DEPARTMENT OF REVENUE

**Federal Update: The Tax Cuts and Jobs Act of 2017**
**Generally Effective beginning Tax Year 2019**
**Retroactive for Select Provisions**

| | FY 2019 | FY 2020 | FY 2021 ($000s) | FY 2022 | FY 2023 |
|---|---|---|---|---|---|
| Individual Income Tax | ($12,210) | $251,510 | $271,420 | $293,970 | $374,020 |
| Property Tax Refund | $0 | $0 | $88,340 | $89,660 | $91,180 |
| Unrelated Business Tax | $200 | $2,900 | $2,200 | $2,700 | $2,900 |
| Corporate Franchise Tax | $15,380 | $392,400 | $211,700 | $205,100 | $167,400 |
| General Fund Total | $3,370 | $646,810 | $573,660 | $591,430 | $635,500 |

**NOTE**: *This document is an estimate of the impact of adopting recent changes to the Internal Revenue Code with no corresponding Minnesota tax policy changes. Most provisions of the Tax Cuts and Jobs Act took effect for federal taxes beginning with tax year 2018. This estimate assumes conformity beginning with tax year 2019, except for the modifications to Section 179 expensing and bonus depreciation and the inclusion of deferred foreign income, which are assumed to take effect at the same time as the federal law changes.*

Public Law 115-97, known as the Tax Cuts and Jobs Act (TCJA), was enacted on December 22, 2017. This estimate shows the fiscal impact of updating references to the Internal Revenue Code to December 22, 2017. All provisions are assumed to take effect beginning with tax year 2019, except where otherwise noted.

The TCJA included provisions that change the definition of federal taxable income. These changes, such as the suspension of deductions or exclusions, increase federal taxable income. These changes are included in this estimate because federal taxable income is the starting point for Minnesota taxable income.

The TCJA also included features such as federal rate changes or credits. Many of these provisions reduce federal tax liability. These features are not included in this estimate because they do not change federal taxable income. Most individual provisions are effective for tax years 2018 through 2025. Most business-related provisions are permanent beginning with tax year 2018. The attached table includes the effective date for each provision.

The TCJA includes the following major provisions:

Increase the standard deduction. Under the TCJA, the federal standard deduction increased to $24,000 for married joint filers, $12,000 for single and married separate filers, and $18,000 for head of household filers beginning in tax year 2018. This estimate assumes that without conformity, taxpayers may choose to itemize on their Minnesota returns without regard to their federal itemization status. Conforming to the higher federal standard deduction amounts would reduce tax revenue.

Adopt an alternative inflation measure. Under the TCJA the standard deduction amounts, federal tax brackets, and other thresholds will be indexed using chained CPI-U beginning in tax year 2019. Because chained CPI is generally lower than the current inflation measure, the standard deduction amounts will grow more slowly than under prior federal law, increasing federal taxable income over time. Conforming to this provision would increase tax revenue. This estimate assumes that traditional CPI-U would continue to be used for Minnesota income tax purposes.

Suspend personal and dependent exemptions. Previously a taxpayer could claim an exemption ($4,150 in 2018) for each person included on the federal return, including the taxpayer, spouse, and any dependents, reducing federal taxable income. Under the TCJA the exemptions are suspended and replaced with an increased child credit and new credits for the taxpayer, spouse and non-child dependents. Conforming to the suspension of the exemptions increases taxable income. The credits are not included in this estimate because they have no impact on federal taxable income.

Suspend or limit certain itemized deductions. The TCJA suspends or modifies the following deductions:

- Expand the medical expense deduction. Previously, medical expenses could be deducted to the extent that they exceed 10% of adjusted gross income. The TCJA lowers that threshold to 7.5% for tax years 2017 and 2018 only.
- Limit the sum of state and local tax deductions to $10,000 ($5,000 for married separate filers).
- Disallow the mortgage interest deduction for home equity debt unless it is used for home improvements, and limit the deduction for new acquisition debt to $750,000. The limit for existing mortgage debt would remain at $1,000,000.
- Increase the limit on charitable contributions from 50% to 60% of FAGI.
- Suspend the deduction for casualty or theft losses, with exceptions for certain disaster-related losses.
- Suspend the deduction for unreimbursed employee expenses, tax preparation expenses, and other miscellaneous deductions.
- Suspend the overall limit on itemized deductions.

