

February 6, 2019

	Yes	No
DOR Administrative Costs/Savings	X	

 Department of Revenue
 Analysis of H.F. 515 (Poppe)

	Fund Impact				
	<u>F.Y. 2019</u>	<u>F.Y. 2020</u>	<u>F.Y. 2021</u>	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>
			(000's)		
Individual Income Tax	(\$5,200)	(\$124,800)	(\$36,600)	(\$25,500)	(\$14,400)
Corporate Franchise Tax	<u>(\$2,000)</u>	<u>(\$47,300)</u>	<u>(\$13,900)</u>	<u>(\$12,100)</u>	<u>(\$10,000)</u>
General Fund	(\$7,200)	(\$172,100)	(\$50,500)	(\$37,600)	(\$24,400)

Effective retroactively beginning with tax year 2018.

EXPLANATION OF THE BILL

Public Law 115-97, known as the Tax Cuts and Jobs Act (TCJA), was enacted on December 22, 2017. The TCJA permanently increased the limits for Section 179 expensing beginning with tax year 2018.

Section 179 expensing allows a taxpayer to treat the cost of qualified business property as an expense in the year the property is placed in service. The federal limits on Section 179 expensing have been increased and extended several times, but Minnesota has only conformed to the pre-2003 amounts. Eighty percent of the amount over the pre-2003 federal limits must be added back and subtracted over the next five years.

Under pre-2003 federal law, the maximum amount that may be expensed is \$25,000. If the taxpayer places more than \$200,000 of qualifying property in service during the year, the \$25,000 is reduced by one dollar for each dollar that the total cost exceeds \$200,000. In 2003, the maximum amount was increased to \$500,000, reduced by the amount of qualifying property over \$2.0 million placed in service during the year. Those limits were made permanent in 2015.

The TCJA increased the maximum amount of Section 179 expensing from \$500,000 to \$1.0 million. The phase-out threshold was increased from \$2.0 million to \$2.5 million of property placed in service. Those thresholds are indexed for inflation beginning in tax year 2019.

In the past, Minnesota has conformed to this provision but requires a portion of the expensed amount to be added back in the first year, with a subtraction of that amount allowed in equal parts over the next five years. The addback is equal to 80% of the difference between the expensed amount and the amount allowed under pre-2003 federal law.

The bill would fully conform to the federal treatment of Section 179 expensing beginning with tax year 2018, eliminating the need for the addbacks and associated subtractions.

REVENUE ANALYSIS DETAIL

- The estimates are based on estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation, dated December 18, 2017.
- The estimate was 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 estimate was apportioned to Minnesota and adjusted for differences in federal and state tax rates and federal and state fiscal years.
- Because the bill is retroactive, tax year 2018 returns would have to be adjusted or amended to reflect full conformity. Those impacts are allocated to fiscal year 2020. In addition, most of the tax year 2019 impact is allocated to FY 2020. Other tax years were allocated 30% / 70% to fiscal years.

Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research/stats/Pages/Revenue-Analyses.aspx