MN HOUSE RESEARCH

Bill Summary

H.F. 515

As introduced

Subject	Section 179 expensing
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Overview

H.F. 515 would allow taxpayers to take the full federal section 179 expensing deduction allowed by Public Law 115-97, commonly known as the Tax Cut and Jobs Act (TCJA). This bill would fully conform to the new federal section 179 expensing rules retroactively to tax year 2018, which would allow the full federal deduction to be taken at the state level in the year the qualifying property was placed in service.

Background

Section 179 expensing allows taxpayers to deduct 100 percent of the cost of certain depreciable property in the year the property was placed in service instead of taking the deduction over a period of years under the applicable federal depreciation schedule.

In December of 2017, Congress enacted the TCJA. The TCJA amended the section 179 expensing rules to allow a deduction for the cost of up to $1 million in qualifying property placed in service in a tax year. This amount is phased out dollar for dollar once a business's qualifying property expenditure amount exceeds $2.5 million. The phase-out effectively prohibits businesses making more than $3.5 million in qualifying property expenditures in a tax year from taking the section 179 expensing deduction. In addition, the TCJA allowed other forms of property to qualify for the deduction.

Prior to the TCJA, federal rules only allowed a maximum $500,000 deduction, and set the threshold for the phase-out at $2,000,000. (Both these amounts were and continue to be indexed for inflation.)

Minnesota has not conformed to the federal section 179 expensing rules since 2005. The state requires 80 percent of the allowed federal deduction (plus $25,000) to be added back to the taxpayer's taxable income. One-fifth of the remaining 80 percent must then be subtracted in each of the five following tax years.

Minnesota has also not conformed to the TCJA's changes in the types of property that now qualify for the federal deduction.

Summary

Section	Description
1	**Net income; selective conformity.** Selectively conforms to the TCJA's section 179 expensing provisions by including the deduction in the updated federal code in the taxpayer's net income.
2	**Section 179 addition; individuals.** For taxpayers filing an individual return, this section eliminates the state add-back for the section 179 expensing deduction allowed under the current IRC. This change is effective retroactively for depreciable property subject to the new federal expensing rules enacted by Congress under the TCJA.
3	**Section 179 addition; individuals.** Retroactively eliminates the state add-back for the section 179 expensing deduction for taxpayers filing a corporate return in the same manner as provided for individuals in section 2.