Economic and Revenue Update

A Briefing for the

Money Committees

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Topics for Discussion

- National and State Economic Indicators
- September Year-to-Date Revenue Collections, Fiscal Year 2019
- Steps Leading to Forecast
- Rating Agency / JABE Update
- Hurricane Florence Update
- Known Funding Commitments / Risks
- Tax Conformity and Policy

National and State Economic Indicators

- According to the final estimate, real GDP grew at an annualized rate of 4.2 percent in the second quarter of 2018, following 2.2 percent in the first quarter.

- Payroll employment rose by 134,000 jobs in September.
  - The August gain was revised up by 69,000 jobs to 270,000.

- The national unemployment rate fell from 3.9 to 3.7 percent in September.

- Initial claims for unemployment fell by 8,000 to 207,000 during the week ending September 29, following a brief spike the previous week from Hurricane Florence.
  - The four-week moving average rose by 500 to 207,000.

- The Conference Board’s index of leading indicators rose 0.4 percent in August, following a 0.7 percent increase in July, suggesting the economic expansion should strengthen over the coming months.

- The Conference Board’s index of consumer confidence rose 3.7 points to 138.4 in September, its highest level since 2000. Both the expectations and current conditions components increased for the month.

- Activity in the manufacturing sector remained solid in September, although the Institute of Supply Management index dropped slightly from 61.3 to 59.8.

National and State Economic Indicators

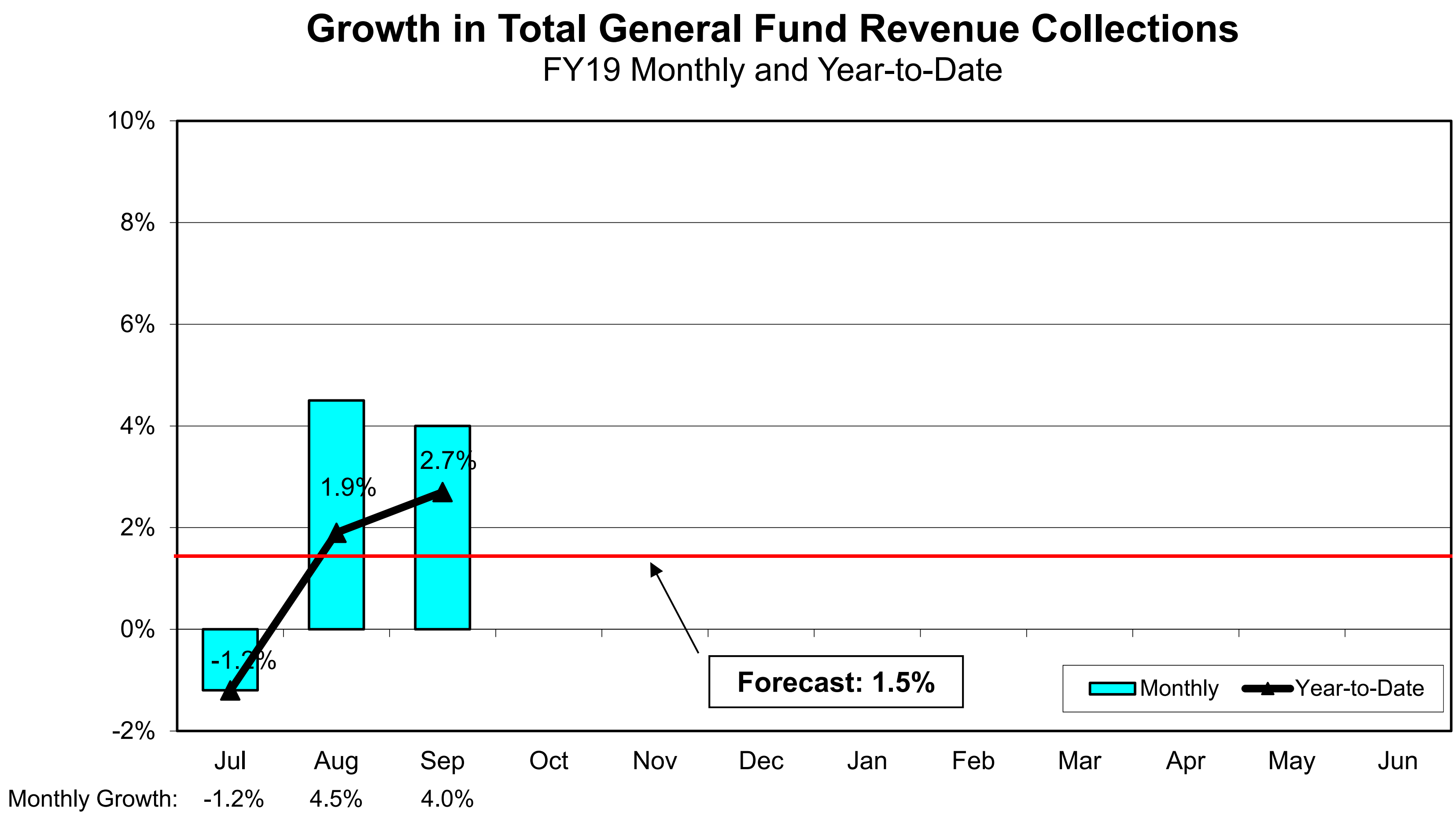
- The CPI rose 0.2 percent in August after increasing 0.2 percent in July and stands 2.7 percent above August 2017.
  - Core inflation (excluding food and energy prices) rose by 0.1 percent, and has increased 2.2 percent from last year.