Most of these changes will increase federal taxable income, increasing Minnesota tax revenue. State income tax deductions are already added back to Minnesota taxable income, but the combined limit on state and local tax deductions will increase taxable income for some taxpayers. This estimate assumes that the state income tax deduction will continue to be added back to Minnesota taxable income to the extent that it was deducted on the federal return, up to the maximum of $10,000 ($5,000 for married separate filers). The increased limit on charitable contributions and the suspension of the limit on itemized deductions may reduce taxable income for some taxpayers. The additional medical expense deduction will also reduce taxable income.

Other deductions and exclusions.

- Suspend the deduction for moving expenses (other than for military service members).
- Suspend the exclusion for qualified moving expenses reimbursed by an employer.

Deduction for certain pass-through income. The TCJA allows a deduction for certain qualified business income from a partnership, S corporation, or sole proprietorship. For taxpayers with taxable income of not more than $157,500 ($315,000 for married joint filers), the deduction is equal to 20% of qualified business income.

For taxpayers over that threshold, the deduction is limited in two ways: 1) it is limited to 50% of the taxpayer's allocated share of employee wages paid by the pass-through entity plus 2.5% of the unadjusted basis of the tangible property owned by the business, and 2) the deduction is not allowed for income from a service trade or business, including health care, law, engineering, accounting, and financial services.

Taxpayers with income between $157,500 and $207,500 ($315,000 to $415,000 for married joint filers) are eligible for a partial deduction. Conforming to this provision would reduce taxable income.

Limit pass-through losses. Under the TCJA, a taxpayer may not claim losses from a partnership, S corporation, or sole proprietorship of more than $250,000 ($500,000 for married joint filers.) Any excess losses over that amount may be carried over to following tax years. Conforming to this provision would increase taxable income.

Bonus depreciation and Section 179 expensing. Under the TCJA bonus depreciation is increased to 100% and extended through tax year 2022. It is phased out by 20% each year beginning tax year 2023. The maximum amount of Section 179 expensing is permanently increased from $500,000 to $1.0 million, and the phase–out threshold is increased from $2.0 million to $2.5 million of property placed in service. The estimates for bonus depreciation and Section 179 expensing assume an addback of 80% in the first year and five-year recovery, as under current Minnesota law. Conforming to this provision would increase taxable income within the forecast window, although over the life of the property the revenue impact is neutral.

Deemed repatriation of certain deferred foreign income. The TCJA requires a U.S. shareholder in a foreign corporation to recognize its share of the corporation's accumulated deferred foreign income since 1986, whether or not the income is actually brought back to the U.S. The provision applies to cash and non-cash holdings. The included amount is eligible for certain deductions, effectively reducing the federal tax rate. The increased tax liability may be paid over eight years beginning in tax years ending in 2018.

This estimate assumes that the deferred income would be eligible for the Minnesota dividends received deduction and that Minnesota tax liability would be spread over eight years as under federal law. Conforming to this provision would increase Minnesota tax revenue.

Inclusion of certain foreign intangible income. A domestic corporation is required to include in its gross income certain global intangible low-taxed income (GILTI) and may deduct certain foreign derived intangible income (FDII) from income. This estimate assumes that GILTI will be eligible for the dividends received deduction. Conforming to the inclusion of GILTI would increase Minnesota tax revenue. Conforming to the FDII deduction would decrease tax revenue.

