DEPARTMENT OF REVENUE

Federal Update
Consolidated Appropriations Act, 2021

	FY 2022	FY 2023	FY 2024	FY 2025
		($000s)		
Individual Income Tax	($52,055)	($11,455)	($8,695)	($10,115)
Corporate Franchise Tax	($14,430)	($9,420)	($1,950)	($1,860)
General Fund Total	($66,485)	($20,875)	($10,645)	($11,975)

The Consolidated Appropriations Act, 2021 (Public Law 116-260) was enacted on December 27, 2020. The proposal is to update reference to the Internal Revenue Code to include the Act.

The Act includes a number of provisions that will affect the definition of income, as described below.

Discharge of indebtedness on principal residence. In general, any forgiven debt is included in gross income. An exception is allowed for discharged debt on a principal residence up to $2 million ($1 million for married separate filers). The exclusion is scheduled to expire after tax year 2020. The Act extends the exclusion for tax years 2021 through 2025 and reduces the maximum exclusion to $750,000 ($375,000 married separate).

Benefits for firefighters and emergency responders. For tax year 2020, certain state and local benefits paid to volunteer firefighters and emergency responders were excluded from income, up to $50 per month. The Act permanently extends that exclusion beginning with tax year 2021.

Student Loan Payments. The CARES Act allowed an exclusion for certain student loan payments made by an employer, up to $5,250 per employee for tax year 2020 only. The CAA extends the exclusion for tax years 2021 through 2025.

Emergency Financial Aid Grants. The CARES Act provided emergency financial aid grants for college and university students in tax year 2020. The CAA clarifies that the grants are excluded from income.

Charitable deduction for nonitemizers. The Act allows an above-the-line deduction for charitable contributions up to $300 ($600 for married joint filers), for tax year 2021 only.

Increased limits on charitable contributions. In general, deductions for charitable contributions may not exceed 60% of adjusted gross income. The CARES Act increased the limit to 100% of adjusted gross income for tax year 2020. The CAA extends the 100% limit for tax year 2021.

Educator Expense Deduction. The Act expands the educator expense deduction to include personal protective equipment and other supplies used to protect against the COVID-19 coronavirus.

Flexible Spending Arrangements. The Act allows taxpayers who contribute to a medical or dependent care FSA to carry over up to $550 in unused contributions to the next year, for plan years ending in 2020 and 2021 only. The Act also creates special rules for taxpayers who stopped contributions mid-year. They may continue to make withdrawals from the FSA through the end of the year, plus any carryover period.

EIDL Loan Exclusion. The CARES Act created an Economic Injury Disaster Loan (EIDL) program for businesses affected by the COVID-19 pandemic. The loans must be repaid over 30 years, but loan advances up to $10,000 do not have to be repaid. The forgiven loan advances are not included in income. The CAA clarifies that expenses paid with the advances are deductible.

Extenders. The Act extends several provisions that have been extended repeatedly over recent years. Some are made permanent, and others are extended for tax years 2021 through 2025.

Depreciation of certain rental property. The Tax Cuts and Jobs Act shortened the recovery period for residential rental property from 40 years to 30 years, beginning with tax year 2018. The provision expands that treatment to certain property placed in service before tax year 2018, under limited circumstances.

Production period for beer, wine, and spirits. The Tax Cuts and Jobs Act temporarily reduced the production period for beer, wine, and distilled spirits to exclude the aging period, allowing producers of those products to deduct expenses over a shorter time. That provision expired after tax year 2020. The CAA extends the provision permanently beginning with tax year 2021.

Deduction for Business Meals. The Tax Cuts and Jobs Act limited the deduction for business meals to 50% of expenses. The CAA 2021 allows a deduction for the full amount of expenses for food and beverages provided by a restaurant in 2021 and 2022.

Disaster-Related IRA Distributions. The Act extends special rules for taxpayers taking an early distribution from a retirement plan due to damages sustained in federally declared disaster areas. An eligible taxpayer may take an early distribution of up to $100,000 and may either repay the amount or include the distribution in gross income over a three-year period, instead of in the year it was withdrawn. Qualified disaster areas include federal disasters that were declared from January 1, 2020 through February 25, 2021, for disasters beginning December 28, 2019 to December 28, 2020, not including the ongoing pandemic-related disasters.

Disaster-Related Casualty Losses. The Act extends the deduction for casualty losses in federally declared disaster areas. The federal deduction for most casualty losses was repealed beginning with tax year 2018. The law allows the deduction for disaster-related losses, allows non-itemizers to claim the deduction for disaster-related losses, and removes the 10% threshold so that the entire loss may be deducted. Although Minnesota has its own deduction for casualty losses, Minnesota statute refers to the Internal Revenue Code to define qualified losses.

Paycheck Protection Program. The Act clarifies that expenses paid with forgiven loans under the Paycheck Protection Program are deductible. The impact of the exclusion is not included here but is included in a separate estimate.

Employer Credits. The Act modifies and extends certain credits for employers created under the CARES Act and the Families First Coronavirus Response Act. Those impacts are combined with the original estimates.

A table showing the revenue impact of each provision is attached.

- The estimates for most provisions are based on the estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation, dated December 21, 2020.
- Where applicable, the estimates were divided between the individual income tax and corporate franchise tax. The estimates for each provision were apportioned to Minnesota based on information relevant to that provision. The estimates were adjusted for the difference between federal and state tax rates and federal and state fiscal years.
- Retroactive impacts are allocated to fiscal year 2022. For other years, corporate franchise tax impacts are allocated 30% / 70% to fiscal years. Individual income tax impacts are allocated to the following fiscal year.

