HOUSE RESEARCH
Bill Summary

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Authors: Davids

Subject: Section 179 expensing carryover; income and corporate tax

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Allows individual and corporate taxpayers to carry over section 179 expensing subtractions that exceed taxable income for up to ten tax years. In calculating the carryover, the bill specifies that the section 179 expensing subtraction is the last subtraction allowed in determining Minnesota taxable income.

Minnesota has not conformed to temporary federal increases in section 179 expensing allowances above the $25,000 limit that is a permanent feature of the Internal Revenue Code. Instead, Minnesota requires affected taxpayers to add 80 percent of any amount claimed above $25,000 to Minnesota taxable income on its Minnesota return, and then subtract one-fifth of the amount added back in each of the next five tax years. In that way, the full amount claimed at the federal level is ultimately allowed at the state level—20 percent in the first year and 16 percent per year in the following five tax years. For tax year 2014, the federal allowance for section 179 expensing was $500,000; the federal amount will be $25,000 in tax year 2015 unless Congress extends the increased amount.

This arrangement can result in a taxpayer being unable to claim or use the full allowance to reduce their taxable income for Minnesota purposes. This occurs if a business or farmer has taxable income in one of the five years that's less than the 16-percent deduction they are claiming (these amounts may be cumulative amounts from several years of section 179 deductions that exceed $25,000 limit). Because current law does not allow these "excess" deduction amounts to carry over to a later year, they are essentially "lost"—that is, they can never be used to reduce taxable income used to compute Minnesota tax. This bill allows these amounts to be carried over for up to ten tax years.