

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX CORPORATE FRANCHISE TAX Federal Update; Conformity Bonus Depreciation and Sec. 179 Expensing

March 17, 2016

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 2912 (Anderson, S.) / S.F. 2635 (Senjem)

		Fund Impact			
		<u>F.Y. 2016</u>	<u>F.Y. 2017</u>	<u>F.Y. 2018</u>	<u>F.Y. 2019</u>
		(000's)			
Federal Update					
Slain Officer Family Support Act (1/1/14)	(Negl.)	\$0	\$0	\$0	\$0
Don't Tax Our Fallen Public Safety					
Heroes Act (5/22/15)	\$0	\$0	\$0	\$0	\$0
Bipartisan Budget Act of 2015 (1/1/16)	\$0	\$1,500	\$1,800	\$1,600	
Protecting Americans from Tax Hikes					
Act of 2015					
Individual Income Tax	(\$23,150)	(\$24,105)	(\$7,145)	(\$15,460)	
Corporate Franchise Tax	<u>(\$4,650)</u>	<u>(\$5,465)</u>	<u>(\$5,110)</u>	<u>(\$5,455)</u>	
	(\$27,800)	(\$29,570)	(\$12,255)	(\$20,915)	
Full Conformity to Sec.179 Expensing (1/1/15)					
Individual Income Tax	(\$56,800)	(\$27,900)	(\$19,200)	(\$13,200)	
Corporate Franchise Tax	<u>(\$21,500)</u>	<u>(\$10,600)</u>	<u>(\$7,300)</u>	<u>(\$5,000)</u>	
	(\$78,300)	(\$38,500)	(\$26,500)	(\$18,200)	
Full Conformity to Bonus Depreciation (1/1/15)					
Individual Income Tax	(\$70,100)	(\$36,600)	(\$23,000)	(\$4,600)	
Corporate Franchise Tax	<u>(\$147,600)</u>	<u>(\$77,100)</u>	<u>(\$48,400)</u>	<u>(\$9,800)</u>	
	(\$217,700)	(\$113,700)	(\$71,400)	(\$14,400)	
General Fund Total	(\$323,800)	(\$180,270)	(\$108,355)	(\$51,915)	

EXPLANATION OF THE BILL

The bill would update reference to the Internal Revenue Code to December 31, 2015, thereby adopting the changes to federal law contained in:

- The Slain Officer Family Support Act, Public Law 114-7
- The Don't Tax our Fallen Public Safety Heroes Act, Public Law 114-14
- The Bipartisan Budget Act of 2015, Public Law 114-74
- The Protecting Americans from Tax Hikes Act of 2015, Public Law 114-113

EXPLANATION OF THE BILL (Cont.)

Slain Officer Family Support Act

The Slain Officer Family Support Act, enacted April 1, 2015, allows contributions made on or after December 20, 2014, and before October 15, 2015, for the relief of certain families to be considered charitable contributions, despite being for the exclusive benefit of these families. The provision applies to cash contributions made for the relief of the families of New York Police Department Detectives Wenjian Liu and Rafael Ramos, who were killed on duty December 20, 2014. The law also allows contributions for the families made between January 1, 2015, and April 15, 2015, to be treated as if the contribution was made on December 31, 2014.

Don't Tax Our Fallen Public Safety Heroes Act

The Don't Tax Our Fallen Public Safety Heroes Act, enacted May 22, 2015, provides a federal income tax exclusion for any payments received under the Public Safety Officers Benefits programs or a state program to provide benefits to the surviving dependents of a public safety officer who dies as the result of an injury sustained in the line of duty. The exclusion does not apply to payments from a state program that would have been payable if the officer's death had not been in the line of duty.

The Internal Revenue Service has ruled that benefits received under the Federal Public Safety Officers' Benefits Act of 1976 are excludable from federal gross income. The bill clarifies that the same treatment applies to benefits received under a state program.

