

Overview of 2021 Income Tax Conformity Items

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Federal Tax Acts Since 2019 Tax Bill

- Further Consolidated Appropriations Act (12/2019)
- Families First Coronavirus Response Act (3/2020)
- Coronavirus Aid, Relief, and Economic Security (CARES) Act (3/2020)
- Consolidated Appropriations Act, 2021 (12/2020)
- Two additional acts that modified the Paycheck Protection Program: PL 116-142 and PL 116-147

Topics for Today's Presentation

- Individual Income Tax Extenders
- Charitable Contributions
- Miscellaneous Individual
- Disaster Relief
- COVID Credits
- Paycheck Protection Program (PPP)
- Losses
- Business Income Tax Extenders
- Miscellaneous Business

Individual Income Tax Extenders

Act(s)	Tax Years Effective	Federal Change
FCAA 2020, CAA 2021	TY 20 and later	Volunteer firefighter benefits: Provides for exclusion from gross income for up to \$50 in benefits paid to volunteer firefighters and EMTs. Had previously expired in TY 11.
FCAA 2020	TY 18 – TY 2020	Tuition deduction: Allows above-the-line deduction for up to \$4,000 of tuition. Phased down beginning at \$130,000 of AGI (MJ).
CAA 2021	TY 21 – TY 25	Exclusion for employer student loan payments: Extends exclusion for employer student loan payments through TY 2025. Exclusion limited to \$5,250 per individual.
FCAA 2020, CAA 2021	TY 18 – TY 25	Exclusion from gross income for discharged mortgages on a principal residence: Provides exclusion from gross income for loan forgiveness on discharged mortgages. This commonly happens in a foreclosure on an underwater mortgage.

Charitable Contributions

Act(s)	Tax Years Effective	Federal Change
CARES, CAA 2021	TY 20, TY 21	Charitable contributions of non-itemizers: Allows above-the-line deduction for cash charitable contributions of non-itemizers. For married taxpayers filing jointly, deduction is \$300 in TY 20 and \$600 in TY 21. (\$150/\$300 for others)
CARES, CAA 2021	TY 20, TY 21	Charitable contribution limit; individuals: Increases individual charitable contribution limitation from 60% to 100% of AGI for TY 20/21.
CARES, CAA 2021	TY 20, TY 21	Charitable contribution limit; corporations: Increases individual charitable contribution limitation from 10% to 25% of taxable income for TY 20/21.
CARES, CAA 2021	TY 20, TY 21	Business food inventory donation limit: Increases limitation on donations of food inventory from 15% to 25% of either a taxpayer's aggregate net income from all trades and businesses (for individuals) or taxable income (for corporations).

Miscellaneous Individual Provisions

Act(s)	Tax Years Effective	Federal Change
FCAA 2020	TY 19 and later	Expansion of 529 plans: Allows qualified distributions from 529 plans to pay for apprenticeship expenses or for student loan payments for the qualified beneficiary or their sibling.
CARES 2020	TY 20	Exclusion for employer student loan payments: Provides exclusion from gross income for employer student loan payments. Limited to \$5,250 per individual.
CAA 2021	Grants paid 3/27/2020 or later	Emergency financial aid grants: Provides exclusion from gross income for emergency financial aid grants provided to students under CARES.
CARES	Distributions during calendar year 2020	Special rules for use of retirement funds: Allows coronavirus-related distributions from retirement accounts of up to \$100,000. Income is included in gross income in the 3 years beginning with the year of the distribution.

Disaster Relief Provisions

Act(s)	Tax Years Effective	Federal Change
FCAA 2020, CAA 2021	FCAA 2020: Disasters declared 1/1/2018 to 2/18/20	Special rules for use of retirement funds: Allows coronavirus-related distributions from retirement accounts of up to \$100,000. Income is included in gross income in the 3 years beginning with the year of the distribution.
FCAA 2020, CAA 2021		Charitable contributions to disaster areas: Allows cash charitable contributions for disaster relief efforts up to 100% of AGI (normal limit is 60% of AGI).
FCAA 2020, CAA 2021	CAA 2021: Disasters declared 1/1/2020 to 2/25/2021 and with incident period after 12/28/2019.	Disaster-related casualty losses: Allows deduction for the full amount of disaster-related casualty losses—current Minnesota law limits the casualty loss itemized deduction to losses greater than \$100 in excess of 10% of AGI.

COVID Business Credits

Act(s)	Effective dates	Federal Change
Families First, CAA 2021	4/1/2020 – 3/31/2021	Credits for paid family leave: Refundable 100% credit for family leave costs resulting from the “Emergency Family and Medical Leave Expansion Act” in FFCRA, which requires employers to provide paid leave to employees who take up to 10 weeks of leave to care for a child whose school or child care is closed due to COVID. Applies to businesses with fewer than 500 employees. Limited to \$200 per day of leave, and \$10,000 per individual.
Families First, CAA 2021	4/1/2020 – 3/31/2021	Credits for paid sick leave: Refundable 100% credit for sick leave costs resulting from the “Emergency Sick Leave Act” in FFCRA, which requires employers to provide paid leave to employees who take sick leave as a result of COVID-19 (including sick leave to care for a child). Applies to businesses with fewer than 500 employees. Credit is limited to \$511 per day of sick leave, and 10 days of leave per quarter.
CARES, CAA 2021	Wages paid 3/21/2020 to 6/30/2021	Employee retention credit: Provides a 50% tax credit for wages paid to employees of businesses experiencing hardship due to the pandemic. Allowed for up to \$10,000 of wages per employee per quarter. Limited to businesses who were suspended due to orders from a government agency due to COVID, and wages paid in a quarter where the business experienced a decline in gross receipts of 50% quarter over quarter (2020 vs. 2019). Credit stops in the first quarter when gross receipts reach 80% of previous calendar year gross receipts for the same quarter.

