtraction is created for the phaseout amount under the new federal law, thereby retaining the treatment under current law.

EXPLANATION OF THE BILL (Cont.)

Increased Standard Deduction for Married Filers for Tax Year 2012
The bill would adopt the increase in the standard deduction for married filers as contained in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, Public Law 111-312, enacted December 17, 2010. Minnesota has not adopted this federal law change which increased the standard deduction for married filers for tax years 2011 and 2012. Under the proposal, the tax year 2012 standard deduction for married-joint filers would increase from $9,900 to $11,900 and for married-separate filers from $4,950 to $5,950. When the higher federal standard deduction is not adopted, an addition is required on the state return equal to the difference between the two amounts. The difference between the state and federal standard deduction also affects the computation of the marriage credit and the calculation of the addition for itemized state income taxes.

Working Family Credit Increased Phaseout Range for Married-Joint Filers for Tax Year 2012
The federal Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, Public Law 111-312, enacted December 17, 2010, contained, for the earned income credit, an increase in the phaseout threshold for married-joint returns for tax years 2011 and 2012. Minnesota adopted the increased married-joint phaseout threshold for calculating the working family credit for tax year 2011 but not for 2012. The bill would adopt the increase in the married-joint phaseout threshold for tax year 2012. Although the calculation of the working family credit uses formulas separate from the earned income credit, conformity to the increase of $5,000 ($5,210 indexed for 2012) would result in approximately the same income limit to qualify for both the state and federal credits for people with no children or with one or two qualifying children. (The income limit would still be different for people with three or more children.)

Note: Regarding the proposed changes to the standard deduction for married filers and the working family credit, tax year 2012 returns are currently being filed under existing law.

The FAA Modernization and Relief Act of 2012
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. As proposed to be amended, the bill would allow the amended Minnesota return to be filed until June 1, 2013.

REVENUE ANALYSIS DETAIL

American Taxpayer Relief Act of 2012

- The House Income Tax Simulation Model was used for 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.
- For full conformity to Section 179 expensing, the estimates include full conformity to the recently-enacted limits. For tax year 2012, they also include eliminating the 80% addback and five-year recovery under current law for the difference between the state and federal limits that existed prior to the recent federal legislation.
- 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.

Increased Standard Deduction for Married Filers for Tax Year 2012

- The House Income Tax Simulation Model was used to estimate the tax year revenue impact.
- An estimated 605,600 returns would benefit from the proposal. The average decrease in tax would be $114. About 73,900 returns would pay slightly more in tax because of effects on the marriage credit. The average increase would be $12.

Working Family Credit Increased Phaseout Range for Married-Joint Filers for Tax Year 2012

- The House Income Tax Simulation Model was used to estimate the tax year revenue impact.
- An estimated 53,100 returns would receive an increased credit averaging $321, including 13,700 returns that would not receive a working family credit unless the higher phaseout threshold is adopted.

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

	FY 2013	FY 2014	FY 2015 ($000s)	FY 2016	FY 2017
American Taxpayer Relief Act					
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 years 2012 and 2013)	($1,100)	($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 years 2012 and 2013)	(Negligible)	(Negl.)	$0	$0	$0
Premiums for Mortgage Insurance Deductible as Qualified Residence Interest (tax years 2012 and 2013)	($3,900)	($3,900)	$0	$0	$0
Special Rule for Contributions of Qualified Conservation Property (tax years 2012 and 2013)	($300)	($350)	($50)	($30)	($20)
Deduction for Qualified Tuition and Related Expenses (tax years 2012 and 2013)	($5,300)	($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 years 2012 and 2013)	($2,200)	($2,100)	($200)	($200)	($200)
15-Year Straight-Line Depreciation for Qualified Leasehold, Restaurant, and Retail Improvements (tax years 2012 and 2013)					
Individual Income Tax	($250)	($500)	($500)	($500)	($500)
Corporate Franchise Tax	($400)	($800)	($800)	($800)	($800)
7-Year Recovery Period for Certain Motorsports Racing Track Facilities (tax years 2012 and 2013)					
Corporate Franchise Tax	($60)	($50)	($20)	($10)	($10)
Accelerated Depreciation for Business Property on Indian Reservations (tax years 2012 and 2013)					
Individual Income Tax	($500)	($450)	($125)	$80	$200
Corporate Franchise Tax	($425)	($400)	($100)	$70	$150

	FY 2013	FY 2014	FY 2015 ($000s)	FY 2016	FY 2017
Enhanced Charitable Contribution Deduction for Food Inventory by Other Than C Corporations (tax years 2012 and 2013)	($700)	($600)	$0	$0	$0
Increased Section 179 Expensing (tax years 2012 and 2013)					
Individual Income Tax	($28,600)	($10,800)	$13,600	$9,600	$7,700
Corporate Franchise Tax	($9,600)	($5,000)	$5,100	$3,500	$2,700
Election to Expense Mine Safety Equipment (tax years 2012 and 2013)					
Corporate Franchise Tax	($30)	($10)	Negl.	Negl.	Negl.
Special Expensing Rules for Certain Film and Television Productions (tax years 2012 and 2013)					
Individual Income Tax	($400)	($300)	$90	$70	$60
Corporate Franchise Tax	($350)	($200)	$75	$55	$35
Treatment of Certain Payments to Controlling Exempt Organizations for the Unrelated Business Income Tax (tax years 2012 and 2013)					
Corporate Franchise Tax	($100)	($150)	$0	$0	$0
Treatment of Certain Dividends of Regulated Investment Companies (tax years 2012 and 2013)	($400)	($350)	$0	$0	$0
Exception under Subpart F for Active Financing Income (tax years 2012 and 2013)					
Corporate Franchise Tax	($2,000)	($1,200)	$0	$0	$0
Increase from 50% to 100% the Exclusion of Gain on Certain Small Business Stock (acquired 1/1/12 – 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 years 2012 and 2013)	($400)	($300)	($50)	($50)	($50)
Reduction in Recognition Period for S Corporation Built-In Gains Tax (tax years 2012 and 2013)					
Corporate Franchise Tax	($700)	($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)
American Taxpayer Relief Act					
Individual Income Tax	($44,450)	($177,450)	($94,935)	($107,230)	($114,810)
Corporate Franchise Tax	($14,665)	($5,510)	$16,855	$2,015	($5,425)
Total	($59,115)	($182,960)	($78,080)	($105,215)	($120,235)

* 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.