Bipartisan Budget Act

The Bipartisan Budget Act of 2015, enacted November 2, 2015, contained a provision related to the treatment of partnership interests created by gift. The provision clarifies that Congress did not intend for the family partnership rules to provide an alternative test for whether a person is a partner and that the generally applicable principles of law apply.

Protecting Americans from Tax Hikes Act

The Protecting Americans from Tax Hikes Act of 2015, enacted on December 18, 2015, extends and modifies certain tax provisions and also includes a number of new tax provisions. Certain provisions were extended for tax years 2015 and 2016 only, while others were made permanent beginning with tax year 2015 or beginning the date of enactment. The increased limits for Section 179 expensing were made permanent. Bonus depreciation was extended for five years, with the maximum allowable percentage phased out beginning in tax year 2018.

Full Conformity to Bonus Depreciation and Section 179 Expensing

The bill would fully conform to bonus depreciation and Section 179 expensing beginning in tax year 2015, eliminating the need for the 80% addback and associated subtractions. Subtractions will continue for a number of years for amounts added back in tax years 2010 through 2014.

EXPLANATION OF THE BILL (Cont.)

Amended Returns

Federal law allows a qualified airline employee who received certain settlement payments from an airline company in bankruptcy to roll over that amount into a traditional IRA. The settlement payments were taxable compensation to employees, but any amount rolled over into a traditional IRA may be excluded from income. An amended return for the year the payment was received would be required in order to claim a refund. The bill allows an amended Minnesota return to be filed until September 1, 2016.

Under the Protecting Americans from Tax Hikes Act, an individual who receives compensation for wrongful incarceration may exclude that amount from taxable income. The bill allows an individual to file an amended Minnesota return to claim a refund for taxes paid on such an amount by September 1, 2016.

REVENUE ANALYSIS DETAIL

Slain Officer Family Support Act

- The estimate is based on the estimate for the federal legislation prepared by the staff of the Joint Committee on Taxation dated March 25, 2015.
- Contributions for the benefit of a particular individual or individuals are generally not deductible as charitable contributions. The revenue impact of the federal law is from allowing donations to the families of the slain officers to be treated as charitable contributions, and allowing taxpayers to deduct the amount in tax year 2014 rather than 2015 if the contribution was made by April 15, 2015.
- Since the filing deadline for tax year 2014 is passed, taxpayers would have to file an amended Minnesota return to include the deduction on their 2014 return.
- The total revenue loss from the federal law is estimated at less than \$500,000 in federal fiscal year 2016.
- The amount of donations by Minnesota taxpayers for the benefit of the surviving families is not known. Because the officers worked in New York, it is assumed that the amount will be relatively small.
- It is expected that the revenue loss would be less than \$5,000, or negligible.

Don't Tax Our Fallen Public Safety Heroes Act

- The estimate is based on an estimate of identical language in S. 916, by the Congressional Budget Office (CBO) dated May 12, 2015. According to the CBO, the staff of the Joint Committee on Taxation estimates that the federal exclusion will have no fiscal impact.
- Because the language appears to be a clarification of current tax treatment, it is assumed that there would be no fiscal impact from conforming to the federal Act.

REVENUE ANALYSIS DETAIL (Cont.)

Bipartisan Budget Act

- The estimates are based on the estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation, dated October 28, 2015.
- The federal estimates were apportioned to Minnesota at 2%, which was the percentage of U.S. partnership and S corporation net income reported on Minnesota returns in 2012 and 2013. The apportioned estimates were adjusted for the differences between federal and state tax rates and federal and state fiscal years.

Protecting Americans from Tax Hikes Act

- The House Income Tax Simulation Model (HITS 6.4) was used to estimate the home mortgage insurance premiums deduction and the modification to the working family credit.
- 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 December 16, 2015.
- 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 estimates do not include Bonus Depreciation or Section 179 expensing, which are shown separately.

