

Income/Franchise:

Minnesota: New Law Updates State Conformity to Internal Revenue Code and Includes Some Decoupling

H.F. 31, signed by gov. 1/12/23; *2023 Federal Conformity for Income Tax*, Minn. Dept. of Rev. (1/23). For state corporate income/franchise tax and individual income tax purposes, effective January 13, 2023, new law generally updates Minnesota's definition of the Internal Revenue Code (IRC) to the IRC of 1986, as amended through December 15, 2022 (previously, December 31, 2018), thus adopting certain provisions under the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act (*i.e.*, P.L. 116-136), American Rescue Plan Act (*i.e.*, P.L. 117-2), Infrastructure Investment and Jobs Act (*i.e.*, P.L. 117-58), and Inflation Reduction Act of 2022 (*i.e.*, P.L. 117-169). Under the bill, Minnesota's federal conformity updates are effective retroactively to the time the changes were effective for federal tax purposes. The new law also decouples from certain federal income tax provisions, including providing retroactive addition adjustments for state corporate income/franchise tax and individual income tax purposes for:

URL: <https://www.revisor.mn.gov/bills/bill.php?b=House&f=HF0031&ssn=0&y=2023>

URL: <https://www.revenue.state.mn.us/2023-federal-conformity-income-tax>

1. The increased deduction of business interest expense pursuant to IRC section 163(j) under the CARES Act, and
2. The increased net operating loss (NOL) and excess business loss deductions allowed under the CARES Act.

Furthermore, the new law allows certain taxpayers impacted by this legislation to file amended Minnesota income tax returns for taxable years in which their liability changed as a result of this legislation by December 31, 2023. Retroactively for taxable years beginning after December 31, 2020, the new law also clarifies how refunds under Minnesota's pass-through entity tax are administered when the owners of a pass-through entity have already claimed the pass-through entity tax credit.

See recently issued Multistate Tax Alert for more details on this legislation, and please contact us with any questions.

— Ray Goertz (Minneapolis)
Managing Director
Deloitte Tax LLP
rgoertz@deloitte.com

Dave Dunnigan (Minneapolis)
Senior Manager
Deloitte Tax LLP
ddunnigan@deloitte.com

Robert Waldow (Minneapolis)
Principal
Deloitte Tax LLP
rwaldow@deloitte.com

Mark Sanders (Minneapolis)
Manager
Deloitte Tax LLP
msanders@deloitte.com

Sara Clear (Minneapolis)
Manager
Deloitte Tax LLP
sclear@deloitte.com

Olivia Schulte (Washington, DC)
Manager
Deloitte Tax LLP
oschulte@deloitte.com

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