

Subject Income tax conformity

Authors Gomez

Analyst Sean Williams
Chris Kleman

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Overview

This bill conforms the state taxes that reference either federal adjusted gross income or federal taxable income to the federal Internal Revenue Code (IRC) as amended through December 15, 2022. This update encompasses the following seven federal acts:

- The Further Consolidated Appropriations Act, 2020 (Public Law 116-94), enacted on December 20, 2019.
- The Families First Coronavirus Response Act (Public Law 116-127), enacted on March 18, 2020.
- The Coronavirus Aid, Relief, and Economic Security (CARES) Act (Public Law 116-136), enacted on March 27, 2020.
- The Consolidated Appropriations Act, 2021 (Public Law 116-260), enacted on December 27, 2020.
- The American Rescue Plan Act (ARPA), (Public Law 117-2), enacted on March 11, 2021.
- The Infrastructure Investment and Jobs Act (Public Law 117-9), enacted on November 15, 2021.
- The Inflation Reduction Act (Public Law 117-169), enacted on August 16, 2022.

The bill largely conforms to the changes in the above listed acts retroactively, meaning taxpayers affected by changes in previous tax years will file amended returns to account for the changes adopted.

The bill does not conform to the following provisions:

- Provisions in the CARES Act suspending restrictions on net operating losses and excess business losses.
- The CARES Act temporary suspension on the deduction for business interest.
- The limitation on the deductibility of wages used to claim the employee retention credit, which was originally enacted in CARES.

- Increases in the gross income of a business that claimed the payroll credit for required sick leave, the payroll credit for required family leave, and the continuation coverage premium assistance credit. The sick and family leave credits were originally enacted in CARES, and the premium assistance credit was enacted in ARPA.
- The above-the-line deduction for qualified tuition and related expenses, which was extended to tax years (TY) 18-20 under the Further Consolidated Appropriations Act, 2020 (FCAA 2020).
- The above-the-line deduction for certain cash charitable contributions, originally enacted in CARES and extended in the Consolidated Appropriations Act, 2021 (CAA 2021). That provision was effective TY 20 and 21.
- Business meals deducted in excess of the 50% limitation. The limitation temporarily increased to 100% in CAA 2021, effective for TY 21 and 22.
- For trusts, increases in the adjusted gross income limitation for charitable contribution deductions. The limitation was increased under CARES and CAA 2021, effective for TY 20 and 21.
- For individuals, estates, and trusts, increases in the charitable contribution deduction limitation, from 60% to 100% of adjusted gross income, for certain cash contributions only.
- For C corporations, charitable contributions deducted in excess of 10%, but not more than 25% of taxable income. The limitation was increased under CARES and CAA 2021, effective for TY 20 and 21.
- Temporary increases in the dependent care credit for tax year 2021 only, which were enacted as part of ARPA.
- Special rules for disaster-related casualty losses, which were enacted as part of FCAA 2020 and CAA 2021.

Summary

Section	Description
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| 1 | Internal Revenue Code.
Updates chapter 289A for federal changes through December 15, 2022. |
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Effective date: When effective for federal purposes.

Section	Description
2	<p>Composite income tax returns for nonresident partners, shareholders, and beneficiaries.</p> <p>Amends the definition of “income” for composite return filers and pass-through entity tax filers to include the additions and subtractions for business interest and net operating losses.</p> <p>Effective date: Tax year 2018.</p>
3	<p>Pass-through entity tax.</p> <p>Establishes a requirement for how refunds under the pass-through entity tax are administered when the owners of a pass-through entity have already claimed the pass-through entity tax credit.</p> <p>Effective date: Retroactively for taxable years beginning after December 31, 2020.</p>
4	<p>Net income.</p> <p>Updates the definition of “net income” in chapter 290 for federal changes through December 15, 2022.</p> <p>Effective date: When effective for federal purposes.</p>
5	<p>Internal Revenue Code.</p> <p>Updates the definition of “Internal Revenue Code” in chapter 290 for federal changes through December 15, 2022.</p> <p>Effective date: When effective for federal purposes.</p>
6	<p>Earned income.</p> <p>Adds a definition of “earned income” to chapter 290, but specifies that earned income refers to the taxpayer’s earned income for the taxable year for which the taxpayer filed a return.</p> <p>Effective the day following final enactment.</p>
7	<p>Dependent exemption.</p> <p>Updates the definition of “earned income” for the dependent exemption to reference the new definition being added for the chapter.</p> <p>Effective the day following final enactment.</p>

