

**Federal Update  
Further Consolidated Appropriations Act, 2020**

	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
		(\$000s)		
Individual Income Tax	(\$20,380)	\$550	\$450	\$140
Corporate Franchise Tax	<u>(\$4,740)</u>	<u>\$660</u>	<u>\$550</u>	<u>\$550</u>
General Fund Total	(\$25,120)	\$1,210	\$1,000	\$690

The Further Consolidated Appropriations Act, 2020 (Public Law 116-94) was enacted on December 20, 2019. The Act extends certain expired tax provisions retroactively for tax years 2018 through tax year 2020. It also includes several new provisions, as described below.

529 Plan Distributions. The Act allows qualified distributions from a Section 529 college savings plans to cover apprenticeship costs and student loan payments. Qualified loans include debt incurred by the beneficiary or a sibling of the beneficiary.

Benefits for firefighters and emergency responders. The Act excludes from income certain state and local benefits paid to volunteer firefighters and emergency responders, up to \$50 per month, for tax year 2020 only.

Disaster-Related IRA Distributions. The Act also establishes special rules for taxpayers taking an early distribution from a retirement plan due to damages sustained in federally declared disaster areas. An eligible taxpayer may take an early distribution of up to \$100,000 and may either repay the amount or include the distribution in gross income over a three-year period, instead of in the year it was withdrawn. Qualified disaster areas include federal disasters that were declared from January 1, 2018 to February 18, 2020, excluding disasters that were already covered under the Bipartisan Budget Act of 2018.

Disaster-Related Casualty Losses. The Act allows a deduction for casualty losses in federally declared disaster areas. The federal deduction for most casualty losses was repealed beginning with tax year 2018. The law allows the deduction for disaster-related losses, allows non-itemizers to claim the deduction for disaster-related losses, and removes the 10% threshold so that the entire loss may be deducted. Although Minnesota has its own deduction for casualty losses, Minnesota statute refers to the Internal Revenue Code to define qualified losses.

Disaster-Related Charitable Contributions. The Act also removes the limit on qualified disaster-related charitable contributions. Generally, charitable deductions are limited to 60% of adjusted gross income. Under the Act, deductions for qualified cash contributions made from January 1, 2018 to February 18, 2020 related to federally declared disaster areas are not subject to any limit. Although Minnesota has its own itemized charitable deduction, Minnesota statute refers to the Internal Revenue Code to define eligible contributions.

The proposal is to update reference to the Internal Revenue Code to adopt the federal changes in the Act. The update is assumed to incorporate the expanded definition of casualty losses and the special rule for disaster-related charitable contributions for Minnesota purposes.

- For all provisions, the estimates are based on the estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation, dated December 21, 2020.
- Where applicable, the estimates were divided between the individual income tax and corporate franchise tax. The estimates for each provision were apportioned to Minnesota based on information relevant to that provision. The estimates were adjusted for the difference between federal and state tax rates and federal and state fiscal years.
- The House Income Tax Simulation Model (HITS 7.0) was used to estimate the reduction in marginal tax rates for tax year 2021. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in November 2020. The model uses a stratified random sample of tax year 2018 individual income tax returns compiled by the Minnesota Department of Revenue.
- Retroactive impacts are allocated to fiscal year 2022. For other years, corporate franchise tax impacts are allocated 30% / 70% to fiscal years. Individual income tax impacts are allocated to the following fiscal year.

Minnesota Department of Revenue  
Tax Research Division  
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**Federal Update: Further Consolidated Appropriations Act, 2020**  
**November 2020 Forecast**  
(\$000s)

	FY 2022	FY 2023	FY 2024	FY 2025
<b>Individual Provisions</b>				
Exclusion of discharge of indebtedness on qualified principal residence (TY18-20)	(\$6,700)	\$0	\$0	\$0
Expansion of Section 529 plans (beginning TY19)	(\$400)	(\$150)	(\$160)	(\$160)
Extension of above-line deduction for qualified tuition and related expenses (TY18-20)	(\$5,300)	\$0	\$0	\$0
Benefits for volunteer firefighters and emergency medical responders (TY20)	(\$300)	\$0	\$0	\$0
<b>Subtotal: Individual Provisions</b>	<b>(\$12,700)</b>	<b>(\$150)</b>	<b>(\$160)</b>	<b>(\$160)</b>
<b>Business and Investment Provisions</b>				
Seven-year recovery period for motorsports entertainment complexes (TY18-20)				
Corporate Franchise Tax	(\$320)	(\$60)	(\$40)	(\$20)
Accelerated depreciation for business property on Indian reservations (TY18-20)				
Individual Income Tax	(\$260)	(\$10)	(\$10)	(\$10)
Corporate Franchise Tax	(\$200)	(\$10)	(\$10)	(\$10)
Special expensing rules for certain film, television, and live theatrical productions (TY18-20)				
Individual Income Tax	(\$2,200)	\$500	\$400	\$300
Corporate Franchise Tax	(\$1,800)	\$400	\$300	\$300
Special depreciation allowances for 2nd generation biofuel plant property (TY18-20)				
Corporate Franchise Tax	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Energy-efficient commercial building deduction (TY 18-20)				
Individual Income Tax	(\$690)	\$10	\$10	\$10
Corporate Franchise Tax	(\$1,090)	\$60	\$40	\$30
Special rule for the production period for beer, wine, and distilled spirits (TY20 only)				
Individual Income Tax	(\$50)	\$10	\$10	\$0
Corporate Franchise Tax	(\$80)	\$20	\$10	\$0
Special rule for sales or dispositions of transmission lines for qualified electric utilities (TY18-20)				
Corporate Franchise Tax	(\$1,250)	\$250	\$250	\$250
<b>Business and Investment Provisions</b>				
<b>Individual Income Tax</b>	<b>(\$3,200)</b>	<b>\$510</b>	<b>\$410</b>	<b>\$300</b>
<b>Corporate Franchise Tax</b>	<b>(\$4,740)</b>	<b>\$660</b>	<b>\$550</b>	<b>\$550</b>
<b>Subtotal</b>	<b>(\$7,940)</b>	<b>\$1,170</b>	<b>\$960</b>	<b>\$850</b>

January 25, 2021

	FY 2022	FY 2023	FY 2024	FY 2025
<b>Disaster Relief Provisions</b>				
Special disaster-related rules for use of retirement funds (1/1/18-2/18/20)	(\$80)	\$90	\$0	\$0
Special rules for qualified disaster-related personal casualty losses (1/1/18-2/18/20)	(\$3,600)	(\$200)	\$0	\$0
Temporary increase in limitation on qualified contributions (1/1/18-2/18/20)	(\$800)	\$300	\$200	\$0
<b>Disaster Relief Provisions Subtotal</b>	<b>(\$4,480)</b>	<b>\$190</b>	<b>\$200</b>	<b>\$0</b>
<b>All Provisions</b>				
<b>Individual Income Tax</b>	<b>(\$20,380)</b>	<b>\$550</b>	<b>\$450</b>	<b>\$140</b>
<b>Corporate Franchise Tax</b>	<b>(\$4,740)</b>	<b>\$660</b>	<b>\$550</b>	<b>\$550</b>
<b>General Fund Total</b>	<b>(\$25,120)</b>	<b>\$1,210</b>	<b>\$1,000</b>	<b>\$690</b>