

# HOUSE RESEARCH

## Bill Summary

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### Overview

Conforms to federal law definitions of federal taxable income, modified in the Federal Aviation Administration Modernization and Reform Act of 2012 (P.L. 112-95), which allows airline employees who received bankruptcy payments to retroactively roll over the payments into traditional individual retirement accounts (IRAs), in the year in which the payments were received. Extends the time for affected individuals to file amended returns and make claims for refunds for the years in which the payments were received and IRA rollovers made to April 15, 2013.

- 1 **Update of administrative tax provisions.** Adopts federal tax administrative provisions made between April 14, 2011, and February 14, 2012, that Minnesota references for state tax administration purposes under chapter 289A. The recently enacted federal law did not affect tax administration.
- 2 **Update to federal definition of taxable income.** Adopts the federal change to taxable income effective when the federal change became effective.

**The Federal Aviation Administration Modernization and Reform Act of 2012**, Public Law 112-95, enacted February 14, 2012, allows employees who received payments in airline bankruptcy cases filed after September 11, 2001, and before January 1, 2007, to roll over all or part of the payments to traditional individual retirement accounts (IRAs). A previous federal law allowed employees to roll over bankruptcy payments into Roth IRAs; this law allows amounts previously rolled over into Roth IRAs to be further rolled over into traditional IRAs. Taxpayers have 180 days, until August 12, 2012, to elect to make a rollover into a traditional IRA. The income limits on deductible IRA contributions do not apply to the rollovers. The rollovers are retroactive to the year in which the payments were received, and taxpayers are allowed to file amended returns to claim refunds of federal income taxes reflecting the reduction in taxable income resulting from the deduction of rolled-over amounts.
- 3 **Internal revenue code.** Adopts the federal change to the definition of federal adjusted gross income (FAGI) made between April 14, 2011, and February 14, 2012. FAGI is used for computing individual alternative minimum tax and determining withholding, and is the starting point for calculating household income, which is used to compute the dependent care and K-12 education credit. The change to federal adjusted gross income is described in section 2. Deductible IRA contributions are excluded from alternative minimum taxable income, so the federal change could result in decreased

AMT liability for affected taxpayers included in household. Deductible IRA contributions are included in household income, so the federal change would not affect the dependent care credit or the K-12 education credit.

- 4 **Update of references to Internal Revenue Code in the property tax refund chapter.** Adopts the federal change that affects the definition of household income used in calculating the property tax refund, which uses the definition of federal adjusted gross income as its starting point. Deductible IRA contributions are included in household income, so the federal change would not affect the property tax refund.
- 5 **Estate tax.** Updates the Internal Revenue Code date reference in the estate tax chapter to February 14, 2012. The federal change enacted since the last update does not affect the computation of the estate tax.
- 6 **Amended returns.** Extends the time for filing amended returns for individuals who made IRA rollovers under the new federal law to April 15, 2013, if the 3 1/2 year time limit on amending returns to make claims for refunds in statute has expired. This parallels the extension of time to file amended federal returns provided in P.L. 112-95.