Full Conformity to Bonus Depreciation and Section 179 Expensing

- The estimates were based on an estimate for the federal legislation prepared by the staff of the Joint Committee on Taxation, dated December 16, 2015.
- The estimates were divided between the individual income tax and corporate franchise tax based on the percentage of eligible property owned by entities subject to each tax.
- The estimates were apportioned to Minnesota and adjusted for differences in federal and state tax rates and federal and state fiscal years.
- All of tax year 2015 was allocated to fiscal year 2016. Other tax years were allocated 30/70 to fiscal years.

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)

Federal Update: The Protecting Americans from Tax Hikes Act of 2015
(H.F. 2912 / S.F. 2635)
(\$000s)

	FY 2016	FY 2017	FY 2018	FY 2019
Education-Related Provisions				
Deduction for Educator Expenses up to \$250 (1/1/15)	(\$1,500)	(\$1,500)	(\$1,500)	(\$1,600)
Deduction for Qualified Tuition and Related Expenses (TY 2015 and 2016)	(\$2,000)	(\$2,300)	\$0	\$0
Section 529 Plans: Computer Technology Allowed as Qualified Education Expense; Other Changes (1/1/15)	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Exclusion for Amounts Received under the Work Colleges Program (12/18/15)	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Subtotal: Education-Related Provisions	(\$3,500)	(\$3,800)	(\$1,500)	(\$1,600)
Health Care Related Provisions				
Deductibility of Excise Tax on High-Cost Employer-Sponsored Health Coverage (12/18/15)*	\$0	\$0	\$0	\$0
Health Care Benefits Excluded from Income for Certain Government Health Plans (12/18/15)	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Subtotal: Health Care Related Provisions	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Homeownership Provisions				
Exclusion of Discharge of Indebtedness Income on Principal Residence (TY 2015 and 2016)	(\$8,900)	(\$8,500)	\$0	\$0
Mortgage Insurance Premiums Deductible as Qualified Residence Interest (TY 2015 and 2016)	(\$5,500)	(\$5,900)	\$0	\$0
Subtotal: Homeownership Provisions	(\$14,400)	(\$14,400)	\$0	\$0

*Revenue loss occurs after FY 2019.

	FY 2016	FY 2017	FY 2018	FY 2019
Other Individual Provisions				
Working Family Credit: Increase Phase-out Range For Married Joint Filers by \$5,000 Indexed (1/1/18)	\$0	\$0	\$0	(\$7,900)
Elimination of Residency Requirement for ABLE Programs (1/1/15)	(\$5)	(\$25)	(\$50)	(\$75)
Exclusion for Compensation to Wrongfully Incarcerated Individuals (Permanent and Retroactive)	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Rollovers Permitted from Other Retirement Plans into SIMPLE IRAs (12/18/15)	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Subtotal: Other Individual Provisions	(\$5)	(\$25)	(\$50)	(\$7,975)
Charitable Contribution Provisions				
Special Rule for Contributions of Qualified Conservation Property (1/1/15)	(\$375)	(\$425)	(\$455)	(\$470)
Tax-Free IRA Distributions, up to \$100,000, to Certain Public Charities for Individuals Age 70 ½ and Older (1/1/15)	(\$2,300)	(\$3,400)	(\$3,750)	(\$4,000)
Enhanced Charitable Contribution Deduction for Food Inventory by Other than C Corporations (1/1/15)	(\$650)	(\$750)	(\$800)	(\$850)
Basis Adjustment to S Corporation Stock for Charitable Contributions (1/1/15)	(\$275)	(\$250)	(\$335)	(\$340)
Charitable Contributions to Agricultural Research Organizations (12/18/15)	(\$10)	(\$15)	(\$15)	(\$15)
Clarify Valuation Rule for Early Termination of Certain Charitable Remainder Unitrusts (12/19/15)	\$25	\$175	\$125	\$75
Subtotal: Charitable Contributions	(\$3,585)	(\$4,665)	(\$5,230)	(\$5,600)

