

**Subject** Tax conformity  
**Authors** Marquart and others  
**Analyst** Sean Williams  
Chris Kleman  
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## Overview

Minnesota's tax code is based in part on the federal tax code, as amended through a date fixed in statute. When Congress changes the federal tax code, Minnesota will only adopt the changes for state tax purposes if the legislature chooses to incorporate the changes made federally. The process of updating our state tax code to reflect federal changes is commonly described as "tax conformity."

Minnesota's current income tax system is based on the federal Internal Revenue Code, as amended through December 31, 2018. The bill would update the state income tax code to retroactively incorporate all federal changes enacted between that date and December 31, 2020. In doing so, the bill provides conformity to six federal acts that amended the Internal Revenue Code:

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

The bill additionally allows a subtraction for wages used to claim federal tax credits—the Employee Retention Credit, the Payroll Credit for Required Paid Sick Leave, and the Payroll Credit for Required Family Leave. This effectively provides nonconformity to those credits, as federal law forbids businesses from deducting wages used to claim the credits.

### Individual Income Tax Extenders

Act(s)	Effective dates	Changes
FCAA 2020, CAA 2021	TY 20 and later	<b>Volunteer firefighter benefits:</b> Provides for exclusion from gross income for up to \$50/month in benefits paid to volunteer firefighters and EMTs. Had previously expired in TY 11.
FCAA 2020	TY 18 – TY 2020	<b>Tuition deduction:</b> Allows above-the-line deduction for up to \$4,000 of tuition. Phased down beginning at \$130,000 of AGI (MJ).
CARES, CAA 2021	TY 20 – TY 25	<b>Exclusion for employer student loan payments:</b> 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	<b>Exclusion from gross income for discharged mortgages on a principal residence:</b> Provides exclusion from gross income for loan forgiveness on discharged mortgages. This commonly happens in a foreclosure on an underwater mortgage.

### Charitable Contribution Rules

Act(s)	Effective dates	Changes
CARES, CAA 2021	TY 20, TY 21	<b>Charitable contributions of non-itemizers:</b> 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	<b>Charitable contribution limit; individuals:</b> Increases individual charitable contribution limitation from 60% to 100% of AGI for TY 20/21.
CARES, CAA 2021	TY 20, TY 21	<b>Charitable contribution limit; corporations:</b> Increases individual charitable contribution limitation from 10% to 25% of taxable income for TY 20/21.
CARES, CAA 2021	TY 20, TY 21	<b>Business food inventory donation limit:</b> 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)	Effective dates	Changes
FCAA 2020	TY 19 and later	<b>Expansion of 529 plans:</b> Allows qualified distributions from 529 plans to pay for apprenticeship expenses or for student loan payments for the qualified beneficiary or their sibling.
CAA 2021	Grants paid 3/27/2020 or later	<b>Emergency financial aid grants:</b> Provides exclusion from gross income for emergency financial aid grants provided to students under CARES.
CARES	Distributions during calendar year 2020	<b>Special rules for use of retirement funds:</b> 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)	Effective dates	Changes
FCAA 2020, CAA 2021	FCAA 2020: Disasters declared 1/1/2018 to 2/18/20 CAA 2021: Disasters declared 1/1/2020 to 2/25/2021 and with incident period after 12/28/2019.	<b>Special rules for use of retirement funds:</b> 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.
		<b>Charitable contributions to disaster areas:</b> Allows cash charitable contributions for disaster relief efforts up to 100% of AGI (normal limit is 60% of AGI).
		<b>Disaster-related casualty losses:</b> 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.

### Paycheck Protection Program (PPP)

Act(s)	Effective dates	Changes
CARES	TY 20, TY 21	<b>Exclusion from gross income for forgiven loans:</b> Provides an exclusion from gross income for loans forgiven through the federal Paycheck Protection Program (PPP).
CAA 2021	TY 20, TY 21	<b>Deductibility of PPP business expenses:</b> 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	<b>Other loan forgiveness and business financial assistance under CARES:</b> Provides exclusion from gross income and prevents deduction denial for loan forgiveness through the following programs in the CARES Act: —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.