EIDL Advance Exclusion
- The estimate for the EIDL advances is based on information from the Small Business Administration (SBA).
- Minnesota businesses have received $251.7 million in EIDL advances, according to a July 15, 2020 SBA report.
- C corporations are assumed to account for 39.5% of EIDL advances. Pass-through entities, estates, trusts, and individuals account for 51.9%. Nonprofit organizations account for 8.6%.
- The estimate was reduced by 68% to exclude businesses without taxable income in tax year 2020, based on taxable income in 2018, adjusted for expected losses in 2020.
- Any unused deductions are expected to generate additional net operating losses (NOLs) in future years. Between 2.7% and 6.3% of NOLs are assumed to be claimed each year over the forecast period.
- The CARES Act removed the 80% limitation on NOLs and allowed losses to be carried back for up to five years. Adopting those provisions when combined with the EIDL exclusion would result in an additional immediate impact in FY 2022. There will be a revenue gain beginning in FY 2023 as the pool of NOLs will be smaller in future years.
- A marginal rate of 8.0% was assumed for individuals and pass-through entities. A marginal rate of 9.8% was applied to corporations.

Charitable Deduction for Nonitemizers
- The estimate is based on information from a sample of 2018 income tax returns and the House Income Tax Simulation (HITS) model.
- Taxpayers with the charitable subtraction for nonitemizers are expected to claim the above-the-line federal deduction for the first $300 in contributions ($600 married joint).
- The Minnesota subtraction was reduced by the amount used to claim the federal deduction.
- The estimate was increased by 10% to include taxpayers with less than $500 in contributions, who do not qualify for the Minnesota subtraction but could claim the federal deduction.

Minnesota Department of Revenue
Tax Research Division
January 25, 2021

Federal update CAA 2021 / sat ct cw

January 25, 2021

Federal Update: Consolidated Appropriations Act, 2021
November 2020 Forecast
($000s)

	FY 2022	FY 2023	FY 2024	FY 2025
Individual Provisions				
Exclusion of discharge of indebtedness on qualified principal residence (TY21-TY25)	($1,300)	($1,500)	($1,600)	($1,600)
Benefits for volunteer firefighters and emergency medical responders (TY21)	($300)	($300)	($400)	($400)
Exclusion for certain employer payments of student loans (TY21-25)	($7,100)	($7,200)	($7,300)	($7,400)
Exclusion for certain financial aid grants made under the CARES Act (TY20)	($600)	$0	$0	$0
Partial above-the-line deduction for charitable contributions (TY21)	($14,600)	$0	$0	$0
Modification of limitation on charitable contributions (TY21)				
Individual Income Tax	($11,300)	$4,200	$2,700	$1,200
Expansion of educator expense deduction beginning (`2/27/20)	($25)	($15)	($15)	($15)
Temporary special rules for health and dependent care flexible spending arrangements (TY21)	$300	$0	$0	$0
Subtotal: Individual Provisions	**($34,925)**	**($4,815)**	**($6,615)**	**($8,215)**
Business and Investment Provisions				
Exclusion of EIDL loan advances and repayments (TY20)				
Individual Income Tax	($3,500)	($400)	($200)	($200)
Corporate Franchise Tax	($3,400)	($300)	($200)	($200)
EIDL loan advances: Interaction with NOL modifications (TY20)				
Individual Income Tax	($1,000)	$200	$100	$100
Seven-year recovery period for motorsports entertainment complexes (TY21-25)				
Corporate Franchise Tax	($110)	($90)	($100)	($110)
Accelerated depreciation for business property on Indian reservations (TY21-25)				
Individual Income Tax	($40)	($70)	($80)	($80)
Corporate Franchise Tax	($30)	($50)	($60)	($60)
Depreciation of certain residential rental property over 30 years (Retroactive to TY18)				
Individual Income Tax	($5,900)	($2,600)	($1,100)	($900)
Corporate Franchise Tax	($3,400)	($900)	($500)	($400)

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	FY 2022	FY 2023	FY 2024	FY 2025
Special expensing rules for certain film, television, and live theatrical productions (TY21-25)				
Individual Income Tax	($2,400)	($1,000)	($600)	($600)
Corporate Franchise Tax	($2,700)	($1,200)	($700)	($700)
Energy-efficient commercial building deduction (TY 21)				
Individual Income Tax	($230)	($190)	($200)	($200)
Corporate Franchise Tax	($370)	($310)	($320)	($320)
Special rule for the production period for beer, wine, and distilled spirits (beginning TY21)				
Individual Income Tax	($80)	($40)	($40)	($40)
Corporate Franchise Tax	($120)	($70)	($70)	($70)
100% deduction for business meals provided by restaurant (TY21-22)				
Individual Income Tax	($1,200)	($2,000)	$0	$0
Corporate Franchise Tax	($4,300)	($6,500)	$0	$0
Business and Investment Provisions				
Individual Income Tax	**($14,350)**	**($6,100)**	**($2,120)**	**($1,920)**
Corporate Franchise Tax	**($14,430)**	**($9,420)**	**($1,950)**	**($1,860)**
Subtotal	**($28,780)**	**($15,520)**	**($4,070)**	**($3,780)**
Disaster Relief Provisions				
Special disaster-related rules for use of retirement funds (TY21)	($20)	$10	$10	$0
Special rule for qualified disaster relief contributions (TY21 & TY22)	($160)	$50	$30	$20
Deduction for disaster-related casualty losses (TY21 & TY22)	($2,600)	($600)	$0	$0
Disaster Relief Provisions Subtotal	**($2,780)**	**($540)**	**$40**	**$20**
All Provisions				
Individual Income Tax	**($52,055)**	**($11,455)**	**($8,695)**	**($10,115)**
Corporate Franchise Tax	**($14,430)**	**($9,420)**	**($1,950)**	**($1,860)**
General Fund Total	**($66,485)**	**($20,875)**	**($10,645)**	**($11,975)**