

What is tax conformity?

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- Many states, including Minnesota, use definitions and policies in the federal tax code as a starting point for their state individual income taxes, corporate income taxes, and estate tax codes. Changes to the federal tax code could potentially cause changes to state tax systems.
- States may choose to conform to the federal tax code in order to simplify tax calculations and make enforcing the tax code easier. But states must weigh the potential benefits of simplicity against other values and goals, including tax fairness and raising adequate revenues to fund public services.
- Some states have **rolling conformity**, which means a state automatically adopts federal tax code changes unless policymakers take action to prevent conformity. Other states have **static date conformity**, which means they choose to conform their tax code to the federal code up to a certain date, and must pass legislation in order to adopt new federal tax changes.
- States do not have to adopt all federal tax changes passed in a particular year. Choosing to ignore a federal provision and not include it in their state's tax code is called "decoupling."

How does conformity work in Minnesota?

- Minnesota is a static date conformity state, meaning federal tax code changes are not automatically adopted. Instead, policymakers decide whether or not to adopt federal changes and must pass legislation to implement those choices.
- Currently, Minnesota conforms to the Internal Revenue Code as amended through May 1, 2023, with significant exceptions.
- Minnesota also decoupled from some provisions that are part of the federal tax code prior to May 1, 2023, like multiple provisions of the federal 2017 Tax Cuts and Jobs Act (TCJA).

What are some examples of conformity decisions?

- The individual income tax calculation for Minnesota starts with the tax filer's federal adjusted gross income (FAGI) calculation from their federal income tax form, instead of calculating income from scratch. This change came when Minnesota conformed to the use of FAGI in 2019, replacing another federal measure of income.
- Minnesota decoupled from the federal decision to eliminate the dependent exemption included in the TCJA. Instead, Minnesota continues to have a dependent exemption in our state income tax similar to what existed prior to the TCJA's passage. Maintaining a dependent exemption allows a family's tax liability to be adjusted according to family size.