

HOUSE RESEARCH

Bill Summary

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Authors: Beard and others

Subject: Income tax subtraction for railroad maintenance expenses

Analyst: Nina Manzi (651) 296-5204
Joel Michael (joel.michael@house.mn)

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Overview

Allows an individual and corporate income tax subtraction equal to the railroad maintenance credit amount claimed at the federal level.

Background. The federal credit reduces the railroad's basis in the track, which has the effect of disallowing the deduction at the federal level for the expense of maintaining track. Because the expense is disallowed at the federal level, it does not flow through to the state income tax, so that the state income tax under current law does not recognize the railroad's track maintenance expense.

The federal credit equals 50 percent of maintenance expenses of Class II and Class III railroads, up to a maximum of \$3,500 multiplied by the number of miles of track maintained. Class II and Class III railroads are defined by the federal Surface Transportation Board as regional and short line railroads (Class II) and local and switching railroads (Class III). The different classes of railroads are defined by reference to their three-year average annual gross operating expenses. Class III railroads must have three-year average annual gross operating revenues less than \$20 million in 1991 dollars (approximately \$34 million in 2012), and Class II railroads must have three-year average annual gross operating revenues between \$20 million and \$250 million in 1991 dollars (approximately \$34 million to \$420 million in 2012).

Section

- 1 Subtractions from taxable income; individuals; railroad maintenance expenses.** Allows an individual income tax subtraction equal to the railroad maintenance credit amount the

Section

taxpayer claimed at the federal level.

- 2 Subtractions from taxable income; corporations; railroad maintenance expenses.**
Allows a corporate franchise tax subtraction equal to the railroad maintenance credit amount the taxpayer claimed at the federal level.
- 3 Alternative minimum taxable income.** Provides for the amount allowed as a railroad maintenance expense subtraction in section 1 to also be subtracted from alternative minimum taxable income. This avoids shifting individuals who claim the subtraction in section 1 onto the alternative minimum tax.