- As expected at its September meeting, the Federal Reserve raised the federal funds target rate by 0.25 percent to 2.0 to 2.25 percent.

- In Virginia, payroll employment rose 1.4 percent from August of last year. Northern Virginia posted growth of 1.0 percent; Hampton Roads rose 0.9 percent; and Richmond-Petersburg rose 1.1 percent.

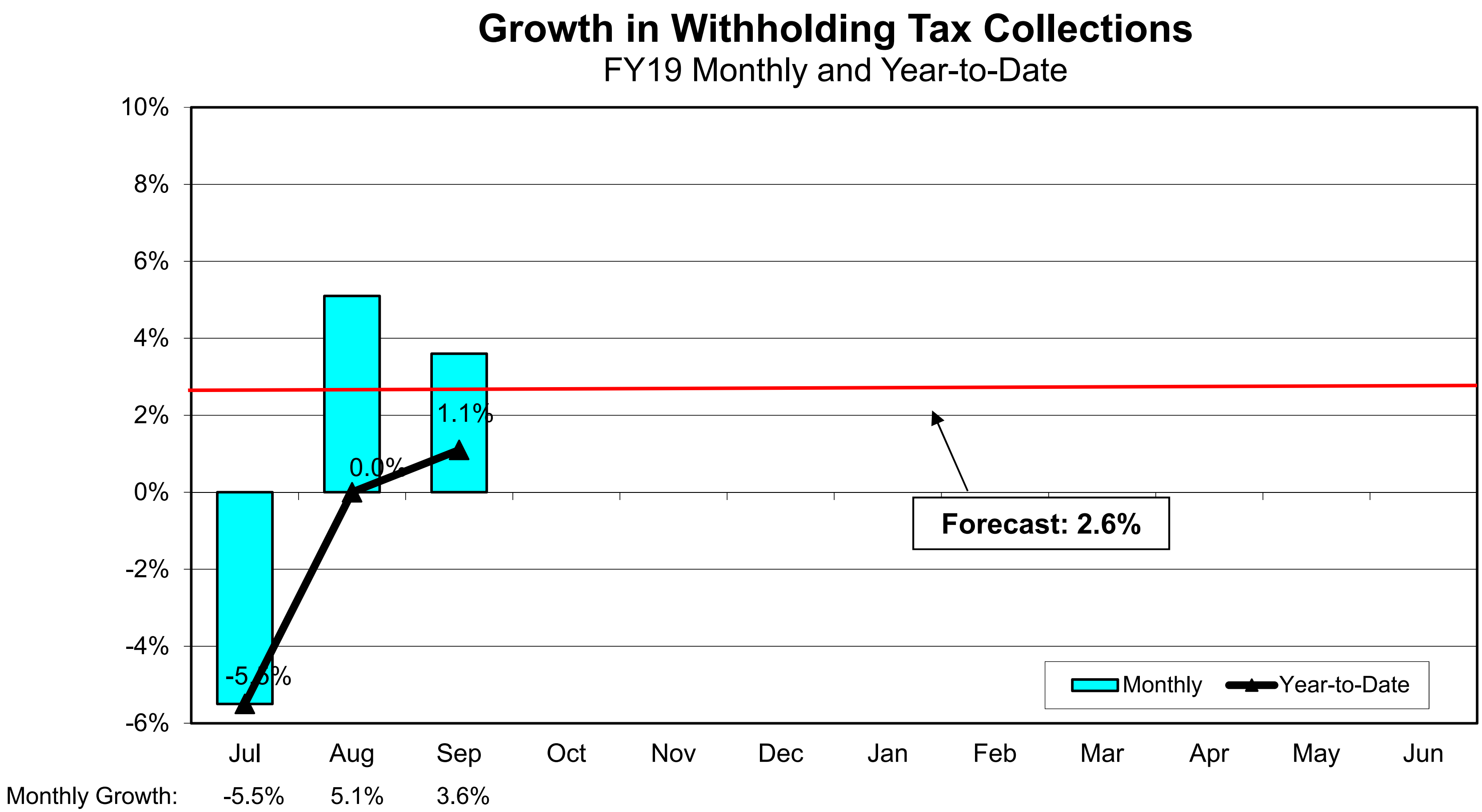
- The seasonally adjusted unemployment rate fell 0.1 percentage point to 3.0 percent in August, the lowest rate since July 2007.

