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This bill conforms Minnesota's individual income and corporate franchise taxes to federal section 179 expensing allowances. Effective in tax year 2017.

Background. Before 2003, federal law set the section 179 expensing allowance at \$24,000, with the amount allowed phased out when total expenses exceed \$200,000. The \$24,000 allowance was scheduled to increase to \$25,000 in 2003, but Congress temporarily increased the allowance to \$100,000. This was the first of a series of congressional actions that provided temporary increases in the maximum allowance and the "phaseout" limit; Congress also periodically indexed for inflation the temporarily increased amounts. In 2015, Congress made the \$500,000 amount and the \$2,000,000 phaseout floor permanent and indexed both for inflation beginning in 2016. For tax year 2017, the allowance is \$510,000; the amount begins to phase-out when total expenses exceed \$2,030,000 as a result of the indexing adjustments.

Minnesota conformed to the increased federal amounts through tax year 2005, and since then has required taxpayers to add to taxable income 80 percent of the increased expensing amount in the first tax year, and then subtract one-fifth of the amount added back in each of the five following tax years.