

# MINNESOTA · REVENUE

## INDIVIDUAL INCOME TAX CORPORATE FRANCHISE TAX Federal Update

February 20, 2014

Department of Revenue  
Analysis of H.F. 1959 (Davids)

	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>
	(000's)			
Individual Income Tax	(\$126,170)	(\$143,225)	(\$108,980)	(\$112,705)
Corporate Franchise Tax	<u>(\$4,055)</u>	<u>(\$545)</u>	<u>(\$425)</u>	<u>(\$380)</u>
General Fund Total	(\$130,225)	(\$143,770)	(\$109,405)	(\$113,085)

### EXPLANATION OF THE BILL

The bill would update reference to the Internal Revenue Code to include provisions of the American Taxpayer Relief Act of 2012, Public Law 112-240, enacted January 2, 2013. The only provisions not adopted would be the increased income thresholds for the limitation on itemized deductions and the phaseout of personal exemptions. All other provisions would be adopted retroactive to tax year 2013.

A table is attached which lists the provisions that would be adopted and includes the effective date and revenue impact of each item.

### 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. The estimates are consistent with the November 2013 state revenue forecast.
- 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.
- 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.
- The revenue impact for tax year 2013 provisions 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)

**H.F. 1959: Federal Update Provisions by Category**  
**(\$000s)**

	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Education-Related Provisions</b>				
For Education Savings Accounts, Increase Contribution Limit and Other Changes (1/1/13)	(\$100)	(\$100)	(\$100)	(\$100)
Exclusion of Employer-Provided Education Assistance (1/1/13)	(\$4,400)	(\$4,500)	(\$4,600)	(\$4,700)
For the Student Loan Interest Deduction, Increase the Income Phaseout, Other Changes (1/1/13)	(\$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)	(\$600)	(\$600)	(\$600)	(\$600)
Deduction for Educator Expenses (tax year 2013)	(\$1,100)	\$0	\$0	\$0
Deduction for Qualified Tuition and Related Expenses (tax year 2013)	(\$5,600)	\$0	\$0	\$0
<b>Subtotal: Education-Related Provisions</b>	<b>(\$17,700)</b>	<b>(\$11,200)</b>	<b>(\$11,400)</b>	<b>(\$11,800)</b>
<b>Marriage Penalty Relief (1/1/13)</b>				
Increased the Standard Deduction for Married Filers	(\$71,700)	(\$111,300)	(\$76,800)	(\$79,900)
For the Working Family Credit, Increase the Phaseout Range for Married-Joint Filers by \$5,000	(\$17,700)	(\$17,900)	(\$18,100)	(\$18,300)
<b>Subtotal: Marriage Penalty Relief</b>	<b>(\$89,400)</b>	<b>(\$129,200)</b>	<b>(\$94,900)</b>	<b>(\$98,200)</b>
<b>Homeownership Provisions (tax year 2013)</b>				
Exclusion of Discharge of Indebtedness Income on Principal Residence	(\$7,200)	\$0	\$0	\$0
Premiums for Mortgage Insurance Deductible as Qualified Residence Interest	(\$3,900)	\$0	\$0	\$0
<b>Subtotal: Homeownership Provisions</b>	<b>(\$11,100)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

	FY 2014	FY 2015	FY 2016	FY 2017
<b>Charitable Contribution Provisions</b> (tax year 2013) Special Rule for Contributions of Qualified Conservation Property	(\$320)	(\$30)	(\$20)	(\$10)
Tax-Free IRA Distributions, up to \$100,000, to Certain Public Charities for Individuals Age 70 ½ and Older	(\$2,520)	(\$120)	(\$120)	(\$120)
Enhanced Charitable Contribution Deduction for Food Inventory by Other Than C Corporations	(\$700)	\$0	\$0	\$0
Basis Adjustment to S Corporation Stock for Charitable Contributions of Property	(\$380)	(\$30)	(\$30)	(\$30)
<b>Subtotal: Charitable Contribution Provisions</b>	<b>(\$3,920)</b>	<b>(\$180)</b>	<b>(\$170)</b>	<b>(\$160)</b>
<b>Other Provisions Affecting Individuals</b> For the Dependent Care Credit, Increase Eligible Expense Limit and Credit Rate (1/1/13)	(\$1,900)	(\$1,900)	(\$1,900)	(\$2,000)
Exclusion for Employer-Provided Adoption Assistance (1/1/13)	(\$400)	(\$400)	(\$400)	(\$400)
Parity for Exclusion of Employer-Provided Mass Transit and Parking Benefits (tax year 2013)	(Negl.)	\$0	\$0	\$0
<b>Subtotal: Other Provisions Affecting Individuals</b>	<b>(\$2,300)</b>	<b>(\$2,300)</b>	<b>(\$2,300)</b>	<b>(\$2,400)</b>

	FY 2014	FY 2015	FY 2016	FY 2017
<b>Business and Investment Provisions</b> (tax year 2013)				
15-Year Straight-Line Depreciation for Qualified Leasehold, Restaurant, and Retail Improvements				
Individual Income Tax	(\$400)	(\$300)	(\$300)	(\$300)
Corporate Franchise Tax	(\$650)	(\$500)	(\$500)	(\$500)
7-Year Recovery Period for Certain Motorsports Racing Track Facilities				
Corporate Franchise Tax	(\$60)	(\$10)	(\$5)	(\$5)
Accelerated Depreciation for Business Property on Indian Reservations				
Individual Income Tax	(\$500)	(\$100)	\$50	\$120
Corporate Franchise Tax	(\$435)	(\$80)	\$45	\$100
Election to Expense Mine Safety Equipment				
Corporate Franchise Tax	(\$20)	Negl.	Negl.	Negl.
Special Expensing Rules for Certain Film and Television Productions				
Individual Income Tax	(\$450)	\$55	\$40	\$35
Corporate Franchise Tax	(\$340)	\$45	\$35	\$25
Treatment of Certain Payments to Controlling Exempt Organizations for the Unrelated Business Income Tax				
Corporate Franchise Tax	(\$150)	\$0	\$0	\$0
Treatment of Certain Dividends of Regulated Investment Companies				
	(\$400)	\$0	\$0	\$0
Exception under Subpart F for Active Financing Income				
Corporate Franchise Tax	(\$1,700)	\$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
Reduction in Recognition Period for S Corporation Built-In Gains Tax				
Corporate Franchise Tax	(\$700)	\$0	\$0	\$0
<b>Business and Investment Provisions</b>				
<b>Individual Income Tax</b>	<b>(\$1,750)</b>	<b>(\$345)</b>	<b>(\$210)</b>	<b>(\$145)</b>
<b>Corporate Franchise Tax</b>	<b>(\$4,055)</b>	<b>(\$545)</b>	<b>(\$425)</b>	<b>(\$380)</b>
<b>Subtotal</b>	<b>(\$5,805)</b>	<b>(\$890)</b>	<b>(\$635)</b>	<b>(\$525)</b>

\*Revenue loss occurs after FY 2017.

	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>All Provisions</b>				
<b>Individual Income Tax</b>	<b>(\$126,170)</b>	<b>(\$143,225)</b>	<b>(\$108,980)</b>	<b>(112,705)</b>
<b>Corporate Franchise Tax</b>	<b><u>(\$4,055)</u></b>	<b><u>(\$545)</u></b>	<b><u>(\$425)</u></b>	<b><u>(\$380)</u></b>
<b>General Fund Total</b>	<b>(\$130,225)</b>	<b>(\$143,770)</b>	<b>(\$109,405)</b>	<b>(\$113,085)</b>