- The Virginia Leading Index was flat in August after advancing 0.2 percent in July.
  - The U.S. leading index, future employment, and initial claims improved in August while auto registrations declined.
  - The indexes increased in Richmond, Lynchburg, Hampton Roads, Charlottesville, Bristol, and Blacksburg, while the indexes declined in Winchester, Harrisonburg, and Northern Virginia; the Roanoke and Staunton indexes were unchanged in August.



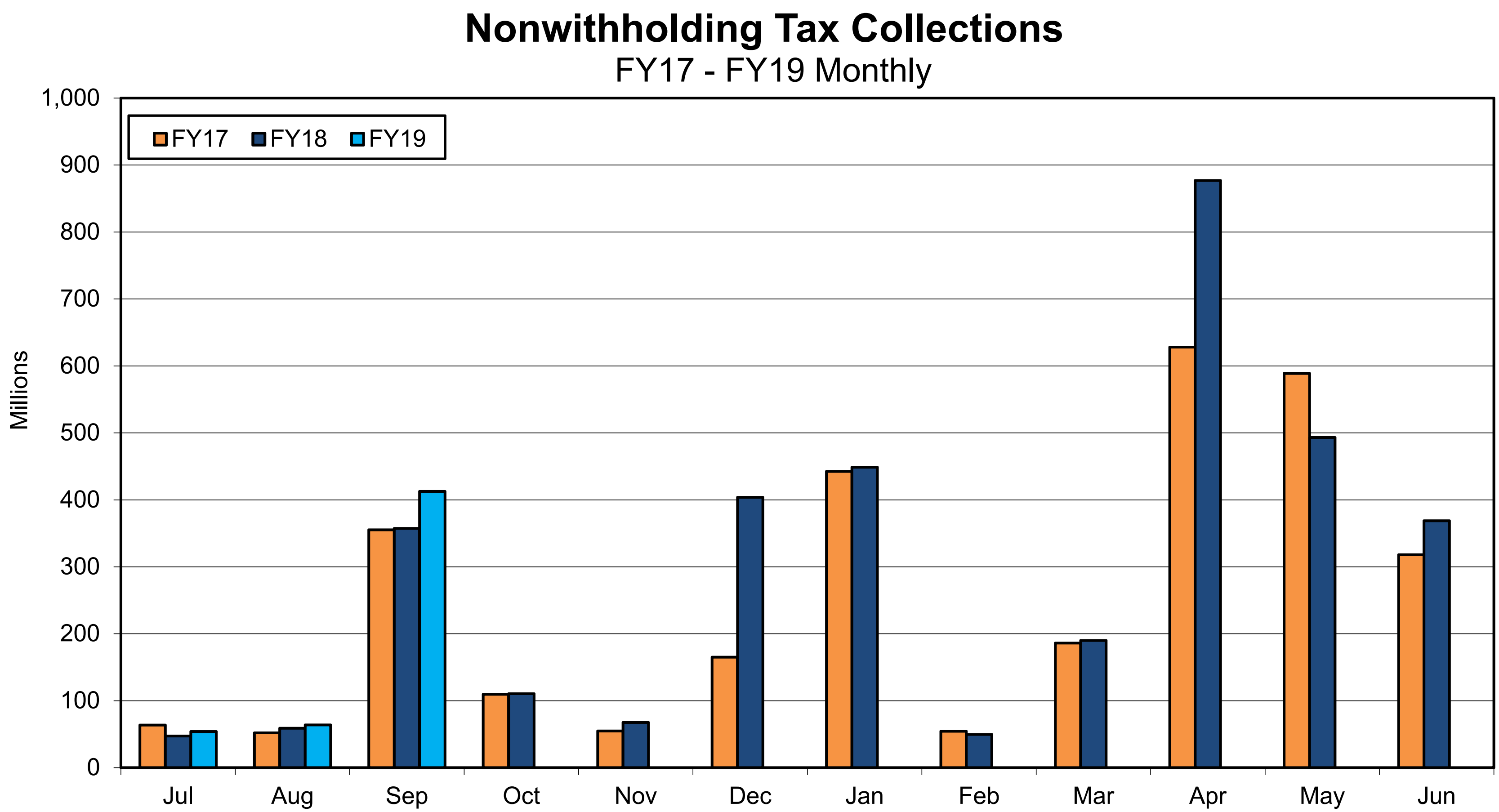
- Total general fund revenues increased 4.0 percent in September.
  - Payroll withholding and sales tax receipts posted solid months.
  - Individual nonwithholding payments increased by 15.4 percent.

- On a year-to-date basis, total revenues increased 2.7 percent, ahead of the annual forecast of a 1.5 percent increase.



- Collections increased 3.6 percent in September reflecting solid job and wage gains.

- Year-to-date, withholding collections have increased 1.1 percent compared with the same period last year, behind the projected annual growth rate of 2.6 percent.
  - Adjusting for the $120 million due to timing issues in June, collections would have increased by 5.3 percent.