Paycheck Protection Program (PPP)

Act(s)	Tax Years Effective	Federal Change
CARES	TY 20 / TY 21	Exclusion from gross income for forgiven loans: Provides an exclusion from gross income for loans forgiven through the federal Paycheck Protection Program (PPP).
CAA 2021	TY 20 / TY 21	Deductibility of PPP business expenses: Prevents a denial of the business expense deduction for loans forgiven through original PPP program and the second round of PPP authorized in CAA 2021. This overrules federal Department of Treasury guidance from April 2020 which disallowed the business expense deduction for forgiven loans.
CAA 2021	TY 20 / TY 21	Other loan forgiveness and business financial assistance under CARES: Provides exclusion from gross income and prevents deduction denial for loan forgiveness through the following programs in the CARES Act: <ul style="list-style-type: none"> —Treasury Program Management Authority authorized under CARES. —Emergency EIDL Grants and Targeted EIDL Advances under CARES. —Loan subsidies for regular 7(a) SBA loans under section 1112(c) of CARES. —Grants for Shuttered Venue Operators (Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act) under CAA 2021.

Paycheck Protection Program (PPP)

Under Non-conformity

Federal Rules:

- Forgiven loans are excluded from gross income, and are not considered taxable income.
- Businesses may deduct as a business expense any expenses used to qualify for loan forgiveness.
- IRC section 265 does not apply; in the case of PPP, a deduction is allowed for expenses that are allocable to income that is wholly exempt from taxes.
- Businesses in a loss position may use deduction to generate a net operating loss (NOL).

Minnesota Rules:

- Forgiven loans are included in gross income, and are subject to Minnesota tax.
- Businesses may offset PPP loan forgiveness by deducting expenses used to qualify for PPP.

Under Conformity

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Paycheck Protection Program (PPP)

	Non-Conformity	Conformity
Income		
“Ordinary” business income	\$500,000	\$500,000
Forgiven PPP loans	\$100,000	\$0
Total business income	\$600,000	\$500,000
Expenses		
Ordinary business expenses	\$400,000	\$400,000
Expenses associated with PPP	\$100,000	\$100,000
Total expenses	\$500,000	\$500,000
Net business income	\$100,000	\$0
Tax (assuming 7.5% rate)	\$7,500	\$0

Losses

Act(s)	Tax Years Effective	
CAA 2021	TY 18 - 20	Farming losses. Clarifies 2 loss provisions relating to how the CARES Act affected certain farming losses, which could still be carried back under the TCJA.
CARES 2020	TY 18 – 20	NOL carrybacks and taxable income limit. Allows losses generated in 2018, 2019, and 2020 to be carried back five years and retroactively suspends the TCJA’s NOL deduction limit of 80 percent of taxable income until 2021.
CARES 2020	TY 18 - 20	Excess business loss limits. Retroactively delays the imposition of the TCJA’s limits on offsetting non-business income with business losses until 2021.
CARES 2020	TY 19 - 20	Business interest limit. Modifies the TCJA’s business interest deduction limit from 30 percent of taxable income to 50 percent, for tax years 2019 and 2020 and allows a business to use their 2019 income to determine the 2020 limit.

Business Extenders

Act(s)	Tax Years Effective	
FCAA 2019 CAA 2021	TY 20 and later	Interest deduction for aging of liquor. Creates an exception from the capitalization rules for interest paid during the aging period for beer, wine, and spirits, allowing a deduction in the year the costs are incurred.
FCAA 2019 CAA 2021	TY 18 - 25	Expensing for certain productions. Allows up to \$15 million of production costs to be expensed in the year incurred under IRC section 181.

Business Extenders

Act(s)	Tax Years Effective	
FCAA 2019 CAA 2021	TY 18 - 25	Recovery period for motorsports complexes. Extends the 7-year recovery period provision for motorsports complexes through tax year 2020.
FCAA 2019 CAA 2021	TY 18 - 21	Recovery period for racehorses. Extends the treatment of racehorses as 3 year property (otherwise 7 years).
FCAA 2019 CAA 2021	TY 18 - 21	Depreciation on Indian reservations. Extends through 2021 the shorter recovery periods for businesses on an Indian reservation.

Business Extenders

Act(s)	Tax Years Effective	
FCAA 2019 CAA	TY 18 - 21	Biofuel plant deduction. Extends the additional deduction that may be taken in the year that certain biofuel plant property is placed in service through 2021.
FCAA 2019 CAA 2021	TY 18 and later	Energy efficient commercial buildings deduction. Makes the deduction for energy efficient commercial building property permanent and adds an inflator to the maximum deduction amount.
FCAA 2019	TY 18 - 20	Special rule for sales or dispositions to implement FERC or state electric restructuring policy for qualified electric utilities. Extends through 2021 the rules for recognizing certain qualified gains (either in the taxable year of the transaction or over an 8-year period) from qualified electric transmission transactions.

Miscellaneous Business

Act(s)	Tax Years Effective	
CAA 2021	After March 12, 2020	Education expense deduction. Clarifies that PPE, disinfectant, and other COVID-19 supplies qualify for the educator expense deduction.
CAA 2021	2018 and later	Depreciation of certain rental property. For businesses opting out of the business interest limits, allows the TCJA's 30 year ADS recovery period to apply to property that was placed in service prior to January 1, 2018.
CAA 2021	TY 21 - 22	Business meals deduction. Exempts food and beverages provided by a restaurant from the 50% deduction limit, through 2022.
CARES 2020	TY 2018 and later	Qualified improvement property. Fixes the so-called "retail glitch" in the TCJA that disallowed certain improvements to real property from qualifying for 100 percent bonus depreciation.

Questions?



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