HOUSE RESEARCH

Bill Summary

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Subject: Conforming to Section 179 allowances for farm machinery

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Overview

This bill conforms Minnesota tax law to the 2017 federal tax act's (commonly called the Tax Cuts and Jobs Act or TCJA) changes to Section 179 and provides that for Minnesota individual income and corporate franchise tax purposes, Minnesota will allow the full federal Section 179 amounts for farm machinery.

TCJA expanded Section 179 allowances—under prior federal law, the first $500,000 of expenditures on qualified property could be deducted in the year made with phase-out of this allowance for expenditures over $2 million (phase-out rate is dollar-for-dollar, so if taxpayer made $2.5 million or more of expenditures, Section 179 allowance was zero). TCJA increased the limits to $1 million and $2.5 million and expanded qualified property to include some real property improvements (e.g., roofs and fire protection and security equipment).

Minnesota has not conformed to increases in the dollar amounts of Section 179 allowance since 2002. Current year deductibility is limited to $25,000 (phase-out threshold of $200,000). 80 percent of the balance must be added to federal taxable income (FTI) and, then, claimed in equal subtractions in the following five taxable years.

Section

1 **Definition of net income.** Modifies the definition of net income to include TCJA's amendments to Section 179, which permits business to deduct expenditures on qualified property (generally business equipment) in the year put in service. TCJA increased the

Section

maximum Section 179 allowance from $500,000 to $1 million and increased the phase-out threshold from $2 million to $2.5 million. It also allowed some limited types of real property improvements to qualify under section 179. The effect of this change is to subject TCJA's Section 179 rules to the 80-percent add-back, as well as allowing purchases of farm machinery (under the amendments in sections 2 and 3) to qualify for full deductibility in the year made.

Effective date: same time as the federal changes were effective: generally property placed in service starting in tax year 2018

2 **Section 179 addition; individuals.** Modifies the addition for the Section 179 deductions to exclude amounts deducted for purchases of farm machinery, as defined under the exemption in the sale tax. (This is an expansive definition of farm equipment and should cover nearly all of the machinery purchased for use in operating a farm that also qualifies for Section 179.) This will, in effect, allow the full Section 179 for these purchases to apply in calculating Minnesota tax.

Effective date: tax year 2018

3 **Section 179 addition; corporate franchise tax.** Provides equivalent treatment to that outlined in section 2 for the tax paid by farms operating as C corporations.

Effective date: tax year 2018