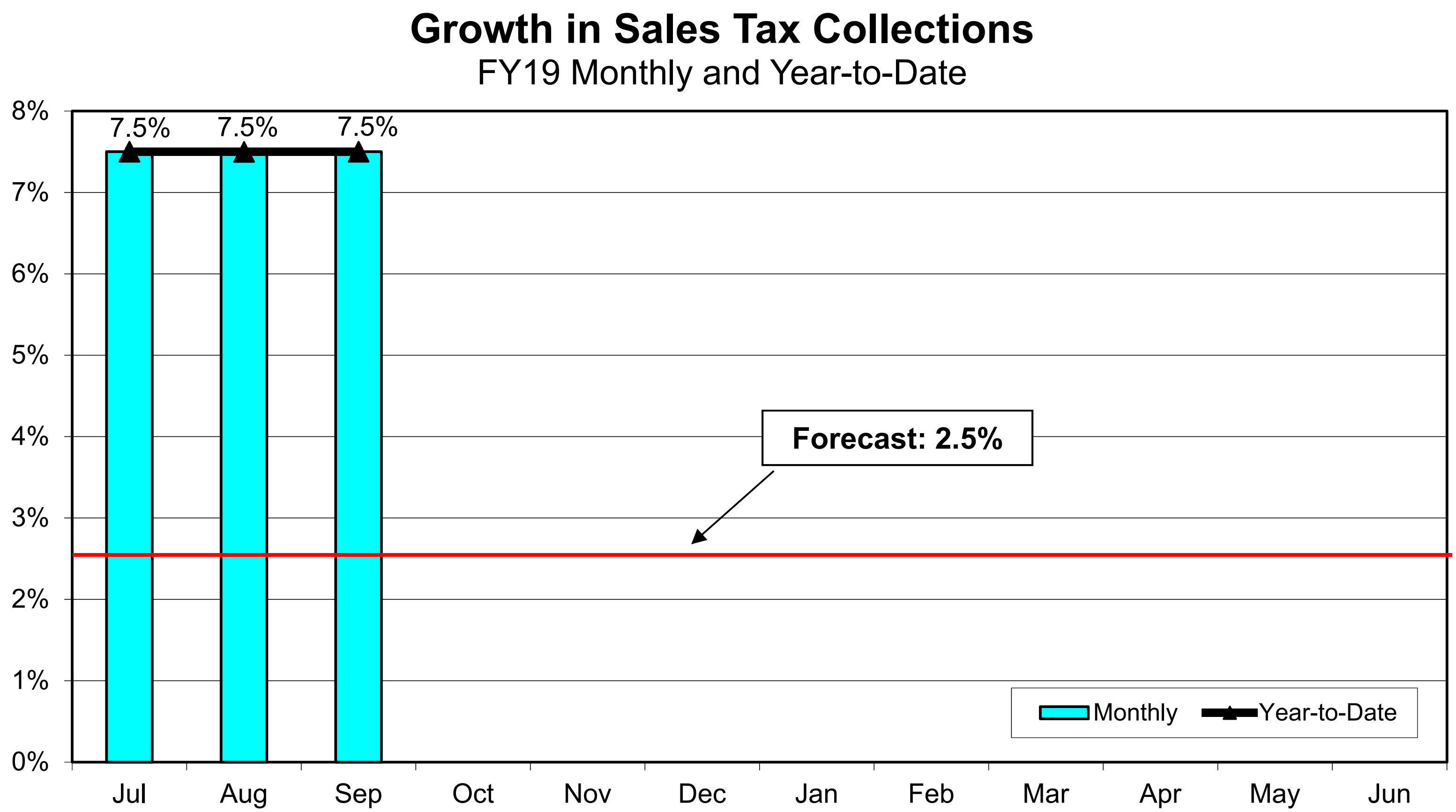
- The first individual estimated payment in fiscal year 2019 was due in September. Total monthly nonwithholding collections increased 15.4 percent.
- Year-to-date, collections through the first quarter of fiscal year 2019 were $530.3 million compared with $463.8 million in the same period last year, an increase of 14.4 percent and ahead of the annual estimate of a 3.0 percent decline.

Individual Income Tax Refunds

- Not a significant month.
- Through September, TAX has issued $137.9 million in individual refunds compared with $126.7 million in the same period last year.

Net Individual Income Tax

- Through the first three months of the fiscal year, collections of net individual income tax increased 2.7 percent from the same period last year, ahead of the annual estimate of a 0.6 percent increase.



Monthly Growth: 7.5% 7.5% 7.5%

- Collections of sales and use taxes, reflecting mainly August sales, had a 7.5 percent increase in August.
  - Growth was probably given an extra boost as there were 5 Fridays this August as compared to 4 last August.
  - Sales tax collections in the first quarter were driven by an 11 percent increase in housing related sales (about 15 percent of all sales).
- On a year-to-date basis, collections increased 7.5 percent, ahead of the annual estimate of 2.5 percent growth.

Net Corporate Income Tax Collections

- Similar to nonwithholding, September is a significant month in corporate income tax collections since the first estimated payment for the fiscal year is due.
  - Collections in corporate income tax decreased 13.3 percent in September.
  - This decrease appears to be broad-based.

