DEPARTMENT OF REVENUE

FEDERAL UPDATE
Bonus Depreciation Full Conformity

February 6, 2019

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 518 (Marquart)

	Fund Impact				
	F.Y. 2019	**F.Y. 2020**	**F.Y. 2021**	**F.Y. 2022**	**F.Y. 2023**
			(000's)		
Individual Income Tax	($9,200)	($217,400)	($56,200)	($35,700)	($13,300)
Corporate Franchise Tax	($19,300)	($458,500)	($118,400)	($75,300)	($28,000)
General Fund	($28,500)	($675,900)	($174,600)	($111,000)	($41,300)

Effective retroactively beginning with tax year 2017.

EXPLANATION OF THE BILL

Public Law 115-97, known as the Tax Cuts and Jobs Act (TCJA), was enacted on December 22, 2017. The law allows a taxpayer to claim bonus depreciation equal to 100% of qualifying property in tax years 2018 through 2022. The eligible percentage of qualifying property is reduced to 80% in 2023, 60% in 2024, 40% in 2025, and 20% in 2026 and is phased out completely in 2027. To qualify, the property must be placed in service after September 27, 2017. The TCJA also expands eligibility to include used property and property used in qualified film, television, and theatrical productions.

In the past, Minnesota has conformed to this provision but required 80% of the bonus depreciation amount to be added back in the first year, with a subtraction of that amount allowed in equal parts over the subsequent five tax years.

The bill would fully conform to federal bonus depreciation for property placed in service after September 27, 2017.

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.
- 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

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