Section	Description
8	<p>Addition for disallowed business interest; individuals, estates, and trusts.</p> <p>Requires a retroactive addition for the increased business interest deductions allowed under the CARES Act. The addition would disallow refund claims for these deductions due to the update to the IRC definition.</p> <p>Effective date: When effective for federal purposes.</p>
9	<p>Addition for disallowed net operating loss deduction.</p> <p>Requires a retroactive addition for the increased net operating loss (NOL) and excess business loss (EBL) deductions allowed under the CARES Act. The addition would disallow refund claims for these deductions due to the update to the IRC definition.</p> <p>Effective date: When effective for federal purposes.</p>
10	<p>Subtraction for delayed business interest; individuals, estates, and trusts.</p> <p>Allows a retroactive and prospective subtraction for the amount of business interest required to be added back retroactively under section 8. No amended returns would be allowed or required under this subtraction, as the retroactive portion would only maintain current nonconformity treatment of this deduction through tax year 2022 and so not affect tax liability. Starting in tax year 2023, the aggregate remaining amount of the retroactive addition not yet subtracted at the state level would be allowed as a subtraction in equal parts for five subsequent tax years.</p> <p>Effective date: Retroactive to tax year 2020 and prospective for the prorated subtraction.</p>
11	<p>Subtraction for delayed net operating deduction.</p> <p>Allows a retroactive and prospective subtraction for the retroactive NOL and EBL provisions in section 9. No amended returns would be allowed or required under this subtraction, as the subtraction would only maintain current nonconformity treatment (essentially, the TCJA rules for NOLs and EBLs for the affected tax years) of these deductions and so not affect tax liability. Going forward, the disallowed NOLs could be taken under the TCJA rules until the earlier of when they are used up or 20 years after the loss arose.</p> <p>Effective date: Retroactively for taxable years beginning after December 31, 2018.</p>
12	<p>Excess business losses.</p> <p>Allows a subtraction for excess business losses that are disallowed federally.</p> <p>Effective date: Tax years beginning in 2026.</p>

Section	Description
13	<p>Addition for disallowed business interest; C corporations.</p> <p>Provides the same addition for business interest under the corporate franchise tax as the addition provided for individuals in section 8.</p> <p>Effective date: When effective for federal purposes.</p>
14	<p>Subtraction for delayed business interest; C corporations.</p> <p>Provides the same subtraction for business interest under the corporate franchise tax as the subtraction provided for individuals in section 8.</p> <p>Effective date: Retroactive to tax year 2020 and prospective for the prorated subtraction.</p>
15	<p>Calculation of Minnesota residency percentage.</p> <p>Adds the business interest and NOL/EBL additions and subtractions to the numerator and denominator to the residency percentage calculation.</p> <p>Effective date: effective retroactively for taxable years beginning after December 31, 2017.</p>
16	<p>Earned income definition; working family credit.</p> <p>Updates the definition of “earned income” for the working family credit to reference the new definition being added for the chapter.</p> <p>Effective the day following final enactment.</p>
17	<p>Earned income definition; marriage penalty credit.</p> <p>Updates the definition of “earned income” for the marriage penalty credit to reference the new definition being added for the chapter.</p> <p>Effective the day following final enactment.</p>
18	<p>Alternative minimum tax; cross-reference update.</p> <p>Makes a nonsubstantive change to a cross-reference in the Minnesota individual alternative minimum tax. The definition referenced in statute was moved as part of the Inflation Reduction Act, and this change points to the new location for the definition. This change has no substantive effect.</p> <p>Includes the additions and subtractions for business interest and NOLs/EBLs to the additions and subtractions under the alternative minimum tax.</p> <p>Effective dates: Cross-reference changes are effective the same time the federal change was effective for federal purposes.</p>

