DEPARTMENT OF REVENUE

March 4, 2020

Preliminary Estimates

INDIVIDUAL INCOME TAX
CORPORATE FRANCHISE TAX
Section 179: Like Kind Exchanges

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 3751 (Eken) / H.F. 3882 (Marquart)

	Fund Impact			
	F.Y. 2020	**F.Y. 2021**	**F.Y. 2022**	**F.Y. 2023**
		(000's)		
Individual Income Tax	$0	($5,600)	($2,900)	($3,800)
Corporate Franchise Tax	$0	($7,000)	($3,700)	($4,800)
General Fund Total	$0	($12,600)	($6,600)	($8,600)

Retroactively effective beginning with tax year 2018.

EXPLANATION OF THE BILL

Current Law:

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 addback may be subtracted in equal parts over the next five years.

Like-Kind Exchanges. Federal law allows certain business or investment property to be exchanged for property of a like kind without recognizing any gain or loss at the time of the exchange. The Tax Cuts and Jobs Act (TJCA) 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: A taxpayer with a gain from a like-kind exchange that was disallowed under the TCJA may deduct 100% of the gain in the year the property is placed in service, to the extent that it is included in Section 179 property. Other Section 179 property will still be subject to the 80% addback and subtractions over 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, and information from 2018 income tax returns.
- The proposal would reverse the impact of conformity to the TCJA for taxpayers who have disallowed deferral of gains for a like-kind exchange and instead claimed Section 179 expensing for that property.
- Based on information from 2018 individual income tax returns, about 65% of gains from disallowed like-kind exchanges were reported on returns that also had Section 179 expensing.
- Based on the above information, the proposal is assumed to reverse 65% of the impact of conformity to the federal treatment of like-kind exchanges. The same percentage was applied to corporate franchise tax returns.
- The proposal would not include losses from like-kind exchanges. In tax year 2018, losses accounted for less than 5% of total adjustments from like-kind exchanges. The estimate was increased by 5% to account for the exclusion of losses.
- The impact of the tax years 2018 through 2020 is allocated to FY 2021. Other tax years were allocated 30%70% to fiscal years.

Number of Taxpayers: About 1,100 individual income tax returns and an unknown number of corporate franchise tax returns would be affected.

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

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