

# MINNESOTA • REVENUE

## INDIVIDUAL INCOME TAX Discharge of Indebtedness Income on Principal Residence

February 20, 2014

Department of Revenue  
Analysis of H.F. 1957 (Erhardt)

	Yes	No
DOR Administrative Costs/Savings	X	

	<u>Fund Impact</u>			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
General Fund	(\$7,200)	\$0	\$0	\$0

Effective for tax year 2013.

### EXPLANATION OF THE BILL

**Current Law:** In 2007 a federal exclusion from income was enacted for the discharge of indebtedness on the taxpayer's principal residence. Qualified indebtedness is limited to \$2 million (\$1 million if married filing separately) incurred in acquiring, constructing, or substantially improving the taxpayer's principal residence if the debt is secured by the residence. The exclusion applied to tax years 2007 through 2009, and in 2008 it was extended to tax years 2010 through 2012. Minnesota conformed to these provisions through tax year 2012.

The American Taxpayer Relief Act of 2012, Public Law 112-240, enacted January 2, 2013, extended the exclusion to tax year 2013. Minnesota has not conformed to this change and therefore the exclusion does not apply to the Minnesota individual income tax for tax year 2013.

**Proposed Law:** Minnesota would conform to the federal exclusion of the discharge of indebtedness income on a principal residence which is in effect for tax year 2013.

### REVENUE ANALYSIS DETAIL

- The estimate is based on the estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation dated January 1, 2013.
- The federal estimate was apportioned to Minnesota and adjusted for the difference between federal and state tax rates.
- The revenue impact is shown in FY 2014 assuming enactment early in the legislative session. If enactment occurs at the end of the session, some or all of the impact would shift to FY 2015.

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