Omnibus Tax Bill

April 3, 2014

State Tax Provisions Only

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of Laws 2014, Chapter 150, Enacted March 21, 2014.

	Fund Impact			
	F.Y. 2014	**F.Y. 2015**	**F.Y. 2016**	**F.Y. 2017**
		(000's)		
Federal Update				
Individual Income Tax	($52,670)	($143,025)	($106,880)	($110,405)
Corporate Franchise Tax	($4,055)	($545)	($425)	($380)
Subtotal: Federal Update	($56,725)	($143,570)	($107,305)	($110,785)
Individual Income Tax				
Increase Working Family Credit (1/1/14)	$0	($30,200)	($31,100)	($31,700)
Extend and Increase the Allocation for the Angel Investment Credit (1/1/14)	$0	($3,000)	($15,000)	($15,000)
Subtotal: Individual Income Tax	$0	($33,200)	($46,100)	($46,700)
Estate and Gift Taxes				
Increase Estate Tax Exemption from $1 Million to $2 Million, Phased In; Rate Changes (1/1/14)	$0	($25,000)	($47,800)	($63,800)
Repeal Gift Tax (7/1/13)	($5,600)	($12,100)	($14,500)	($18,200)
Subtotal: Estate and Gift Taxes	($5,600)	($37,100)	($62,300)	($82,000)
Sales and Use Tax				
Repeal Tax on Business Purchases (4/1/14)				
Electronic and Commercial Equipment Repair, Maintenance	($12,900)	($81,700)	($88,000)	($94,700)
Warehousing and Storage Services	($13,000)	($82,400)	($88,800)	($95,600)
Telecommunications Equipment	($5,500)	($36,200)	($39,500)	($42,700)
Delay the Repeal of Capital Equipment Refund Requirement (7/1/15)	$0	$64,600	($29,400)	($20,700)
Subtotal: Sales and Use Tax	($31,400)	($135,700)	($245,700)	($253,700)
Dedicate Portion of the Occupation Tax to the Iron Range School Account (1/1/14)	$0	($2,380)	($2,400)	($2,430)
Appropriation to the Department of Revenue	($1,000)	$0	$0	$0
General Fund Total	($94,725)	($351,950)	($463,805)	($495,615)

	Fund Impact			
	F.Y. 2014	F.Y. 2015	F.Y. 2016	F.Y. 2017
	(000's)			
Natural Resources and Arts Funds				
Repeal Sales Tax on Business Purchases				
Electronic and Commercial Equipment Repair, Maintenance	($700)	($4,700)	($5,100)	($5,500)
Warehousing and Storage Services	($700)	($4,800)	($5,100)	($5,500)
Telecommunications Equipment	($300)	($2,100)	($2,300)	($2,500)
Delay the Repeal of Capital Equipment Refund Requirement	$0	$3,700	($1,700)	($1,200)
Natural Resources and Arts Funds Total	($1,700)	($7,900)	($14,200)	($14,700)
Total – All Funds	($96,425)	($359,850)	($478,005)	($510,315)

EXPLANATION OF THE BILL

Federal Update

The bill updates 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. Most provisions are adopted retroactive to tax year 2013. Others are effective beginning with tax year 2014. The increased income thresholds for the limitation on itemized deductions and the phaseout of personal exemptions are not adopted.

A table is attached which lists the provisions that are adopted and includes the years affected and the revenue impact of each item.

Increase Working Family Credit

The bill increases the working family credit for most claimants by increasing the percentage of income used to calculate the credit. The bill removes the existing two-tier calculation for taxpayers with children, allowing the first tier calculation to extend to higher income levels. The maximum credit is increased. All income amounts are indexed for inflation beginning with tax year 2015.

Extend and Increase the Allocation for the Angel Investment Credit

The angel investment tax credit is a refundable individual income tax credit equal to 25% of the investment made in a qualified small business. The maximum credit for a tax year is $250,000 for a married couple filing a joint return and $125,000 for other filers. The investment can be made directly by a qualified taxpayer or through a qualified angel investment network fund that invests in a qualified small business. The law specifies the requirements for the investor, the investment fund, the investment, and the small business. For tax years 2011 through 2014, current law limits the amount of tax credit that can be allocated to $12 million per tax year. There is no allocation after tax year 2014.

