

HF3023 - 1A - Gain or Loss on Like-Kind Exchange

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 Committee: **Taxes**
 Date Completed: **2/12/2020 5:34:06 PM**
 Agency: **Revenue Dept**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue	X	
Information Technology	X	
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2019	FY2020	FY2021	FY2022	FY2023
General Fund	-	22	9,822	5,308	5,815	
Total	-	22	9,822	5,308	5,815	
Biennial Total			9,844		11,123	

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2019	FY2020	FY2021	FY2022	FY2023
General Fund	-	.18	5.97	2.92	1.03
Total	-	.18	5.97	2.92	1.03

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands	FY2019	FY2020	FY2021	FY2022	FY2023	
General Fund	-	22	9,822	5,308	5,815	
Total	-	22	9,822	5,308	5,815	
			Biennial Total			11,123
1 - Expenditures, Absorbed Costs*, Transfers Out*						
General Fund	-	22	722	308	115	
Total	-	22	722	308	115	
			Biennial Total			423
2 - Revenues, Transfers In*						
General Fund	-	-	(9,100)	(5,000)	(5,700)	
Total	-	-	(9,100)	(5,000)	(5,700)	
			Biennial Total			(10,700)

Bill Description

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.

Assumptions

The Department of Revenue (DOR) assumes the amendment for retroactivity will be passed by the House Tax Committee.

DOR assumes that taxpayers will be amending returns for tax years 2018 and 2019 to benefit from this bill.

DOR will need to update the Integrated Tax System (GenTax) and other computer systems, which includes; analysis, gathering requirements, and system testing. Annual system changes and ongoing support will be needed.

DOR will need additional staff for outreach, education, taxpayer assistance, return processing, enforcement and compliance. DOR will need additional legal staff to respond to requests for legal advice, analysis, and opinions.

DOR will engage in outreach and communication to inform taxpayers, businesses, tax preparers, tax software companies and DOR employees about the changes in this bill. For example, DOR may issue email and social media bulletins, and include information about the changes in press releases, conference calls, and other materials about new tax law changes.

DOR will create or update tax forms, instructions, and schedules, web content, and outreach materials to reflect the changes in this bill. DOR will update employee instructional and training materials.

Expenditure and/or Revenue Formula

Revenue Estimate

February 11, 2020 Department of Revenue

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

Like-Kind Exchanges

Individual Income Tax

Corporate Franchise Tax

Fund Impact (000's)	FY2020	FY2021	FY2022	FY2023
Individual Income Tax	\$0	(\$4,000)	(\$2,200)	(\$2,500)
Corporate Franchise Tax	\$0	(\$5,100)	(\$2,800)	(\$3,200)
General Fund Total	\$0	(\$9,100)	(\$5,000)	(\$5,700)

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.
- 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.

Administrative Costs

Administrative Costs	FY20	FY21	FY22	FY23
Employees	18,977	590,663	293,478	100,816
Systems Analysis & Testing		19,054	2,914	2,914
Systems Development		112,400		
Systems Support			11,400	11,400
Forms/Media/Communications	3,050			
Total Administrative Costs	22,027	722,117	307,791	115,130

Long-Term Fiscal Considerations

Ongoing and annual system support is necessary to accommodate future maintenance of new code, storage, and support. System support is calculated at up to 20% of original development costs.

Staff will be needed on an ongoing basis to handle return processing, compliance and enforcement activities.

Local Fiscal Impact

This bill does not impact local governments.

References/Sources

Agency staff provided information in this Fiscal Note.

Minnesota Department of Revenue
Tax Research Division
http://www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx
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