

## Minnesota Enacts Tax Relief Bill with Changes To Sales and Use Tax, Estate and Gift Tax and to Update Internal Revenue Code Conformity

March 25, 2014

### Overview

On March 21, 2014, Minnesota Governor Mark Dayton signed House Bill 1777 (“H.F. 1777”).<sup>1</sup> The bill amends Minnesota tax law in the following manner:

- Updates Minnesota’s federal tax conformity to the Internal Revenue Code (“IRC”) as amended through December 20, 2013.
- Repeals the sales tax on certain services and delays the effective date of the up-front exemption for purchases of capital equipment.
- Provides a sales tax exemption for telecommunications machinery and equipment.
- Raises the estate tax filing threshold from \$1 million to \$2 million over a period of five years.
- Retroactively repeals the gift tax on gifts made after June 30, 2013.

In this Tax Alert, we highlight the more significant tax law changes enacted in H.F. 1777.<sup>2</sup>

### Federal Conformity

For corporate income/franchise tax and individual income tax purposes, effective March 22, 2014, H.F. 1777 updates Minnesota’s definition of IRC to the Internal Revenue Code of 1986, as amended through December 20, 2013.<sup>3</sup> It also updates Minnesota’s definition of “net income” to incorporate the federal definition of “taxable income” as amended through December 20, 2013.<sup>4</sup> The federal conformity changes are effective retroactively to the time the changes were effective for federal purposes.<sup>5</sup> Note that the updated federal conformity generally does not change Minnesota’s statutory modifications such as bonus depreciation and IRC § 199 deductions.<sup>6</sup>

In other cases where the term IRC is not specifically defined,<sup>7</sup> IRC means the “Internal Revenue Code of 1986, as amended through December 20, 2013.”<sup>8</sup> Previously, references to IRC that were not specifically defined, meant the “Internal Revenue Code of 1986, as amended through April 14, 2011.”<sup>9</sup> H.F. 1777 makes this change retroactively for taxable years beginning after December 31, 2012.<sup>10</sup>

In addition, H.F. 1777 prohibits the commissioner from increasing the tax due or decreasing the refund for individual income tax returns for tax year 2013, to the extent the tax was understated

<sup>1</sup> Chapter 150, H.F. 1777, 2014 Regular Session, available at [https://www.revisor.mn.gov/bills/text.php?number=HF1777&version=2&session=ls88&session\\_year=2014&session\\_number=0&type=ue](https://www.revisor.mn.gov/bills/text.php?number=HF1777&version=2&session=ls88&session_year=2014&session_number=0&type=ue).

<sup>2</sup> While not addressed in this Alert, the new law also makes changes to the Working Family Tax Credit, Child Tax Care Credit, Student Loan Interest Deduction, and enables small businesses to offer employees tax-free tuition and adoption assistance among other things. In addition, Minnesota historically required an addition modification for the difference between the federal standard deduction allowed under section 63(c) of the IRC and the standard deduction allowed under the IRC as amended through December 31, 2010. Effective for tax years beginning after December 31, 2013, this addition modification is eliminated. H.F. 1777, Chapter 150, Article 1, Section 10, amending Minnesota Statutes 2012, section 290.01, subdivision 19a.

<sup>3</sup> H.F. 1777, Chapter 150, Article 1, Section 13, amending Minnesota Statutes 2013, section 290.01, subdivision 31.

<sup>4</sup> H.F. 1777, Chapter 150, Article 1, Section 9.

<sup>5</sup> H.F. 1777, Chapter 150, Article 1, Sections 9 and 13.

<sup>6</sup> Minnesota Statutes 2013, section 290.01, subdivisions 19 through 19h.

<sup>7</sup> See generally, the laws administered by the commissioner under chapters 290, 290A, 291, and 297A, and sections 298.01 and 298.015.

<sup>8</sup> H.F. 1777, Chapter 150, Article 1, Section 7, amending Minnesota Statutes 2012, section 289A.02, subdivision 7.

<sup>9</sup> Minnesota Statutes 2012, section 289A.02, subdivision 7.

