Memorandum

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To Tax Committee Members

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Subject Summary of Tax Conformity Provisions in the American Rescue Plan Act (ARPA) Relevant to the Tax Committee

Executive summary

This memo describes the provisions of the American Rescue Plan Act (ARPA) that are issues of federal tax conformity. The changes are organized into three categories: changes to federal tax credits, changes to FAGI affecting Minnesota liability, and business tax changes.

Changes affecting Minnesota liability

The tables below summarize changes in ARPA that are matters of conformity, and would directly affect Minnesota liability if we conformed.

Federal tax credit changes

Ordinarily, changes to federal tax credits do not affect state liability. However, ARPA contains changes to the federal Earned Income Tax Credit (EITC) and Dependent Care Credit that flow through to the Minnesota Working Family Credit and Dependent Care Credit. Minnesota's Working Family Credit is calculated separately from the EITC, but in most cases a taxpayer needs to be eligible for the federal EITC to qualify for the state credit. ARPA makes several changes to the eligibility rules for the EITC, which will flow through to Minnesota under conformity. Minnesota's Dependent Care Credit amount is set to equal the amount of the federal credit (subject to a separate state phaseout), meaning federal changes affect the Minnesota credit.

Section #	Effective dates	Changes
9621	TY 21	**Special EITC rules for individuals without children:** Temporary provisions that would affect the Working Family Credit: ▪ Allow childless individuals (other than students) who are 19 to claim the EITC. ▪ Allow 18 year-old qualified homeless youth and former foster youth to claim the credit. ▪ Eliminate maximum age for credit (people 65 and older not allowed to claim credit under current law).

Section #	Effective dates	Changes
9622	TY 21 and later	**Childless EITC to taxpayers whose children lack ID:** Allows the childless EITC to taxpayers whose children did not qualify for the EITC because they lacked identification. Current federal law says you cannot claim the childless EITC if you have children, but they do not qualify for the EITC due to lack of ID.
9623	TY 21 and later	**EITC allowed for certain separated spouses:** Allows the EITC to separated spouses who file separate returns if they: 1) reside with the child for less than half the year; and 2) lived separately from their spouse during half the year or have a divorce or separation agreement at the end of the taxable year.
9626	TY 21	**Special rules for determining earned income for the purposes of the EITC:** Allows taxpayers to use 2019 earned income amount to claim the EITC in 2021. Consolidated Appropriations Act, 2021 had a similar rule for tax year 2020. Does not flow through to Minnesota under conformity.
9624	TY 21 and later	**Modification of disqualified investment income test:** Increases the disqualified income threshold (for investment income) for the EITC from $2,200 to $10,000. Also increases the cost of living adjustment for this threshold by using 2020 instead of 2016 as the base year for determining the adjustment.
9631	TY 21 only	**Increase in Dependent Care Credit amounts:** ▪ Increases maximum qualifying expenses for the federal Dependent Care Credit to $8,000 (for taxpayers with 1 qualifying child) or $16,000 (for taxpayers with two or more qualifying children). Current amounts are $3,000/$6,000. ▪ Increases the credit percentage reduction threshold from $15,000 to $125,000. ▪ Increases maximum credit percentage to 50%. ▪ Phaseout added for individuals making more than $400,000.

Income definition changes affecting federal Adjusted Gross Income (FAGI)

Section #	Effective dates	Changes
9042	TY 20	**Tax on unemployment compensation:** Exclusion for gross income for $10,200 of UI compensation in tax year 2020. Only applies to taxpayers with FAGI less than $150,000. Exclusion is $10,200 per spouse.
9632	TY 21	**Increase in employer-provided dependent care assistance:** Allows contributions of up to $10,500 (MJ) to pre-tax dependent expense accounts. Current law limits are $2,500.
9675	TY 21 to 25	**Exclusion from gross income for discharged student loans:** Excludes from gross income any federal student loans discharged from 2021 to 2025.

Business tax changes

Section #	Effective dates	Changes
9041	TY 26	**Excess business loss limitation:** Extension of excess business loss limitation (imposed in TCJA, scheduled to expire after tax year 2025 under current law).
9501	4/1/2021 - 9/30/2021	**Health insurance continuation coverage premium assistance (COBRA):** Employees are eligible for premium assistance equal to 100% of COBRA premiums. For covered employees, COBRA premiums would be paid in full by their employers. Employers would receive a 100% refundable credit applied against the payroll taxes for the payments. ▪ Payments are excluded from gross income for individuals. ▪ There is a denial of double benefit provision for the employer payments, which increases gross income by the amount of the credit. This prevents employers deducting premiums paid on behalf of their employees while also claiming a 100% credit.
9641-9643	3/15/2021-9/30/2021	**Credits for paid sick leave and paid family leave (individuals and self-employed):** Rules modified slightly, extended until September 30, 2021.
9651	6/30/2021-12/31/2021	**Employee retention credit:** Rules modified slightly, extended until December 31, 2021.
9671	TY 21 and later	**Repeal of election to allocate interest on a worldwide basis:** Repeals a provision allowing a worldwide affiliated group to allocate interest on a worldwide basis. An election would reduce a foreign corporation's interest expense, allowing a larger federal foreign tax credit, but could also increase the interest deduction of a domestic corporation that is part of the group. This provision has never been effective federally and as a result, little administrative guidance exists.
9672	TY 21	**Tax treatment of targeted EIDL advances:** Excludes a targeted EIDL advance from gross income and prohibits a denial of any tax benefit due to the exclusion.
9673	TY 21	**Tax treatment of Restaurant Revitalization grants:** Excludes a grant from gross income and prohibits a denial of any tax benefit due to the exclusion.
9708	TY 27 and later	**Expansion of limitation on excessive employee remuneration:** Expands the prohibition on deducting employee remuneration over $1 million to cover any employee who is among the five highest paid, other than the CEO, CFO, or one of the three highest-compensated officers required to be reported to shareholders.

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