Encourage Investment in Minnesota
Section 179 Full Conformity Coalition

Minnesota farmers and small businesses are being hit with retroactive state income tax increases due to the failure to adopt full conformity with the federal Section 179 business expensing provisions. These tax increases are occurring when Minnesota has a $1.3 billion budget surplus and when many farmers and businesses are experiencing losses due to circumstances beyond their control including bad weather, crop loss, tariffs and trade.

Why we need full conformity with Section 179:

- Helps small businesses and farmers reinvest in Minnesota to help grow our economy.
- Fixes retroactive tax increases.
- Improves Minnesota's competitiveness as most states have full conformity including neighboring states.
- Reduces tax compliance costs and complexity.
- Prevents Minnesota taxpayers from paying more in Minnesota state taxes than they do on their federal income tax return!

What is Section 179? Section 179 refers to federal income tax code section that sets the expensing rules for when businesses can deduct the cost of purchasing certain equipment. Minnesota allows $25,000 of immediate expensing while the federal and most states allow $1 million in immediate expensing.* This is a timing issue for the deduction and does not permanently lower tax burdens although some Minnesota taxpayers with future year losses may not be able to fully utilize the deduction due to the inability to carryforward the deduction.

The 2019 MN tax bill enacted retroactive state income tax increases on many farmers and businesses by conforming to the tax increases from the Federal Tax Cuts and Jobs Act but without adopting most of the federal offsets. Minnesota fully conformed with 1031 federal like-kind exchange rules resulting in an increase in income tax liability for trade-in of certain equipment but Minnesota did not conform with the tax offset of Section 179 tax immediate expensing. The result is many businesses and farmers are receiving unexpected tax bills stating they owe more income taxes in Minnesota. Minnesota taxpayers may now pay more in state income taxes than at the federal level or in most other states when they are investing in equipment.

*Under Minnesota law, 80% of the amount of the equipment purchased in excess of $25,000 is added-back to the taxpayer's Minnesota income in the year of the purchase and the taxpayers are allowed to deduct as an expense on their Minnesota income tax 20% of that deduction in excess of $25,000 over the next 5 years.

Ask the Governor and Legislators to provide much needed relief by enacting full conformity with Section 179 business expensing in 2020 session!

Draft 12.27.2019