

February 11, 2020

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 3023 (Marquart), As Proposed to be Amended (H3023A1)

	Fund Impact			
	<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	\$0	(\$4,000)	(\$2,200)	(\$2,500)
Corporate Franchise Tax	<u>\$0</u>	<u>(\$5,100)</u>	<u>(\$2,800)</u>	<u>(\$3,200)</u>
General Fund Total	\$0	(\$9,100)	(\$5,000)	(\$5,700)

Effective retroactively beginning with tax year 2018.

EXPLANATION OF THE BILL

Current Law: Under prior federal law, business or investment property could be exchanged for property of a like kind without recognizing any gain or loss at the time of the exchange. Public Law 115-97, known as the Tax Cuts and Jobs Act, disallowed the deferral of gains for most like-kind exchanges except for real property, beginning with tax year 2018. Minnesota conformed to this change in 2019.

Proposed Law: Under the proposal, the gain or loss from a disallowed like-kind exchange would be spread over six years. In the year of the exchange, 80% of the gain or loss would be subtracted from Minnesota taxable income. The subtraction would be added back in equal parts over the next five years. The net effect is that 20% of the gain or loss would be taxed in the first year and 16% would be taxed in each of the next five years.

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.
- Minnesota has already conformed to the federal treatment of like-kind exchanges, which resulted in a revenue gain. The proposal would partly reverse that revenue gain, because the taxable income for each exchange would be spread over six years. Since only 20% of the gain would be taxed in the year of the exchange, there would be a revenue loss in that year and a corresponding revenue gain over the next five years. For each piece of property, the net change in taxable income over the six-year period will be zero.
- 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.

REVENUE ANALYSIS DETAIL (Cont.)

- The estimate was apportioned to Minnesota and adjusted for differences in federal and state tax rates and federal and state fiscal years.
- The impact of the tax years 2018 through 2020 is allocated to FY 2021. 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](http://www.revenue.state.mn.us/research/stats/Pages/Revenue-Analyses.aspx)

hf3023 Like-Kind Exchanges/ js tj