

March 11, 2020

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 3431 (Dahms), As Proposed to be Amended (SCS3431A-1)

	Fund Impact			
	F.Y. 2020	F.Y. 2021	F.Y. 2022	F.Y. 2023
	(000's)			
Bonus Depreciation Carryover	\$0	(\$9,500)	(\$12,000)	(\$14,500)
Section 179 Carryover	\$0	(\$11,100)	(\$13,800)	(\$16,500)
General Fund Total	\$0	(\$20,600)	(\$25,800)	(\$31,000)

Effective beginning with tax year 2020 for amounts carried over from 2017 and later years.

EXPLANATION OF THE BILL

Current Law:

Bonus Depreciation. Under federal law, 100% of the expenditures on qualifying property may be deducted in the year the property is placed in service. The maximum eligible percentage of qualifying property is reduced by 20% each year in tax years 2024 through 2027, and is phased out completely beginning in tax year 2028.

Minnesota requires that taxpayers add back 80% of bonus depreciation, allowing a subtraction in equal amounts over the next five tax years.

Section 179 Expensing. Section 179 of the Internal Revenue Code allows a taxpayer to treat the cost of qualified business property as an expense in the year the property is placed in service. The current limit on Section 179 expensing is \$1.0 million. That amount is reduced by one dollar for every dollar of property placed in service over \$2.5 million, so a taxpayer who places \$3.5 million or more of property in service during the tax year is ineligible. Those thresholds are indexed for inflation beginning in tax year 2019.

For Minnesota purposes, a taxpayer must add back 80% of the difference between the amount deducted federally and the amount that was allowed under pre-2003 federal law (up to \$25,000, reduced by one dollar for each dollar that total expenses exceed \$200,000). The amount of the addition may be subtracted in equal parts over the next five years.

Proposed Law: The bill allows unused bonus depreciation and Section 179 subtractions to be carried forward for up to ten years. Taxpayers with unused bonus depreciation or Section 179 expense subtractions for tax years 2017 through 2019 may claim that amount as a subtraction in 2020, and it can be carried forward for up to ten years.

EXPLANATION OF THE BILL (Cont.)

For purposes of this provision, the sum of the bonus depreciation and Section 179 subtractions is considered the last subtraction in calculating taxable income and must be used before applying any carryover allowance. For shareholders in an S corporation, the subtraction must be reduced by any deduction claimed for net operating losses.

The proposal only applies to individual income taxpayers, because corporate taxpayers can claim their unused subtractions as part of their net operating loss deduction under current law.

REVENUE ANALYSIS DETAIL

- Data from the 2017 income tax sample is the basis for this analysis.
- For tax years 2017 through 2019, the cumulative carryovers would be \$791.6 million in Section 179 subtractions and \$679.8 million in bonus depreciation subtractions. Those amounts could be carried over beginning in tax year 2020.
- For tax year 2020 and onward, additional Section 179 and bonus depreciation subtractions will be generated and carried forward each year.
- Because of the large volume of potential carryovers, it is unclear how quickly they could be used. It is assumed that the carryover from one year generally would be used over ten years, with 20% subtracted in the first year and a declining percentage subtracted in each year until the carryover is exhausted.
- A marginal tax rate of 7.0% was used in the estimate.
- Tax year impact was allocated to the following fiscal year.

Minnesota Department of Revenue
Tax Research Division
[https://www.revenue.state.mn.us/
revenue-analyses](https://www.revenue.state.mn.us/revenue-analyses)