

March 8, 2021

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 1937 (Marquart)

	Fund Impact			
	F.Y. 2022	F.Y. 2023	F.Y. 2024	F.Y. 2025
	(000's)			
Individual Income Tax	(\$3,800)	\$1,000	\$1,000	\$1,000
Corporate Franchise Tax	(\$1,400)	\$400	\$400	\$400
General Fund Total	(\$5,200)	\$1,400	\$1,400	\$1,400

Effective for federal Section 179 carryovers beginning in tax year 2020.

EXPLANATION OF THE BILL

Current Law: Prior to tax year 2020, Minnesota law required a taxpayer to 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 could be subtracted in equal parts over the next five years.

Minnesota conformed to the federal treatment of Section 179 property beginning with property placed in service in 2020, eliminating the need for the additions and subtractions. However, full conformity does not apply to carryovers from a previous year if the property was placed in service before tax year 2020. For example, Section 179 expenses for property placed in service in 2019 may be carried over to tax year 2020 if the taxpayer is unable to claim the full deduction in 2019. In that case, the expenses would still be subject to the addition and subtractions on the Minnesota return, since the property was placed in service in 2019.

Proposed Law: The bill would extend full conformity for Section 179 expensing to include carryovers beginning in tax year 2020, regardless of when the property was placed in service.

REVENUE ANALYSIS DETAIL

- Based on information from the Internal Revenue Service Statistics of Income, carryovers accounted for about 6.9% of total Section 179 expenses on individual income tax returns in 2018.
- On Minnesota returns, full-year residents claimed about \$1.08 billion in Section 179 expensing in 2018. Carryovers are estimated at 6.9% of that amount, or \$74.5 million.
- Assuming a growth rate of 3%, carryovers in 2020 are estimated at \$79.0 million.
- A marginal rate of 7.75% is assumed.
- The estimate was increased by 5% to account for nonresidents.

REVENUE ANALYSIS DETAIL (Cont.)

- The corporate franchise tax impact is estimated at 38% of the individual income tax impact, based on the ratio of Section 179 expenses reported on individual and corporate returns.
- Retroactive impacts were allocated to fiscal year 2022. All other tax years were allocated 30% / 70% to fiscal years.

Minnesota Department of Revenue
Tax Research Division
[https://www.revenue.state.mn.us/
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hf1937_1 Section 179 Carryovers / cw