Federal Job Creation and Worker Assistance Act of 2002

Minnesota Reaction to Depreciation Bonus

by

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- Federal bill signed into law March 9, 2002.
- Main stimulus 30% first year depreciation bonus for certain business property.
- Retroactive impact for property placed in service beginning 9/11/01 to 9/11/04.
Posed a difficult problem for state tax and budget policy:

- Goal to conform to federal to maintain simplicity of tax calculations for taxpayers.

versus

- High revenue cost for 30% expensing of:
  - $233 Million for FY 02-03 biennium
  - $145 Million for FY 04-05 biennium

Similar to ACRS depreciation conformity issues from early 1980’s.

Minnesota decoupled from ACRS:

- Add-backs were required for a portion of ACRS deductions.
- Subtractions taken after ACRS depreciation period.

Resulted in many administrative and tax filing problems.
Factors considered to evaluate options:

- Impact on taxpayer filing and record-keeping.
- Department of Revenue administrative cost and compliance management.
- Short-run and long-run revenue effects.

Depreciation options initially considered:

- No conformity
- Conformity with additional tax to offset cost.
- Conformity for individuals only.
- Modifications for 30% bonus depreciation (percent added back, then subtractions)
  - Subtractions after fully depreciated
  - Subtractions over remaining depreciation period
  - Subtractions over a fixed period of years
Estimation issues involved include:

- Limited information on investment base and depreciation claimed for state purposes.
- Change occurring during period of high collections and tax base volatility.
- Sizable impact on state revenues from changes to depreciation.

Acquired information for estimates from JCT:

- Amount of investment base nationally.
- Share of depreciation deductions claimed by type of property.
- Flow-through impacts to tax.
Analysis of modification options:

- Add-back 80% to 100% of 30% depreciation bonus amount.
- Recovery (subtractions) over next 4 or 5 years.

Enacted law change:

- 80% add-back, subtractions over next 5 years
- $4 million gain in FY 02-03 biennium
- $24 million gain in FY 04-05 biennium
- Revenue gain put in budget reserve to pay cost in later years.
Other states reaction to depreciation bonus:

- About a quarter of states have conformed.
- Majority of states have not conformed.
- Small number of states have enacted specific add-backs and adjustments.