HOUSE RESEARCH

Bill Summary

File Number: H.F. 1086 **Date:** March 10, 2017
Version: As introduced

Authors: Anderson, S. and others

Subject: Prospective federal conformity to individual income tax subtractions for discharge of indebtedness on principal residences and mortgage insurance premiums

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

Allows individual income tax subtractions for income from the discharge of indebtedness on principal residences and for mortgage insurance premiums paid, if that income is excluded or the itemized deduction for those premiums is allowed at the federal level for the tax year. Allows the subtraction for discharge of indebtedness income under the alternative minimum tax as well as the regular tax.

From tax years 2007 through 2016, the federal income tax excluded income from the discharge of indebtedness on a principal residence from the definition of taxable income and has allowed mortgage insurance premiums to be included in the itemized deduction for mortgage interest. The exclusion of discharge of indebtedness income and the deduction for mortgage insurance premiums are two of the provisions generally referred to as “extenders.” The exclusion for discharge of indebtedness income was first allowed by the Mortgage Forgiveness Debt Relief Act of 2007, for discharges occurring in 2007 to 2009, and the itemized deduction for mortgage insurance premiums was first allowed by the Tax Relief and Health Care Act of 2006, for tax year 2007 only. Congress has extended both provisions several times and they have remained in effect through 2016.

The Minnesota legislature has passed conformity legislation for both items for all years in which they applied under the federal income tax. This bill prospectively conforms Minnesota’s individual income tax to these two items for 2017 and future years, so that they would be in effect at the state level if Congress extends them, without the need for enactment of state legislation. The exclusion and subtraction would not be allowed at the state level in any tax years they were not in effect at the federal level.