

Subject Bonus depreciation

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Overview

H.F. 518 would fully conform to the new federal bonus depreciation rules, which would allow the full federal expensing deduction to be taken at the state level in the year the property was placed in service. This bill is retroactive to tax year 2016 (for property placed in service after September 26, 2017), which is the first tax year that the new federal rules went into effect for this deduction.

Background

Bonus depreciation allows taxpayers to deduct the cost of certain depreciable property in the year the property was placed in service instead of taking the deduction over a period of years under the applicable federal schedule.

In December of 2017, Congress enacted Public Law 115-97, commonly known as the Tax Cut and Jobs Act (TCJA). The TCJA temporarily modified the bonus depreciation rules under the federal Internal Revenue Code (IRC) to allow 100 percent of the cost of depreciable property to be deducted in the year the property was placed in service. Prior to the TCJA, federal bonus depreciation rules allowed only a 50 percent deduction. In addition, the TCJA allowed other forms of property to qualify, for example, used property.

Minnesota has not conformed to the federal bonus depreciation rules. The state requires 80 percent of the allowed federal deduction to be added back to the taxpayer's taxable income. One-fifth of the remaining 80 percent must then be subtracted in each of the five following tax years.

Minnesota has also not conformed to the TCJA's expansion of the types of property that qualify for the federal deduction.

Summary

Section	Description
1	Net income; selective conformity. Selectively conforms to the TCJA's bonus depreciation provisions by including the deduction in the updated federal code in a taxpayer's net income.
2	Bonus depreciation addition; individuals. For taxpayers filing an individual return, this section eliminates the state add-back for the bonus depreciation deduction allowed under the current IRC. This change is effective retroactively for depreciable property subject to the new federal expensing rules enacted by Congress under the TCJA.
3	Bonus depreciation addition; corporations. Retroactively eliminates the state add-back for the bonus depreciation deduction for taxpayers filing a corporate return in the same manner as provided for individuals in section 2.



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