	FY 2016	FY 2017	FY 2018	FY 2019
Business and Investment Provisions				
Classification of Certain Racehorses as 3-Year Property (TY 2015 and 2016)	(\$60)	(\$75)	(\$15)	\$35
7-Year Recovery Period for Some Motorsports Race Track Complexes (TY 2015 and 2016)				
Corporate Franchise Tax	(\$25)	(\$40)	(\$25)	(\$20)
15-Year Straight-Line Depreciation for Qualified Leasehold, Restaurant, and Retail Improvements (1/1/15)				
Individual Income Tax	(\$250)	(\$550)	(\$875)	(\$1,225)
Corporate Franchise Tax	(\$500)	(\$1,050)	(\$1,650)	(\$2,350)
Accelerated Depreciation for Business Property on an Indian Reservation (TY 2015 and 2016)				
Individual Income Tax	(\$200)	(\$250)	(\$90)	\$40
Corporate Franchise Tax	(\$225)	(\$275)	(\$65)	\$30
Election to Expense Mine Safety Equipment (TY 2015 and 2016)				
Corporate Franchise Tax	(\$25)	(\$10)	Negl.	Negl.
Special Expensing Rules for Certain Film, Television, and Theatrical Productions (TY 2015 and 2016)				
Individual Income Tax	(\$350)	(\$250)	\$150	\$75
Corporate Franchise Tax	(\$300)	(\$225)	\$125	\$75
Treatment of Certain Payments to Controlling Tax-Exempt Organizations for the Unrelated Business Income tax (1/1/15)				
Corporate Franchise Tax	(\$175)	(\$125)	(\$110)	(\$100)
Treatment of Certain Dividends of Regulated Investment Companies (1/1/15)	(\$600)	(\$550)	(\$625)	(\$650)
Exception Under Subpart F for Active Financing Income (1/1/15)				
Corporate Franchise Tax	(\$2,000)	(\$2,100)	(\$2,200)	(\$2,300)
100% Exclusion of Gain on Certain Small Business Stock* (1/1/15)	\$0	\$0	\$0	\$0
Reduction in Recognition Period for S Corporation Built-In Gains Tax (1/1/15)				
Corporate Franchise Tax	(\$1,100)	(\$1,400)	(\$1,200)	(\$800)

	FY 2016	FY 2017	FY 2018	FY 2019
Business and Investment Provisions (Cont.)				
Special Depreciation Allowance for 2 nd Generation Biofuel Plant Property (TY 2015 and 2016)	(Negl.)	(Negl.)	Negl.	Negl.
Provisions Related to Real Estate Investment Trusts (1/1/15)	\$275	\$475	\$500	\$750
Exclusion of Certain Clean Coal Power Grants (1/1/12)	(\$150)	(\$75)	(\$5)	\$50
Prevention of Transfer of Loss from Tax Indifferent Parties (1/1/16)	\$100	\$400	\$575	\$625
Energy-Efficient Commercial Building Deduction (TY 2015 and 2016)				
Individual Income Tax	(\$425)	(\$340)	\$20	\$15
Corporate Franchise Tax	(\$300)	(\$240)	\$15	\$10
Business and Investment Provisions				
Individual Income Tax	(\$1,660)	(\$1,215)	(\$365)	(\$285)
Corporate Franchise Tax	<u>(\$4,650)</u>	<u>(\$5,465)</u>	<u>(\$5,110)</u>	<u>(\$5,455)</u>
Subtotal	(\$6,310)	(\$6,680)	(\$5,475)	(\$5,740)
All Provisions				
Individual Income Tax	(\$23,150)	(\$24,105)	(\$7,145)	(\$15,460)
Corporate Franchise Tax	<u>(\$4,650)</u>	<u>(\$5,465)</u>	<u>(\$5,110)</u>	<u>(\$5,455)</u>
General Fund Total	(\$27,800)	(\$29,570)	(\$12,255)	(\$20,915)

*Revenue loss occurs after FY 2019.