- The House Income Tax Simulation Model (HITS 6.7) was used to estimate individual provisions where possible. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in November 2018. The model uses a stratified sample of 2016 individual income tax returns compiled by the Minnesota Department of Revenue.
- For most other provisions, the estimates are based on the estimates of the federal impacts prepared by the staff of the Joint Committee on Taxation, dated December 18, 2017. 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 estimate for foreign derived intangible income (FDII) was based on the JCT's *Estimates of Federal Tax Expenditure for Fiscal Years 2018-2022*, dated October 4, 2018.
- The estimates were done in the order shown. For example, the itemized deduction estimate assumes conformity to the increased standard deduction and suspension of personal exemptions. If Minnesota conformed to some provisions but not others, the impact of each provision could change.
- For individual provisions, all of tax year 2019 is allocated to the following fiscal year. For most business- related provisions, one month of impact is allocated to fiscal year 2019, assuming that businesses would make changes to one estimated payment in the current fiscal year after enactment. The property tax refund estimates are based on the November 2018 forecast.
- The federal provisions increase the household income amount used to calculate PTR, which would reduce state-paid refunds to more than 500,000 homeowners and renters beginning in FY 2021.

Minnesota Department of Revenue
Tax Research Division
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**Federal Update: The Tax Cuts and Jobs Act of 2017**
**Generally Effective beginning Tax Year 2019; Retroactive for Select Provisions**
**($000s)**

| | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
|---|---|---|---|---|---|
| **Standard Deduction and Exemptions** | | | | | |
| Increase standard deduction to $24,000 married joint, 12,000 single; 18,000 head of household; indexed by Chained CPI-U beginning TY 2019 (TY19-25) | $0 | ($1,462,900) | ($975,400) | ($1,011,000) | ($1,027,000) |
| Suspend personal and dependent exemptions (TY19-25) | $0 | $1,759,100 | $1,259,100 | $1,284,000 | $1,325,600 |
| **Subtotal: Standard Deduction and Exemptions** | **$0** | **$296,200** | **$283,700** | **$273,000** | **$298,600** |
| **Education-Related Provisions** | | | | | |
| Allow exclusion of discharged student loan debt in case of death or disability (TY19-25) | $0 | (Negl.) | (Negl.) | (Negl.) | (Negl.) |
| Allow Section 529 plan withdrawals of up to $10,000 for K-12 tuition (TY19-25) | $0 | ($800) | ($900) | ($1,000) | ($1,000) |
| **Subtotal: Education-Related Provisions** | **$0** | **($800)** | **($900)** | **($1,000)** | **($1,000)** |
| **Federal Deductions** | | | | | |
| Suspend or modify certain itemized deductions (TY19-25) | $0 | $81,000 | $67,500 | $70,000 | $75,200 |
| Suspend deduction for moving expenses (other than service members) (TY19-25) | $0 | $5,000 | $3,900 | $3,900 | $4,100 |
| Repeal deduction for alimony payments and corresponding inclusion of received alimony (for agreements beginning 2019) | $0 | $1,600 | $2,300 | $3,100 | $4,300 |
| Modify limit on wagering losses (TY19-25) | $0 | $150 | $90 | $90 | $90 |
| Charitable deduction not allowed for amounts paid for college athletic event seating rights (beginning TY19) | $0 | $1,900 | $1,200 | $1,200 | $1,200 |
| **Subtotal: Federal Deductions** | **$0** | **$89,650** | **$74,990** | **$78,290** | **$84,890** |
| **Federal Exclusions** | | | | | |
| Suspend exclusion for qualified moving expense reimbursement (TY19-25) | $0 | $5,600 | $3,900 | $3,900 | $3,900 |
| Suspend exclusion for certain employer-provided bicycle commuter fringe benefits (TY19-25) | $0 | $40 | $30 | $30 | $30 |
| **Subtotal: Federal Exclusions** | **$0** | **$5,640** | **$3,930** | **$3,930** | **$3,930** |

| | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
|---|---|---|---|---|---|
| **Retirement, Savings, and Pensions** | | | | | |
| Allow increased contributions to ABLE accounts (TY19-25) | $0 | (Negl.) | (Negl.) | (Negl.) | (Negl.) |
| Extend rollover period for certain retirement plan loan offsets (beginning TY19) | $0 | (Negl.) | (Negl.) | (Negl.) | (Negl.) |
| Repeal special rule permitting recharacterization of IRA contributions (beginning TY19) | $0 | $450 | $300 | $350 | $400 |
| **Subtotal: Retirement, Savings, and Pensions** | **$0** | **$450** | **$300** | **$350** | **$400** |
| **Bonus Depreciation and Section 179 Expensing** | | | | | |
| Bonus depreciation of 100%, with 80% addback and 5-year recovery; phased out beginning in TY 2023 (TY18-26) | | | | | |
| Individual Income Tax | $400 | $8,700 | $10,700 | $10,500 | $3,700 |
| Corporate Franchise Tax | $800 | $18,300 | $22,600 | $22,100 | $7,800 |
| | $1,200 | $27,000 | $33,300 | $32,600 | $11,500 |
| Increased Section 179 expensing, with 80% addback and 5-year recovery (beginning TY18) | | | | | |
| Individual Income Tax | $560 | $2,600 | $2,800 | $2,000 | $800 |
| Corporate Franchise Tax | $180 | $1,000 | $1,100 | $800 | $300 |
| | $740 | $3,600 | $3,900 | $2,800 | $1,100 |
| **Bonus Depreciation and Section 179 Expensing** | | | | | |
| **Individual Income Tax** | **$960** | **$11,300** | **$13,500** | **$12,500** | **$4,500** |
| **Corporate Franchise Tax** | **$980** | **$19,300** | **$23,700** | **$22,900** | **$8,100** |
| **Subtotal** | **$1,940** | **$30,600** | **$37,200** | **$35,400** | **$12,600** |
| **Other Business and Investment Provisions** | | | | | |
| Allow 20% deduction of certain non-service pass-through income (TY19-25) | | | | | |
| Individual Income Tax | ($29,400) | ($341,700) | ($302,300) | ($309,500) | ($308,300) |
| Disallow pass-through losses over $500,000 married joint, $250,000 for other filers (TY19-25) | | | | | |
| Individual Income Tax | $4,400 | $47,800 | $46,300 | $40,400 | $41,600 |
| Tax gain on the sale of partnership on a look-through basis (beginning TY19) | | | | | |
| Individual Income Tax | $200 | $1,600 | $1,900 | $2,400 | $3,100 |
| Expand the definition of built-in loss for purposes of partnership loss transfers (beginning TY19) | | | | | |
| Individual Income Tax | $30 | $270 | $300 | $300 | $400 |
| Charitable contributions and foreign taxes taken into account in determining limit on partner's share of loss (beginning TY19) | | | | | |
| Individual Income Tax | $100 | $1,300 | $800 | $800 | $900 |

| | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
|---|---|---|---|---|---|
| **Other Business and Investment Provisions (Cont.)** | | | | | |
| Repeal rollover of publicly traded securities gain into specialized small business investment companies (beginning TY19) | | | | | |
| Individual Income Tax | $30 | $270 | $300 | $300 | $200 |
| Corporate Franchise Tax | $50 | $550 | $600 | $500 | $400 |
| Limit net interest deduction to 30% of income, with carryforward (beginning TY19) | | | | | |
| Individual Income Tax | $8,100 | $89,600 | $92,500 | $111,100 | $136,000 |
| Corporate Franchise Tax | $1,400 | $15,200 | $15,700 | $18,900 | $23,100 |
| Modification of net operating loss deduction (beginning TY19) | | | | | |
| Individual Income Tax | $3,200 | $35,600 | $43,300 | $67,400 | $93,900 |
| Repeal deferred gain on like-kind exchanges, except for real property (beginning TY19) | | | | | |
| Individual Income Tax | $200 | $2,100 | $3,300 | $4,300 | $5,600 |
| Corporate Franchise Tax | $200 | $2,700 | $4,200 | $5,400 | $7,100 |
| Reduce recovery period for certain real property (beginning TY19) | | | | | |
| Individual Income Tax | ($30) | ($370) | ($600) | ($700) | ($1,000) |
| Corporate Franchise Tax | ($70) | ($730) | ($1,100) | ($1,400) | ($2,000) |
| Repeal deduction for local lobbying expenses (beginning TY19) | | | | | |
| Individual Income Tax | $20 | $180 | $100 | $100 | $100 |
| Corporate Franchise Tax | $30 | $370 | $300 | $300 | $300 |
| Limit deduction for employer-provided meals and entertainment expenses (beginning TY19) | | | | | |
| Individual Income Tax | $300 | $6,100 | $2,700 | $2,700 | $2,800 |
| Corporate Franchise Tax | $800 | $16,600 | $7,300 | $7,400 | $7,600 |
| Limit deduction for certain employer-provided transportation benefits (beginning TY19) | | | | | |
| Individual Income Tax | $200 | $2,700 | $2,000 | $2,100 | $2,200 |
| Corporate Franchise Tax | $600 | $7,100 | $5,600 | $5,700 | $5,900 |
| Prohibit deduction for achievement awards of cash, gift cards and other nontangible personal property (beginning TY19) | | | | | |
| Individual Income Tax | Negl. | Negl. | Negl. | Negl. | Negl. |
| Corporate Franchise Tax | Negl. | Negl. | Negl. | Negl. | Negl. |
| Limit deduction for FDIC Premiums (beginning TY19) | | | | | |
| Corporate Franchise Tax | $500 | $6,000 | $6,100 | $6,200 | $6,300 |

| | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
|---|---|---|---|---|---|
| **Other Business and Investment Provisions (Cont.)** | | | | | |
| Deny deduction for sexual harassment settlements paid subject to a nondisclosure agreement (beginning TY19) | | | | | |
| Individual Income Tax | Negl. | Negl. | Negl. | Negl. | Negl. |
| Corporate Franchise Tax | Negl. | Negl. | Negl. | Negl. | Negl. |
| Revise treatment of contributions to capital (beginning TY19) | | | | | |
| Individual Income Tax | $30 | $370 | $700 | $1,100 | $1,200 |
| Corporate Franchise Tax | $90 | $1,010 | $2,000 | $3,000 | $3,200 |
| Modify historic rehabilitation credit to provide 20% credit spread over 5 years (beginning TY19) | | | | | |
| Corporate Franchise Tax[1] | $0 | $28,700 | $16,400 | $9,800 | ($18,800) |
| Modify treatment of interest for producers of beer, wine, and distilled spirits (TY19) | | | | | |
| Individual Income Tax | ($100) | ($1,200) | $0 | $0 | $0 |
| Corporate Franchise Tax | ($200) | ($1,400) | $0 | $0 | $0 |
| Modify limit on excessive compensation (beginning TY19) | | | | | |
| Individual Income Tax | $50 | $550 | $600 | $600 | $600 |
| Corporate Franchise Tax | $300 | $3,300 | $3,600 | $3,600 | $3,600 |
| **All Other Business and Investment Provisions** | | | | | |
| **Individual Income Tax** | ($12,670) | ($154,830) | ($108,100) | ($76,600) | ($20,700) |
| **Corporate Franchise Tax** | $3,700 | $79,400 | $60,700 | $59,400 | $36,700 |
| **Subtotal** | **($8,970)** | **($75,430)** | **($47,400)** | **($17,200)** | **$16,000** |
| **Unrelated Business Income** | | | | | |
| Unrelated business income of charitable organizations separately computed for each trade or business activity (beginning TY19) | | | | | |
| Unrelated Business Income Tax | $200 | $2,900 | $2,200 | $2,700 | $2,900 |
| **Subtotal: Unrelated Business Income** | **$200** | **$2,900** | **$2,200** | **$2,700** | **$2,900** |
| **Bond Interest** | | | | | |
| Repeal exclusion of interest on advance refunding bonds (beginning TY19) | | | | | |
| Individual Income Tax | $300 | $3,300 | $4,800 | $5,700 | $6,100 |
| Corporate Franchise Tax | $200 | $1,700 | $2,500 | $3,000 | $3,200 |
| **Subtotal: Bond Interest** | **$500** | **$5,000** | **$7,300** | **$8,700** | **$9,300** |

| | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
|---|---|---|---|---|---|
| **International Business Income** | | | | | |
| Deemed repatriation of certain deferred foreign income (beginning TY17)[2] | | | | | |
| Corporate Franchise Tax | $13,500 | $262,800 | $107,100 | $110,700 | $113,800 |
| Inclusion of global intangible low-taxed income (GILTI), with deduction (beginning TY19) | | | | | |
| Individual Income Tax | $0 | $6,600 | $6,100 | $6,000 | $5,800 |
| Corporate Franchise Tax | $0 | $62,400 | $57,600 | $56,500 | $54,900 |
| Deduction for foreign-derived intangible income (FDII) derived from domestic trade or business, with deduction (beginning TY19) | | | | | |
| Individual Income Tax | ($800) | ($6,000) | ($6,900) | ($8,200) | ($8,500) |
| Corporate Franchise Tax | ($3,000) | ($33,200) | ($39,900) | ($47,400) | ($49,300) |
| Other modifications to Subpart F provisions (beginning TY19) | | | | | |
| Corporate Franchise Tax | Negl. | Negl. | Negl. | Negl. | Negl. |
| **International Business Income** | | | | | |
| **Individual Income Tax** | **($800)** | **$600** | **($800)** | **($2,200)** | **($2,700)** |
| **Corporate Franchise Tax** | **$10,500** | **$292,000** | **$124,800** | **$119,800** | **$119,400** |
| **Subtotal** | **$9,700** | **$292,600** | **$124,000** | **$117,600** | **$116,700** |
| **Property Tax Refund** | | | | | |
| Suspend exemptions for dependents, senior/disabled | | | | | |
| Homestead Credit Refund | $0 | $0 | $54,200 | $54,900 | $55,700 |
| Renter Property Tax Refund | $0 | $0 | $33,600 | $34,200 | $34,900 |
| Modifications to federal adjusted gross income | | | | | |
| Homestead Credit Refund | $0 | $0 | $370 | $380 | $390 |
| Renter Property Tax Refund | $0 | $0 | $170 | $180 | $190 |
| **Subtotal: Property Tax Refund** | **$0** | **$0** | **$88,340** | **$89,660** | **$91,180** |
| **All Provisions** | | | | | |
| **Individual Income Tax** | **($12,210)** | **$251,510** | **$271,420** | **$293,970** | **$374,020** |
| **Property Tax Refund** | **$0** | **$0** | **$88,340** | **$89,660** | **$91,180** |
| **Unrelated Business Income Tax** | **$200** | **$2,900** | **$2,200** | **$2,700** | **$2,900** |
| **Corporate Franchise Tax** | **$15,380** | **$392,400** | **$211,700** | **$205,100** | **$167,400** |
| **General Fund Total** | **$3,370** | **$646,810** | **$573,660** | **$591,430** | **$635,500** |

[1] The historic rehabilitation credit may also be claimed against the individual income tax or insurance premiums tax. Since the distribution of future credits is unknown, the entire estimate is included in the corporate franchise tax total.

[2] Repatriated earnings are expected to be used partly for dividends and stock repurchases. That income is taxable under current Minnesota law. In addition, to the extent that deferred foreign income is actually returned to the U.S., it would be taxable under current Minnesota law. Because those revenue gains will occur regardless of legislative action, they were reflected in the forecast. We estimate this adjustment to be about $10 million in FY 2018, $150 million in FY 2019, $96 million in FY 2020, and $100 million in 2021. No adjustment was made for fiscal years 2022 and 2023. These revenues are in addition to the revenue gain from conformity shown in this estimate, above.