

**Federal Job Creation and Worker  
Assistance Act of 2002**

**Minnesota Reaction to Depreciation Bonus**

**by  
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Revenue Estimating Conference  
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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

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➤ **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.**

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➤ **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.

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➤ **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

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➤ **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.

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➤ **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.

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➤ **Analysis of modification options:**

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

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➤ **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.

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➤ **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.