<sup>10</sup> H.F. 1777, Chapter 150, Article 1, Section 7, amending Minnesota Statutes 2012, section 289A.02, subdivision 7.

because the taxpayer calculated their tax based on the Internal Revenue Code, as amended, through April 14, 2011.<sup>11</sup>

## Sales and Use Tax

Effective for sales and purchases made after March 31, 2014, H.F. 1777 repeals the imposition of the sales and use tax on the following services:

- Repair and maintenance of electronic and precision equipment such as computers, monitors, photocopying machines, printers, televisions, and stereo systems if deductible as a business expense under the Internal Revenue Code.<sup>12</sup>
- Repair and maintenance of commercial and industrial equipment and machinery.<sup>13</sup>
- Warehousing or storage services for tangible personal property.<sup>14</sup>

Effective for sales and purchases made after March 31, 2014, H.F. 1777 provides an exemption for the sale or purchase of telecommunications machinery and equipment.<sup>15</sup> The definition of telecommunications machinery and equipment includes various machinery and equipment used to transmit and transport services, ancillary equipment used, as well as repair and replacement parts.<sup>16</sup>

On May 23, 2013, Minnesota enacted House Bill 677 which, among other things, provided an up-front exemption for sales and purchases of capital equipment (machinery and equipment used in manufacturing) occurring after August 31, 2014.<sup>17</sup> H.F. 1777 delays the start of the up-front exemption to transactions after June 30, 2015.<sup>18</sup>

## Estate Tax

Beginning with decedents dying in 2014, H.F. 1777 increases the current \$1 million taxable estate filing threshold to \$1,200,000 and then gradually increases the threshold to \$2 million over the subsequent four years.<sup>19</sup> H.F. 1777 also defines a Minnesota Taxable Estate as the federal taxable estate with certain addition and subtraction modifications.<sup>20</sup>

## Gift Tax

On May 23, 2013, Minnesota enacted House Bill 677 which, among other things, imposed a gift tax for taxable gifts made after June 30, 2013.<sup>21</sup> H.F. 1777 retroactively repeals that gift tax.<sup>22</sup>

## Contacts

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<sup>11</sup> H.F. 1777, Chapter 150, Article 1, Section 23.

<sup>12</sup> H.F. 1777, Chapter 150, Article 2, Section 1, amending Minnesota Statutes 2013, section 297A.61, subdivision 3(m).

<sup>13</sup> H.F. 1777, Chapter 150, Article 2, Section 1, amending Minnesota Statutes 2013, section 297A.61, subdivision 3(m).

<sup>14</sup> H.F. 1777, Chapter 150, Article 2, Section 1, amending Minnesota Statutes 2013, section 297A.61, subdivision 3(m). Note that on May 23, 2013, Minnesota enacted House Bill 677 which imposed a sales and use tax on transactions for warehousing or storage services for tangible personal property occurring after March 31, 2014. H.F. 1777 repeals the sales and use tax on warehousing or storage services before the tax went into effect.

<sup>15</sup> H.F. 1777, Chapter 150, Article 2, Section 3, amending Minnesota Statutes 2012, section 297A.68.

<sup>16</sup> H.F. 1777, Chapter 150, Article 2, Section 3, amending Minnesota Statutes 2012, section 297A.68.

<sup>17</sup> Minnesota Statutes 2013, section 297A.68, subdivision 5(a).

<sup>18</sup> H.F. 1777, Chapter 150, Article 2, Section 4, amending Laws 2013, chapter 143, article 8, section 26. Through June 30, 2015, manufacturers will continue to pay tax on capital equipment and then request a refund of the tax.

<sup>19</sup> H.F. 1777, Chapter 150, Article 3, Section 1, amending Minnesota Statutes 2013, section 289A.10, subdivision 1.

<sup>20</sup> H.F. 1777, Chapter 150, Article 3, Section 4, establishing Minnesota Statutes, section 291.016.

<sup>21</sup> Minnesota Statutes 2013, section 292.17.

<sup>22</sup> H.F. 1777, Chapter 150, Article 3, Section 8, repealing Minnesota Statutes 2013, section 292.17.

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