HOUSE RESEARCH

Bill Summary

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Authors: Swedzinski

Subject: Section 179 expensing and bonus depreciation carryover; individual income tax

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Allows individual income taxpayers to carry over excess section 179 expensing and bonus depreciation subtractions (i.e., the amount of the subtractions that exceed taxable income or if claimed would reduce Minnesota taxable income to a negative amount) for up to ten tax years. In calculating the carryover, the bill specifies that the section 179 expensing and bonus depreciation subtractions are the last subtractions 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 2017, the federal allowance for section 179 expensing is $510,000; the federal amount is adjusted each year for inflation.

Minnesota has also not conformed to temporary federal allowances of bonus depreciation. As with section 179 expensing, Minnesota requires affected taxpayers to add 80 percent of any amount claimed 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, so that the full amount claimed at the federal level is ultimately allowed at the state level.

This arrangement can result in an individual income 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 bonus depreciation and of section 179 deductions that exceed $25,000 limit). Because current law does not allow these "excess" deduction

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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 individual income taxpayers (sole proprietors and pass-through entities such as S-corporations, limited liability companies, and partnerships) to carry over these amounts for up to ten tax years. The bill does not authorize carryovers for C-corporations because they can claim the unused amounts as part of their net operating loss deduction, which is separately calculated for Minnesota purposes. Net operating losses for individuals are included in the calculation of federal taxable income, the starting point for the Minnesota tax.