### Business Losses

Act(s)	Effective dates	Changes
CAA 2021	TY 18 - 20	<b>Farming losses.</b> 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	<b>NOL carrybacks and taxable income limit.</b> 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	<b>Excess business loss limits.</b> Retroactively delays the imposition of the TCJA’s limits on offsetting non-business income with business losses until 2021.
CARES 2020	TY 18 - 20	<b>Business interest limit.</b> 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)	Effective dates	Changes
FCAA 2020, CAA 2021	TY 20 and later	<b>Interest deduction for aging of liquor.</b> 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 2020, CAA 2021	TY 18 - 25	<b>Expensing for certain productions.</b> Allows up to \$15 million of production costs to be expensed in the year incurred under IRC section 181.
FCAA 2020, CAA 2021	TY 18 - 25	<b>Recovery period for motorsports complexes.</b> Extends the 7-year recovery period provision for motorsports complexes through tax year 2020.
FCAA 2020, CAA 2021	TY 18 - 21	<b>Recovery period for racehorses.</b> Extends the treatment of racehorses as 3 year property (otherwise 7 years).
FCAA 2020, CAA 2021	TY 18 - 21	<b>Depreciation on Indian reservations.</b> Extends through 2021 the shorter recovery periods for businesses on an Indian reservation.
FCAA 2020, CAA 2021	TY 18 - 21	<b>Biofuel plant deduction.</b> Extends the additional deduction that may be taken in the year that certain biofuel plant property is placed in service through 2021.
FCAA 2020, CAA 2021	TY 18 and later	<b>Energy efficient commercial buildings deduction.</b> Makes the deduction for energy efficient commercial building property permanent and adds an inflator to the maximum deduction amount.
FCAA 2019	TY 18 - 20	<b>Special rule for sales or dispositions to implement FERC or state electric restructuring policy for qualified electric utilities.</b> 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)	Effective dates	Changes
CAA 2021	After March 12, 2020	<b>Education expense deduction.</b> Clarifies that PPE, disinfectant, and other COVID-19 supplies qualify for the educator expense deduction.
CAA 2021	2018 and later	<b>Depreciation of certain rental property.</b> 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	<b>Business meals deduction.</b> Exempts food and beverages provided by a restaurant from the 50% deduction limit, through 2022.
CARES 2020	TY 2018 and later	<b>Qualified improvement property.</b> Fixes the so-called "retail glitch" in the TCJA that disallowed certain improvements to real property from qualifying for 100 percent bonus depreciation.

## Summary

Section	Description
1	<p><b>Internal revenue code.</b></p> <p>Adopts federal tax administrative changes made between December 31, 2018, and December 31, 2020, that Minnesota references for state tax administration purposes under chapter 289A. The federal act did not change federal provisions referenced in chapter 289A.</p>
2	<p><b>Net income (definition).</b></p> <p>Adopts all of the federal changes to adjusted gross income (for individuals) and federal taxable income (for corporations). The federal changes to adjusted gross income are effective retroactively to when they became effective for federal purposes.</p>
3	<p><b>Internal revenue code.</b></p> <p>Adopts federal changes to federal adjusted gross income used for computing individual alternative minimum tax and determining withholding on wages.</p>
4	<p><b>Special limited adjustment.</b></p> <p>Clarifies that the changes in the bill are to be calculated after the “special limited adjustment for tax year 2018” enacted in the 2019 omnibus tax bill. This has the effect of retroactively changing taxpayers’ liability in tax year 2018 for provisions adopted under the bill.</p>
5	<p><b>Internal revenue code (property tax refunds).</b></p> <p>Prospectively adopts the federal changes that affect household income, which uses the definition of federal adjusted gross income as a starting point. Effective for refunds based on rent paid in 2021, and property taxes payable in 2022.</p> <p>Property tax refund claimants will not amend returns to reflect the federal changes for refunds paid in 2020 or 2021 (based on rent paid in 2019 or 2020 and property taxes payable in 2020 or 2021).</p>
6	<p><b>Scope (estate tax).</b></p> <p>Updates to changes in federal law made between December 31, 2018, and December 31, 2020. This change has no substantive effect on computation of the estate tax, but instead keeps the Internal Revenue Code date reference consistent with other sections of statute.</p> <p>Effective retroactively for the estates of decedents dying after December 31, 2017.</p>

Section	Description
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| 7 | <p><b>Individual income tax collection action prohibited.</b></p> <p>Prohibits the commissioner from increasing the amount due from individual income taxpayers for tax years 2018, 2019, and 2020 as a result of changes enacted in this law, if the taxpayer filed a 2018, 2019, or 2020 return based on state law before enactment of this law.</p>   |
| 8 | <p><b>Temporary nonconformity additions and subtractions.</b></p> <p>Provides nonconformity to three federal credits: the Employee Retention Credit, the Payroll Credit for Required Paid Sick Leave, and the Payroll Credit for Required Family Leave.</p> <p>Federal law disallows taxpayers from deducting as a business expense wages used to claim these credits. The bills adopts that change in earlier sections, but provides nonconformity by allowing taxpayers a temporary subtraction for wages used to claim the credits.</p> |



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