EXPLANATION OF THE BILL (Cont.)

The bill increases the allocation for tax year 2014 from $12 million to $15 million and provides an allocation of $15 million each year for tax years 2015 and 2016. For tax years 2015 and 2016, $7.5 million of the annual credit allocation is reserved for investments in greater Minnesota and in minority-owned and women-owned businesses. Reserved credits not allocated by September 30th each year are available to other qualifying investments.

Increase Estate Exemption from $1 Million to $2 Million, Phased In; Rate Changes
The Minnesota estate tax is determined by calculating two different tax amounts based on two different tax rate tables found in pre-2001 federal estate tax statutes. The resulting Minnesota estate tax is the minimum of those two different tax amounts.

The bill creates a stand-alone estate tax rate structure which is a modification of the pre-2001 table for the federal credit for state death taxes. The exclusion amount is increased in $200,000 increments from $1 million to $2 million. Some rates are changed. The exclusion amounts are $1.2 million for deaths in 2014, $1.4 million for 2015, $1.6 million for 2016, $1.8 million for 2017, and $2 million for 2018 and after. The bill has a separate rate schedule for each year of the phase in.

Because the exclusion is incrementally raised from $1 million to $2 million, the maximum small business and farm deduction is incrementally reduced from $4 million to $3 million.

The bill authorizes a Minnesota qualified terminable interest property (QTIP) which should have no fiscal impact because it is intended to simplify the way in which a QTIP is elected, eliminating the requirement to file a federal estate tax return when a federal return would not otherwise be required.

Repeal Gift Tax
In 2013 a gift tax was enacted, effective for gifts made after June 30, 2013. The gift tax is repealed retroactively to the date it went into effect.

Repeal Tax on Business Purchases
In 2013 the sales tax was imposed on electronic, commercial, and industrial equipment repair services and on warehousing and storage services. The bill repeals the imposition of the tax on these services. The bill also reinstates the sales tax exemption for telecommunications machinery and equipment which was repealed in 2013.

Delay the Repeal of the Capital Equipment Refund Requirement
In 2013 the law was changed to allow the exemption for capital equipment at the time of purchase rather than by refund, effective for sales and purchases occurring after August 31, 2014. The bill changes the date when businesses can obtain a capital equipment exemption at the time of purchase from September 1, 2014, to July 1, 2015.

EXPLANATION OF THE BILL (Cont.)

Dedicate Portion of the Occupation Tax to the Iron Range School Account
The bill appropriates annually from the General Fund a portion of the occupation tax revenues to the Iron Range Resources and Rehabilitation Board Account in the Special Revenue Fund for transfer to the Iron Range School Consolidation and Cooperatively Operated School Account. The appropriation is equal to a production tax of 6¢ per ton.

Appropriation to the Department of Revenue
The bill appropriates $1 million in fiscal year 2014 from the General Fund to the Commissioner of Revenue for the cost of administering the act. The appropriation is a one-time appropriation and is available until June 30, 2015.

REVENUE ANALYSIS DETAIL

Federal Update
- The House Income Tax Simulation Model was used to estimate these 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 February 2014 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.

Increase Working Family Credit
- The House Income Tax Simulation Model was used to estimate the revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2014.
- Tax year impacts were allocated to the following fiscal year.
- About 331,000 tax returns would be affected in tax year 2014.

Extend and Increase the Allocation for the Angel Investment Credit
- It is assumed that the maximum $15 million in credits would be approved for each tax year.
- Tax year impact was allocated to the following fiscal year.

REVENUE ANALYSIS DETAIL (Cont.)