- Through the first quarter of fiscal year 2019, collections in this source have decreased 10.0 percent, behind the annual estimate of 5.8 percent growth.

- Through the first quarter, 24.9 percent of the projected fiscal year's net corporate payments have been received.
  - This is behind the historical average of 25.2 percent.

Recordation and Insurance Premiums Tax

Recordation

- In September, collections decreased 16.2 percent compared to last year. Year-to-date collections have decreased 9.1 percent compared to last year, behind the forecast of 3.1 percent growth.

Insurance

- There are no deposits to the general fund as the required transfers to the Transportation Trust Fund must be satisfied first. Transportation must receive $168.7 million before deposits are made to the General Fund.

Summary of Fiscal Year 2019 Revenue Collections

July through September

Percent Growth over Prior Year

Major Source	As a % of Total Revenues	YTD Actual	Annual Estimate	Variance	Oct-Jun Req'd to Meet Est.	Prior Year Oct-Jun
Withholding	63.8 %	1.1 %	2.6 %	(1.5) %	3.1 %	5.9 %
Nonwithholding	16.7	14.4	(3.0)	17.4	(5.7)	18.1
Refunds	(10.2)	8.8	7.7	1.1	7.6	2.0
Net Individual	70.3	2.7	0.6	2.1	(0.1)	9.7
Sales	17.6	7.5	2.5	5.0	1.3	3.2
Corporate	4.5	(10.0)	5.8	(15.8)	12.4	(3.2)
Wills (Recordation)	2.0	(9.1)	3.1	(12.2)	7.7	1.1
Insurance	1.9	na	11.4	na	11.4	(0.9)
All Other Revenue	3.7	13.2	3.9	9.3	1.9	(2.2)
Total	**100.0 %**	**2.7 %**	**1.5 %**	**1.2 %**	**1.1 %**	**7.0 %**

