Bill Comparison Summary of House File 130/Senate File 60 Tax Provisions, Articles 4 & 5

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Prepared by:
House Research and Senate Counsel and Research Staff

House	Senate
Pat Dalton	Michelle Allen
Steve Hinze	Jack Paulson
Nina Manzi	JoAnne Zoff
Joel Michael	

Overview

This comparison highlights only differences between tax provisions in Articles 4 and 5 of the House and Senate bills.

Article 4: Tax Aids and Credits

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3,10,12 **Aid and credit reductions.** Both bills have identical provisions for aids and market value credits paid in 2011 and 2012. The House allows aid and market value credit appropriations to revert to current law levels beginning in CY 2013. Beginning in CY 2013 the Senate makes all of the 2010 market value credit reimbursement reductions permanent and reduces the LGA and CPA appropriations to the Pay 2010 levels. Under the Senate language, LGA funding is $100.6 million lower and city credits are $43.2 million lower than the House. CPA funding is $32.5 million lower and county credits are $52.5 million lower than the House.

8 **Sustainable forest credits.** The House keeps the current credit formula and caps payments to individuals at $100,000. The Senate changes the formula to a flat $7.75 per acre with the same $100,000 payment cap.

11 **Treatment of the city of Houston's one time extra 2011 LGA payment.** The Senate allows Houston to keep this payment of $106,964 while the House does not. Last year the

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legislature granted the city of Houston a one time extra 2011 LGA payment equal to its unallotments in 2008, 2009 and 2010. The city was subject to unallotment based on its 2007 population of 1,003 but would have been exempt under its 2008 population of 989.

Article 5: Federal Update

2 - 6 **Federal update to Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (TRUIRJCA).** Both the House and Senate conform to the tax provisions of the two federal health care laws and the Small Business Jobs Act for tax year 2010 and following years. The Senate also conforms to the provisions of TRUIRJCA for tax year 2010 only. The House does not conform to TRUIRJCA. The principal provisions of TRUIRJCA that affect tax year 2010 are:

- Allows temporary 100 percent bonus depreciation for property placed in service after September 8, 2010, and before January 1, 2012. *(Under S.F. 60, Minnesota would not conform to the extension of bonus depreciation but would retain its current law requirement that taxpayers add-back to taxable income 80 percent of the additional depreciation amount in the first tax year, and then subtract one-fifth of the amount added back in each of the five following tax years)*
- Extends the teacher classroom expense deduction of up to $250 to tax years 2010 and 2011. *Background: Minnesota conformed to this deduction from tax year 2002, when it was first enacted, through tax year 2006. Minnesota did not conform to this deduction in tax years 2007 through 2009, and instead required the amount deducted at the federal level to be added to state taxable income. The intent of the Senate's floor amendment was to conform to this provision for tax year 2010; additional language would need to be added in conference to accomplish this.*
- Extends the option for taxpayers to claim an itemized deduction for sales taxes rather than income taxes paid to tax years 2010 and 2011 (Minnesota taxpayers will be unaffected by this, since present law requires any deducted sales tax to be added back in computing Minnesota tax; the same add-back is required for income taxes deducted at the federal level)

- Extends the increase in the federal adjusted gross income limit on the amount of qualified conservation easements that may be claimed as a charitable deduction to tax years 2010 and 2011. General law limits deduction of contribution of capital property to 20 or 30 percent of adjusted gross income, depending on the type of recipient organization. Beginning in 2006, the limit was increased to 50 percent for donations of qualified conservation easements by most taxpayers, and to 100 percent for donations made by farmers and ranchers, defined as individuals with 50 percent of gross income from farming/ranching.

- Extends the higher education tuition expense deduction to tax years 2010 and 2011. The deduction applies to up to $4,000 of qualifying expenses for taxpayers with adjusted gross income up to $65,000 ($130,000 for married joint filers), and to up to $2,000 of qualifying expenses for taxpayers with adjusted gross income

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over $65,000 but less than $80,000 ($130,000 to $160,000 for married joint filers. *Background: Minnesota conformed to this deduction from tax year 2002, when it was first allowed, through tax year 2006. Minnesota did not conform to this deduction in tax years 2007 through 2009, and instead required the amount deducted at the federal level to be added to state taxable income. The intent of the Senate's floor amendment was to conform to this provision for tax year 2010; additional language would need to be added in conference to accomplish this.*

- Extends the authority for individuals age 70½ or older to transfer up to $100,000 from a traditional IRA or Roth IRA directly to a qualified charity, while excluding that amount from adjusted gross income to tax years 2010 and 2011, and provides that distributions made before after December 31, 2010, and before February 1, 2011 may be recognized in tax year 2010.

- Extends to tax years 2010 and 2011 the enhanced deductions for contributions of food inventory, book inventory, and computers. *Background: Minnesota did not conform with regard to computers for tax years 2007 through 2009, and instead required the amount deducted at the federal level to be added to state taxable income. The intent of the Senate's floor amendment was to conform to this provision for tax year 2010; additional language would need to be added in conference to accomplish this.*
- Extends preferential treatment of dividends of regulated investment companies to tax years 2010 and 2011
- Extends to tax years 2010 and 2011 the limit on basis adjustments in S corporation stock when S corporations donate appreciated property to the tax basis of the property rather than the fair market value (this reduces capital gain on later sales of the S corporation stock, compared with prior law).