Increase Estate Tax Exemption from $1 Million to $2 Million, Phased In; Rate Changes

- A database of estate tax returns filed in 2012 and 2013 was created and used for this analysis.
- Because the estate tax statutes were changed during the 2013 legislative session, the estate taxes for returns in the database were recalculated to reflect those 2013 changes.
- Fifty percent of adjusted taxable gifts (which is the estimate used for the portion made within three years of death) were included in the taxable estate.
- The proposed rates were then used to recalculate the estate taxes for the returns in the database.
- For the various exclusion amounts with the various proposed rates, the total estate tax for returns in the database decreased by the following percentages, which were applied to the estate tax estimates in the February 2014 estate tax forecast:
    - Calendar year 2014 deaths – 16.8%
    - Calendar year 2015 deaths – 24.0%
    - Calendar year 2016 deaths – 29.0%
    - Calendar year 2017 deaths – 32.7%
    - Calendar year 2018 and later deaths – 36.9%
- It is assumed that the estate tax is paid nine months after the death of the deceased.

Repeal Gift Tax

- The impact for the repeal of the gift tax was taken from the February 2014 gift tax forecast.

Repeal Sales Tax on Business Purchases

- The estimates are based on the Minnesota Consumption Tax Model and analysis completed for the 2013 legislative session.
- The estimates for fiscal year 2014 reflect the effective date of April 1, 2014.

Delay the Repeal of the Capital Equipment Refund Requirement

- The estimates are based on the February 2014 forecast of sales tax refunds.
- The estimate assumes that 5% of current eligible refunds are not claimed and would use the up-front exemption. The estimate is adjusted to account for tax refunds on purchases made before July 1, 2015, which will be paid after the proposal takes effect. A portion of the refunds paid each year reflects tax paid in previous years. Businesses have 3 ½ years from the date of purchase or lease to file refund claims.

Dedicate Portion of the Occupation Tax to the Iron Range School Account

- The estimates are based on forecasted production.

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

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Laws 2014, Chapter 150: Federal Update Provisions by Category
($000s)

	FY 2014	FY 2015	FY 2016	FY 2017
Education-Related Provisions				
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
Subtotal: Education-Related Provisions	**($17,700)**	**($11,200)**	**($11,400)**	**($11,800)**
Marriage Penalty Relief				
Increased the Standard Deduction for Married Filers (1/1/14)	$0	($111,000)	($74,700)	($77,600)
For the Working Family Credit, Increase the Phaseout Range for Married-Joint Filers by $5,000 (1/1/13)	($17,800)	($18,000)	($18,100)	($18,300)
Subtotal: Marriage Penalty Relief	**($17,800)**	**($129,000)**	**($92,800)**	**($95,900)**

	FY 2014	FY 2015	FY 2016	FY 2017
Homeownership Provisions (tax year 2013)				
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
Subtotal: Homeownership Provisions	**($11,100)**	**$0**	**$0**	**$0**
Charitable Contribution Provisions (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)
Subtotal: Charitable Contribution Provisions	**($3,920)**	**($180)**	**($170)**	**($160)**
Other Provisions Affecting Individuals				
For the Dependent Care Credit, Increase Eligible Expense Limit and Credit Rate (1/1/14)	$0	($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
Subtotal: Other Provisions Affecting Individuals	**($400)**	**($2,300)**	**($2,300)**	**($2,400)**

	FY 2014	FY 2015	FY 2016	FY 2017
Business and Investment Provisions (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
Business and Investment Provisions				
Individual Income Tax	**($1,750)**	**($345)**	**($210)**	**($145)**
Corporate Franchise Tax	**($4,055)**	**($545)**	**($425)**	**($380)**
Subtotal	**($5,805)**	**($890)**	**($635)**	**($525)**

* Revenue loss occurs after FY 2017.

	FY 2014	FY 2015	FY 2016	FY 2017
All Provisions				
Individual Income Tax	**($52,670)**	**($143,025)**	**($106,880)**	**($110,405)**
Corporate Franchise Tax	**($4,055)**	**($545)**	**($425)**	**($380)**
General Fund Total	**($56,725)**	**($143,570)**	**($107,305)**	**($110,785)**