Section	Description
19	<p data-bbox="318 264 797 289">Carryback or carryover adjustments.</p> <p data-bbox="318 310 1422 453">Requires the amount of the subtraction in section 12 to be netted out of a taxpayer’s net operating loss deduction in future years. The federal net operating loss deduction includes the amount of the excess business loss that is subtracted, so this provision prevents a double-benefit.</p> <p data-bbox="318 495 873 520">Effective date: Tax years beginning in 2026.</p>
20	<p data-bbox="318 573 1016 598">Internal Revenue Code update; property tax refunds.</p> <p data-bbox="318 619 1338 686">Updates the definition of “Internal Revenue Code” for federal changes through December 15, 2022, for the property tax refund.</p> <p data-bbox="318 728 1382 793">Effective date: Property tax refunds based on rent paid in 2021 and property taxes payable in 2022.</p>
21	<p data-bbox="318 840 873 865">Internal Revenue Code update; estate tax.</p> <p data-bbox="318 886 1422 953">Updates the definition of “Internal Revenue Code” in chapter 291 for federal changes through December 15, 2022.</p> <p data-bbox="318 995 984 1020">Effective date: When effective for federal purposes.</p>
22	<p data-bbox="318 1066 1247 1092">Temporary additions and subtractions; individuals, estates, and trusts.</p> <p data-bbox="318 1113 1398 1180">Provides nonconformity to the following temporary provisions in federal law, which would otherwise be adopted as part of the Internal Revenue Code date update:</p> <ul data-bbox="415 1222 1422 1858" style="list-style-type: none"><li data-bbox="415 1222 1390 1289">▪ The limitation on the deductibility of wages used to claim the employee retention credit, which was originally enacted in CARES.<li data-bbox="415 1310 1422 1495">▪ Increases in the gross income of a business that claimed the payroll credit for required sick leave, the payroll credit for required family leave, and the continuation coverage premium assistance credit. The sick and family leave credits were originally enacted in CARES, and the premium assistance credit was enacted in ARPA.<li data-bbox="415 1516 1390 1617">▪ The above-the-line deduction for qualified tuition and related expenses, which was extended to TY 18-20 under the Further Consolidated Appropriations Act, 2020 (FCAA 2020).<li data-bbox="415 1638 1390 1776">▪ The above-the-line deduction for certain cash charitable contributions, originally enacted in CARES and extended in the Consolidated Appropriations Act, 2021 (CAA 2021). That provision was effective TY 20 and 21.<li data-bbox="415 1797 1390 1858">▪ Business meals deducted in excess of the 50% limitation. The limitation temporarily increased to 100% in CAA 2021, effective for TY 21 and 22.

Section Description

- For trusts, increases in the adjusted gross income limitation for charitable contribution deductions. The limitation was increased under CARES and CAA 2021, effective for TY 20 and 21.

For property tax refunds, excludes the business credit provisions from affecting the calculation of “household income” for the property tax refund program.

Effective date: When effective for federal purposes. For property tax refunds, effective beginning with refunds based on rent paid in 2021 and property taxes payable in 2022.

23 Temporary additions and subtractions; corporations.

Provides nonconformity to the following temporary provisions in federal law, which would otherwise be adopted as part of the Internal Revenue Code date update:

- The limitation on the deductibility of wages used to claim the employee retention credit, which was originally enacted in CARES.
- Increases in the gross income of a business that claimed the payroll credit for required sick leave, the payroll credit for required family leave, and the continuation coverage premium assistance credit. The sick and family leave credits were originally enacted in CARES, and the premium assistance credit was enacted in ARPA.
- Business meals deducted in excess of the 50% limitation. The limitation temporarily increased to 100% in CAA 2021, effective for TY 21 and 22.
- For C corporations, charitable contributions deducted in excess of 10%, but not more than 25% of taxable income. The limitation was increased under CARES and CAA 2021, effective for TY 20 and 21.

Effective date: When effective for federal purposes.

24 Charitable contribution deduction; special rule for 2020 and 2021.

For individuals, estates, and trusts, decouples from increases in the charitable contribution deduction limitation, from 60% to 100% of adjusted gross income, for certain cash contributions only.

Effective date: When effective for federal purposes.

25 Dependent care credit; special rule for 2021.

Decouples from the temporary increases in the dependent care credit that were enacted in ARPA.

Effective date: When effective for federal purposes.

Section	Description
26	<p>Casualty loss deduction; special rule for 2021.</p> <p>Decouples from special rules for disaster-related casualty losses, which were enacted as part of FCAA 2020 and CAA 2021.</p> <p>Effective date: When effective for federal purposes.</p>
27	<p>Working family credit; special rule for 2021.</p> <p>Decouples from the temporary changes to the federal earned income credit that were enacted in ARPA. The changes, which would otherwise flow through to the Minnesota working family credit, allowed the credit to childless individuals who were:</p> <ul style="list-style-type: none">▪ 18 years old.▪ 65 years or older.▪ Certain homeless youths and foster children. <p>Effective date: When effective for federal purposes.</p>
28	<p>Extension of statute of limitations.</p> <p>Allows taxpayers to file amended returns for taxable years in which their liability changed as a result of this act. Requires amended returns to be filed within six months after the enactment date.</p> <p>Permits DOR to review and assess the return of a taxpayer covered by the extended filing deadline.</p> <p>Effective date: When effective for federal purposes.</p>
29	<p>Property tax refunds; coronavirus-related retirement distributions.</p> <p>Excludes coronavirus-related retirement account distributions from the property tax refund calculation of household income.</p> <p>Effective date: Property tax refunds based on rent paid in 2021 and property taxes payable in 2022.</p>
30	<p>Repealer.</p> <p>Repeals temporary partial conformity language enacted as part of the 2021 omnibus bill. The Internal Revenue Code update in the bill renders that section obsolete.</p> <p>Effective date: The day following final enactment.</p>



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