MN HOUSE RESEARCH

Bill Summary

H.F. 3245

As amended by H3245A2

Subject	**Federal conformity**
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Overview

H.F. 3245 conforms Minnesota's individual income and corporate franchise tax to federal changes made in the Further Consolidated Appropriations Act, 2020. Some of the changes in the act are permanent and ongoing, but many are a three-year extension (for tax years (TY) 2018, 2019, and 2020) of certain expiring tax provisions, commonly called "extenders."

The Department of Revenue will adjust most tax year 2018 and 2019 returns administratively, but some taxpayers who in tax year 2018 or 2019 claimed deductions at the federal level that were not at the time allowed at the state level may be required to amend their Minnesota returns in order to claim state tax benefits.

Federal changes that affect the definition of household income as used in calculating the homestead credit state refund and the property tax refund for renters are adopted prospectively for refunds based on rent paid in 2020 and property taxes payable in 2021. The federal changes would not affect refund claims from earlier years.

Summary

Section	Description
1	**Update of administrative tax provisions.** Adopts federal tax administrative changes made between December 31, 2018, and December 31, 2019, that Minnesota references for state tax administration purposes under chapter 289A. The federal act did not change federal provisions referenced in chapter 289A.

Section	Description

2 **Update to federal definition of adjusted gross income.**

Adopts all of the federal changes to adjusted gross income. The federal changes to adjusted gross income are effective retroactively to when they became effective for federal purposes.

The following provisions of the Further Consolidated Appropriations Act, 2020, will affect Minnesota liability.

- Extension of the exclusion from gross income of discharges of indebtedness on principal residences (TY 2018 – TY 2020).
- Extension of the higher education tuition expense deduction (TY 2018 – TY 2020). The deduction applies to up to $4,000 of qualifying expenses for taxpayers with adjusted gross income up to $65,000 ($130,000 for married joint filers), and to up to $2,000 of qualifying expenses for taxpayers with adjusted gross income over $65,000 but less than $80,000 ($130,000 to $160,000 for married joint filers).
- Effective for TY 2019 and later, the federal act allows taxpayers to use distributions from section 529 college savings plans to pay for:
  - Books, fees, supplies, and equipment for an apprenticeship program.
  - Student loan payments on the loan of the designated beneficiary or the designated beneficiary's sibling.
- Extension of various provisions related to depreciation and expensing, including more generous rules for certain racehorses (three-year property), motorsports entertainment complexes (seven-year recovery period), accelerated depreciation for business property on Indian reservations, qualified film and television production expenses, and second generation biofuel plant property (TY 2018 – TY 2020).
- Extension of "empowerment zone" tax incentives (TY 2018 – TY 2020).
- Section 179D deduction for energy efficient commercial buildings (TY 2018 – TY 2020).
- Extension of the special rules excluding aging from the production period for beer, wine and spirits (TY 20 only).
- Several provisions affecting the taxes of individuals affected by natural disasters.
  - Special rules permitting early retirement account withdrawals, including allowing a qualified disaster distribution from a retirement account of up to $100,000. Qualified disaster distributions receive special exemptions from rules governing retirement accounts.

Increase in the adjusted gross income limitation for charitable contributions to relief organizations in a disaster area.

Section	Description
3	**Update to other references to the Internal Revenue Code in chapter 290.** Adopts federal changes to federal adjusted gross income used for computing individual alternative minimum tax and determining withholding on wages. Federal adjusted gross income also is the starting point for calculating household income which is used to compute the dependent care and K-12 education credit. The main changes to federal adjusted gross income are described in section 2.
4	**Special limited adjustment.** Clarifies that the changes in the bill are to be calculated after the “special limited adjustment for tax year 2018” enacted in the 2019 omnibus tax bill. This has the effect of retroactively changing taxpayers’ liability in tax year 2018 for provisions adopted under the bill.
5	**Update of references to Internal Revenue Code in the property tax refund chapter.** Prospectively adopts the federal changes that affect household income, which uses the definition of federal adjusted gross income as a starting point. Effective for refunds based on rent paid in 2020, and property taxes payable in 2021. Property tax refund claimants will not amend returns to reflect the federal changes for refunds based on rent paid in 2018 or 2019 and property taxes payable in 2019 or 2020.
6	**Estate tax update.** Updates to changes in federal law made between December 31, 2018, and December 31, 2019. This change has no substantive effect on computation of the estate tax, but instead keeps the Internal Revenue Code date reference consistent with other sections of statute. Effective retroactively for the estates of decedents dying after December 31, 2017.
7	**Individual income tax collection action prohibited.** Prohibits the commissioner from increasing the amount due from individual income taxpayers for tax years 2018 and 2019 as a result of changes enacted in this law, if the taxpayer filed a 2018 or 2019 return based on state law before enactment of this law.
8	**Temporary subtraction; net disaster loss.** Allows taxpayers with a net disaster loss who claim the standard deduction to subtract the amount of the loss. Without this provision, taxpayers would need to itemize their deductions to benefit from the casualty loss deduction for net disaster losses.