Summary of Fiscal Year 2019 Revenue Collections

July through September

	Total	Revenue Collections Through:											
FY	**Collections**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
2000	10,788.5	699.1	1,435.8	2,503.0	3,210.6	3,977.8	5,080.0	6,067.5	6,704.5	7,374.1	8,411.9	9,663.1	10,788.5
2001	11,105.3	688.0	1,452.7	2,546.4	3,312.7	4,106.3	5,052.9	6,295.8	6,981.1	7,652.5	8,696.8	9,998.9	11,105.3
2002	10,679.0	705.4	1,483.7	2,485.4	3,315.4	4,136.9	5,071.2	6,184.7	6,794.7	7,459.8	8,388.0	9,414.6	10,679.0
2003	10,867.1	644.3	1,409.6	2,513.3	3,324.3	4,109.7	5,203.2	6,320.5	6,933.6	7,547.7	8,579.5	9,539.0	10,867.1
2004	11,917.9	699.3	1,553.7	2,724.3	3,618.2	4,449.1	5,570.2	6,721.0	7,377.9	8,130.2	9,393.7	10,423.6	11,917.9
2005	13,687.3	772.5	1,698.8	3,009.8	3,998.0	4,964.5	6,295.1	7,684.7	8,415.7	9,300.7	10,745.5	12,012.3	13,687.3
2006	14,834.3	840.5	1,987.8	3,445.8	4,510.5	5,537.3	7,006.6	8,542.7	9,306.7	10,273.3	11,758.2	13,253.6	14,834.3
2007	15,565.8	1,059.7	2,158.2	3,707.7	4,778.6	5,873.0	7,303.6	8,882.9	9,684.8	10,658.1	12,180.5	13,883.2	15,565.8
2008	15,767.0	1,095.6	2,231.1	3,842.1	5,023.2	6,085.2	7,540.8	9,175.5	9,916.1	10,920.8	12,664.1	14,131.9	15,767.0
2009	14,315.1	1,126.9	2,188.0	3,679.9	4,848.9	5,861.6	7,278.9	8,667.9	9,307.9	10,173.1	11,572.9	12,811.3	14,315.1
2010	14,219.5	1,036.2	2,027.7	3,407.0	4,482.0	5,465.7	6,960.9	8,258.9	8,861.4	9,752.5	11,157.9	12,394.4	14,219.5
2011	15,040.2	867.4	1,911.7	3,348.1	4,462.9	5,537.9	7,062.6	8,523.8	9,226.6	10,228.2	11,655.4	13,113.5	15,040.2
2012	15,846.7	955.4	2,080.6	3,573.2	4,722.6	5,903.2	7,356.7	8,868.2	9,692.1	10,770.1	12,347.9	13,927.3	15,846.7
2013	16,684.6	938.0	2,137.6	3,619.5	4,948.9	6,091.0	7,615.0	9,421.8	10,229.6	11,242.1	12,855.0	14,757.7	16,684.6
2014	16,411.4	1,059.9	2,201.4	3,722.3	4,980.1	6,134.4	7,670.6	9,371.5	10,151.7	11,242.9	13,017.7	14,526.7	16,411.4
2015	17,735.6	1,208.9	2,370.4	3,972.6	5,286.0	6,451.6	8,189.9	9,871.8	10,821.7	12,041.3	13,997.6	15,595.1	17,735.6
