

Subject Subtraction for discharged principal residence indebtedness

Authors Huot and Loeffler

Analyst Sean Williams
Christopher Kleman

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Overview

In general, discharged debt is considered income for the purposes of federal and state taxation. Congress enacted a temporary exclusion from income for debt discharged on the qualified principal residence of a taxpayer—this exclusion has been extended on a year-to-year basis several times. The exclusion applies to debt discharged related to up to \$2,000,000 in acquisition indebtedness.

Congress most recently extended this provision in the Bipartisan Budget Act of March 2018. Under federal law the exclusion currently applies to debt discharged before January 1, 2018, or subject to an arrangement entered into and evidenced in writing prior to that date. Minnesota has not conformed to this extension, meaning the cutoff date for state purposes is January 1, 2017.

H.F. 1437 allows a Minnesota subtraction for the amount of discharged principal residence indebtedness, to the extent the discharged debt is included in federal taxable income. This means that Minnesota would permanently exempt discharged debt from taxation, regardless of the federal treatment. The bill also excludes discharged debt from being taxed under the state AMT.

The bill is effective retroactively to tax year 2018.