DEPARTMENT OF REVENUE

INDIVIDUAL INCOME TAX
Discharged Residence Debt Exclusion

March 15, 2021

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 1775 (Dziedzic), As Proposed to be Amended (SCS1775A-1)

	Fund Impact			
	F.Y. 2022	**F.Y. 2023**	**F.Y. 2024**	**F.Y. 2025**
	(000's)			
General Fund	($8,000)	($1,500)	($1,600)	($1,600)

Effective retroactively at the same time the federal provisions were effective.

EXPLANATION OF THE BILL

Current Law: Discharged debt is generally considered taxable income for federal and state income tax purposes. An exception is for discharged debt on a principal residence, up to $2 million ($1 million for married separate filers). The exclusion expired after tax year 2017 but has since been extended as follows:

- The Further Consolidated Appropriations Act, 2020 (P.L. 116-94) extended the exclusion for tax years 2018 through 2020.
- The Consolidated Appropriations Ac, 2021 (P.L. 116-260) extended the exclusion for tax years 2021 through 2025 and reduced the maximum exclusion to $750,000 ($375,000 married separate).

Minnesota has not adopted these federal extensions and modifications of the exclusion.

Proposed Law: The bill conforms to the federal exclusion for discharged debt on a principal residence, as modified by the above federal Acts.

REVENUE ANALYSIS DETAIL

- The estimates are based on the estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation, dated December 17, 2019 and December 21, 2020.
- Retroactive impacts are allocated to fiscal year 2022. For all other years, tax year impacts are allocated to the following fiscal year.

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