Minnesota Senate Taxes Committee

April 22, 2020

Overview

- **Coronavirus Aid, Relief, and Economic Security (CARES) Act**
- **Families First Coronavirus Response Act (FFCRA)**
- **Further Consolidated Appropriations Act**

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Overview of Federal Updates

1. Coronavirus Aid, Relief, and Economic Security (CARES) Act

- Enacted March 27, 2020
- $2+ trillion stimulus and relief package to mitigate the effects of the COVID-19 pandemic
  - Of the total amount, $591.1 billion are various tax provisions

2. Families First Coronavirus Response Act (FFCRA)

- Enacted March 18, 2020
- $192 billion legislative package providing paid sick leave, tax credits, and free COVID-19 testing; expanding food assistance and unemployment benefits; and increasing Medicaid funding
  - Of the total amount , $104.9 billion is for tax credits for paid sick and paid family medical leave

3. Further Consolidated Appropriations Act

- Enacted December 20, 2019
- New provisions and many “extenders” of expired federal tax provisions that Minnesota has adopted in prior years and expired in 2017

Special rules for use of retirement funds

- Waives the 10% early withdrawal penalty for up to $100,000 in coronavirus-related distributions from qualified retirement accounts in 2020.
- Allows tax on income attributable to coronavirus-related distributions to be paid over three years.
- Allows taxpayers to recontribute to the qualified accounts within three years regardless of the contribution limits for a given year.
- Increases the maximum amount for loans from qualifying retirement plans from the lesser of 50% of the vested account balance or $50,000 to the lesser of 100% of the vested account balance or $100,000 for loans made between March 27, 2020 and December 31, 2020.
- Waives minimum distribution requirements for certain defined contribution plans and IRAs for 2020.

Above the line deduction for charitable contributions

- Allows non-itemizers an above-the-line deduction of up to $300 for cash contributions to qualifying charitable organizations. This provision is ongoing beginning in 2020.

Modification on limits for 2020 charitable contributions

- Suspension of limits on qualifying charitable contributions for individuals itemizers and corporations.
  - For individuals, the limit for cash contributions to qualifying charitable organizations is 60% of adjusted gross income (AGI). This provision suspends the 60% limitation for 2020 only, so individuals may deduct 100% of qualifying cash contributions made in 2020.
  - For corporations, the limit for cash contributions to qualifying charitable organizations is 10% of taxable income. This provision suspends the 10% limitation for 2020 only, so corporations may deduct 25% of the value of qualifying cash contributions made in 2020.
  - Also temporarily increases the limit on for qualifying contributions of food inventory in 2020 from 15% to 25%.

Exclusion for certain employer payments of student loans

- Allows up employer payments of up to $5,250 for employees' student loans to be excluded from employees' AGI. Under current law, the exclusion applies for qualified tuition payments. This provision expands current law to include student loan payments made by employers between March 27, 2020 and January 1, 2021, but the total exclusion paid for tuition and student loans is limited to $5,250.

Employee retention credit for employers affected by COVID-19

- Provides a refundable credit to qualifying employers against the employer share of the federal payroll tax equal to 50% of qualified wages of up to $10,000 per employee per calendar quarter. Qualifying employers are employers whose operations were fully or partially suspended due to a COVID-19-related shutdown order or who experienced certain decline in gross receipts over the same calendar quarter in 2019.
  - For employers with more than 100 full-time employees, "qualified wages" are wages paid to an employee who is not providing services
  - For employers with 100 or fewer employees, "qualified wages" are wages paid to an employee regardless of whether the employee continues to provide services.

- The credit is reduced by any credits allowed under the sick and family leave credits in the FFCRA, and any deduction for employee wages taken as an ordinary and necessary business expense could be claimed only to the extent those wages were not used to claim the credits.

Modifications of limitations on losses for non-corporate taxpayers (pass-through entities)

- Retroactively suspends the TCJA excess business loss limitation. Under the TCJA, beginning in 2018, excess business losses were limited to $250,000 (or $500,000 for married joint filers). The limitation would go back into effect in 2021.

Modifications of limitation on business interest

- Temporarily increases the 30% business interest deduction to 50% for qualifying taxpayers for tax years 2019 and 2020. The TCJA limited the deduction to 30% of AGI for taxpayers with average annual gross receipts of $25 million or more.

Inclusion of certain OTC medical products as qualified medical expenses

- Allows over-the-counter medications and menstrual products to be included in the definition of "qualified medical expenses" for purposes pre-tax health-related spending accounts, effective beginning in 2020.

Paid sick and family leave credits

- The Families First Coronavirus Relief Act (FFCRA) requires employers with fewer than 500 employees to provide employees who are unable to work due to specified reasons related to COVID-19 with paid sick leave or expanded family and medical leave.

- Employers required to provide paid leave are eligible for a refundable credit in 2020, up to specified amounts, against the 6.2% employer share of the federal Old-Age, Survivors, and Disability Insurance (OASDI) or Railroad Retirement Tax Act (RRTA) payroll taxes on qualified sick leave wages and qualified family leave wages, allocable qualified health plan expenses, and the employer's 1.45% share of Medicare tax paid between April 2, 2020, and December 31, 2020.

