

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Federal Update: IRA Rollovers for Payments from Airlines

March 19, 2012

Preliminary Estimates

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of H.F. 2773 (Atkins) / S.F. 2427 (Daley)

	Fund Impact			
	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>
			(000's)	
General Fund	\$0	(\$1,400)	(\$20)	(\$20)

Effective the day following final enactment.

EXPLANATION OF THE BILL

The bill would adopt for Minnesota tax purposes an individual income tax provision in the FAA Modernization and Reform Act of 2012, Public Law 112-95, enacted February 14, 2012. The provision 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 would apply whether or not the settlement payment had previously been rolled over into a Roth IRA. The rollover to a traditional IRA must occur within 180 days of the bill's enactment date of February 14, 2012.

The recently-enacted federal law applies to payments to airline employees that qualified for a Roth IRA rollover under a 2008 federal law. A provision in the Worker, Retiree, and Employer Recovery Act of 2008, Public Law 110-458, enacted December 23, 2008, allowed a qualified airline employee to roll over into a Roth IRA certain payments received as part of a bankruptcy settlement. The provision was limited to airlines that filed for bankruptcy after September 11, 2001, and before January 1, 2007. A qualified employee was a current or former employee who was a member of a defined benefit plan that was terminated or frozen under the bankruptcy agreement. The qualified employee had 180 days from the later of the date of the payment or the bill's enactment date to roll over a qualifying airline payment into a Roth IRA.

The settlement payments were taxable compensation to the employees. A rollover into a Roth IRA would not change the tax status of the compensation, but the earnings on a Roth IRA would be deferred and qualified distributions would be exempt from tax. In contrast, if the payment is now rolled over into a traditional IRA, it would be excluded from income. The earnings on a traditional IRA are deferred, but the distributions are taxable.

For a qualifying rollover to a traditional IRA, an amended return for year the payment was received would be required in order to claim a refund. The amended Minnesota individual income tax return must be filed by April 15, 2013.

REVENUE ANALYSIS DETAIL

- Northwest Airlines and three other major U.S. airlines filed for bankruptcy between September 11, 2001, and January 1, 2007. The estimate starts with the amount of settlement payments made by those airlines under the bankruptcy provisions to their employees.
- Airline employees who were Minnesota residents at the time of the settlement payment would have incurred Minnesota income tax on the payment. Payment information for each airline was allocated to Minnesota based on the ratio of the estimated number Minnesota resident employees to all employees at that time.
- It is not known how many eligible taxpayers will elect to roll over the payments into a traditional IRA or the amount that will be rolled over. In the absence of information on participation, it is assumed that 10% of the payments that were previously subject to Minnesota tax would be rolled over into a traditional IRA.
- It is assumed that refunds on the amended returns will be paid in fiscal year 2013.
- For settlement payments that had not been rolled over into a Roth IRA under the 2008 law, tax on the interest will now be deferred. Information is not available on the amount of the payments previously rolled over into a Roth IRA. For purposes of this estimate, it is assumed that 25% of the amount that will be rolled over into a traditional IRA was not previously in a Roth IRA. The revenue loss in fiscal years 2014 and 2015 reflects the deferral of the tax on the earnings.

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