MN HOUSE RESEARCH

Bill Summary

H.F. 235

As amended (H0235A1)

Subject	**Section 179 expensing**
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Overview

H.F. 235 would repeal the state additions and subtractions for individuals and corporations claiming the federal section 179 expensing deduction. 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 Public Law 115-97, commonly known as the Tax Cut and Jobs Act (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	**Internal revenue code; selective conformity.** Selectively updates the reference in the tax administration chapter to the IRC to include the TCJA's new section 179 expensing rules.
2	**Composite income tax returns for nonresident partners, shareholders, and beneficiaries.** Amends the definition of "income" for purposes of a composite income tax return for non-resident partners to exclude the section 179 add-back and subtraction.
3	**Net income; selective conformity.** Selectively conforms to the TCJA's section 179 expensing provisions by including the deduction in the updated federal code in a taxpayer's net income.
4	**Internal revenue code.** Selectively updates the reference in the income tax chapter to the IRC to include the TCJA's new section 179 expensing rules.
5	**Schedule of rates for individuals, estates and trusts.** Requires the add-back for the section 179 addition and the section 179 subtraction to be excluded from a taxpayer's taxable net income when computing the taxpayer's individual income tax.
6	**Definitions; alternative minimum tax.** Excludes the section 179 addition and subtraction when computing the alternative minimum tax for taxpayers filing an individual return.
7	**Special provisions for taxpayers with remaining section 179 subtractions.** Creates an uncodified provision that allows taxpayers with any remaining allowable subtractions under the repealed section 179 sections in section 8 of the bill to take those subtractions in the manner prescribed by those repealed provisions.
8	**Repealer.** Repeals the section 179 additions and subtractions for taxpayers filing individual and corporate returns.