- Generally, an employer's share of wages, health plan expenses, and certain taxes are allowed a deduction as an ordinary and necessary business expense. As with the interaction of other credits and deductions, wages used to claim the paid sick and family leave credits can be deducted only to the extent they were not used to claim the credits.

Individual Provisions

Exclusion of discharge of indebtedness on principal residence (2018-2020):

- Generally, forgiveness of debt is included in gross income, so taxpayers whose lenders have forgiven their mortgage debt on a principal residence would include the amount forgiven in gross income.
- Provision was originally enacted in 2007 and has been extended since on a short-term basis.
- Excludes up to $2 million in mortgage debt forgiven in calendar years 2018 to 2020 and includes forgiveness after December 31, 2020 if written agreement for forgiveness was entered into before that date.

Expansion of eligible sec. 529 plan expenses (ongoing; retroactive to 2019): Allows 529 plans to be used to pay:

- ***Qualified apprenticeship expenses*** - fees, books, supplies, and equipment required for the participation of a designated beneficiary in a qualifying apprenticeship program; and
- ***Qualified student loan expenses*** - up to $10,000 principal or interest on any qualified education loan of the designated beneficiary or designated beneficiary's sibling.

Extension of above the line deduction for qualified tuition and related expenses (2018-2020)

- Allows a deduction in calculating AGI for up to $4,000 in qualified higher education expenses.

Further Consolidated Appropriations Act

Business and Investment Provisions

Seven-year recovery period for motorsports entertainment complexes (2018-2020)

- Extends a temporary provision originally enacted in 2004 to allow a seven year depreciation schedule for these structures. Theme and amusement parks also have a seven year depreciation schedule.

Accelerated depreciation for business property on Indian reservations (2018-2020)

- First enacted on a temporary basis in 1993, this provision allows greater deductions in earlier years for property used predominantly in the active conduct of a trade or business within an Indian reservation.

Special expensing rules for certain film, television, and live theatrical productions (2018-2020)

- Allows an immediate deduction of up to $15 million in production costs in the tax year incurred. The deduction equals $20 million for productions produced in certain low-income and distressed communities. At least 75% of the compensation paid must be for services performed in the United States.
- Initially enacted in 2004

Special depreciation allowances for 2nd generation biofuel plant property (2018-2020)

- First enacted in 2008, this provision allows a deduction of 50% of the cost of qualified second–generation biofuel plant property for the year the property is placed in service.
- Property must be used to produce any liquid fuel derived by or from certain raw materials and that meets certain environmental/clean air requirements.

Business and Investment Provisions, continued

Energy-efficient commercial building deduction (2018-2020)

- First enacted in 2005, this provision allows a deduction in the year the building is placed in service to owners of new or existing buildings who install interior lighting; building envelope; or heating, cooling, ventilation, or hot water systems that reduce the building's total energy and power cost by 50% or more in comparison to a building meeting established minimum standards.

Special rule for production period of beer, wine, and distilled spirits (2020 only)

- Generally, interest is required to be capitalized over the production period of certain real and tangible personal property. The production period begins on the date production begins and ends on the date property is ready to be placed in service or held for sale.
- This provision excludes the longer aging period for beer, wine, and distilled spirits used for beverages from the "production period" for purposes of interest capitalization rules. By excluding these products from the production period, producers of beer, wine, and distilled spirits may deduct interest expenses attributable to a shorter period of time.
- A similar provision was enacted in 2017 and extended through 2019.

Further Consolidated Appropriations Act

Business and Investment Provisions, continued

Special rule for sales or dispositions of transmission lines for qualified electric utilities (2018-2020)

- Generally, gain from a sale must be recognized in the year it is realized. This provision allows taxpayers to recognize gain from qualifying electric transmission property to an independent transmission company over an eight-year period, beginning in the year of sale. Gains realized from the sale must be used to purchase exempt utility property within four years.
- Enacted in 2004; has been extended through 2017.

Further Consolidated Appropriations Act

Disaster Relief Provisions

- Applies to individuals living at any time in a qualified disaster area who sustained an economic loss due to all federally declared disasters from January 1, 2018 to February 18, 2020, excluding any disasters covered under the Bipartisan Budget Act of 2018.
- Waives the 10% early withdrawal penalty for up to $100,000 in distributions from qualified retirement accounts.
- Allows tax on income attributable to disaster-related distributions to be paid over three years.
- Allows taxpayers to recontribute to the qualified accounts within three years regardless of the contribution limits for a given year.
- Increases the maximum amount for loans from qualifying retirement plans from the lesser of 50% of the vested account balance or $50,000 to the lesser of 100% of the vested account balance or $100,000 for loans made between during the federally declared disaster period
- Allows a delay of payments due for one year for loans outstanding prior to the disaster period.
- Allows recontributions to retirement plans for withdrawals made for cancelled home residence purchases or construction of a principal residence due to a federally declared disaster.