

Subject Like-kind exchanges

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Overview

In 2017, Congress passed the Tax Cut and Jobs Act (TCJA), which provided for significant changes to the Internal Revenue Code (IRC). One change narrowed the range of property eligible for a deferral of gain under the federal like-kind exchange rules. Instead of allowing a deferral on the gain from a like-kind exchange on a broad range of capital equipment, the TCJA limited these deferrals to real property only.

H.F. 3023 would retroactively allow the gain that could have been deferred under the pre-TCJA like-kind exchange rules to be added back to the taxpayer's income over a period of years. In the first year, 20 percent of the gain is added back, while 1/5 of the remaining gain is added back over each of the next five years. Only gains that could be deferred under the pre-TCJA IRC that are no longer deferrable are eligible for the proposed subtraction and add-back.

Summary

Section	Description
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1	Gain or loss on like-kind exchange; addition.
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For individual income taxpayers, requires that in each of the five years following the subtraction in section 2, 1/5 of the remaining 80 percent of the previously-deferrable gain is added back to the taxpayer's income.

Effective retroactively for taxable years beginning in 2018.

2	Gain or loss on like-kind exchange; subtraction.
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Allows an individual income taxpayer to subtract 80 percent of the gain that could have been deferred under the IRC's pre-TCJA's like-kind exchange rules, but that is no longer deferrable.

Section	Description
3	<p>Gain or loss on like-kind exchange; addition.</p> <p>For corporate taxpayers, requires that in each of the five years following the subtraction in section 4, 1/5 of the remaining 80 percent of the previously-deferrable gain is added back to the taxpayer's Minnesota taxable income.</p> <p>Effective retroactively for taxable years beginning in 2018.</p>
4	<p>Gain or loss on like-kind exchange; subtraction.</p> <p>Allows a corporate taxpayer to subtract 80 percent of the gain that could have been deferred under the IRC's pre-TCJA's like-kind exchange rules, but that is no longer deferrable.</p> <p>Effective retroactively for taxable years beginning in 2018.</p>



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