2016	18,040.1	1,088.3	2,309.0	4,066.3	5,312.6	6,538.5	8,318.1	10,111.0	11,048.9	12,360.6	14,185.1	15,883.0	18,040.1
2017	18,695.1	1,128.1	2,495.9	4,211.3	5,500.4	6,890.2	8,651.3	10,576.8	11,548.5	12,934.7	14,697.5	16,472.7	18,695.1
2018	19,880.8	1,188.6	2,572.0	4,382.3	5,770.2	7,227.8	9,165.2	11,189.5	12,267.0	13,605.4	15,682.0	17,482.1	19,880.8
Average	14,846.4	936.9	1,984.5	3,408.4	4,495.0	5,544.3	6,968.0	8,459.8	9,224.8	10,193.1	11,683.5	13,120.2	14,846.4
% of Total	100.0%	6.3%	13.4%	23.0%	30.3%	37.3%	46.9%	57.0%	62.1%	68.7%	78.7%	88.4%	100.0%
2019													
Chapter 2	20,173.7	1,174.7	2,620.8	4,502.7									
% of Estimate		5.8%	13.0%	22.3%									

Summary of Fiscal Year 2019
Commonwealth Transportation Fund Revenue Collections

July through September

	As a % of Total Fund		Percent Growth over Prior Year YTD Actual		Annual Estimate		Variance	
Motor Fuels Taxes (1)	17.9	%	10.2	%	6.0	%	4.2	%
Priority Transportation Fund (2)	3.3		0.4		0.4		0.0	
Motor Vehicles Sales Tax (3)	19.6		3.0		1.1		1.9	
Retail Sales Tax	21.1		10.6		2.3		8.3	
Motor Vehicle License Fees	5.1		6.2		0.1		6.1	
All Other Revenue	2.7		8.3		(7.9)		16.2	
Total (4)	**69.7**	**%**	**6.3**	**%**	**2.2**	**%**	**4.1**	**%**

- Motor fuels and vehicle sales tax are expected to slow over the remainder of the fiscal year.

Notes:

(1) Includes aviation and road tax

(2) Insurance premiums tax

(3) Includes rental tax

(4) Total state taxes and fees. 30.3% of the CTF is comprised of various federal and local revenues.

Steps Leading to Forecast

- **Joint Advisory Board of Economists** (JABE)
  - Met on October 11th
- **Governor's Advisory Council on Revenue Estimates** (GACRE)
  - Meets on November 19th

Rating Agency / JABE Update

- **Demographics**
  - Aging Population
  - Out-Migration
- **Cyber Security**
- **Resiliency**
  - Events
  - Insurance

Obligated Costs for Hurricane Florence – Executive Order #17

Data current as of October 11, 2018

EO Category	FEMA Category *(if event receives a Major Disaster Federal Declaration)*	Revised EO #17 Budget	Total Obligated *(as provided by VDEM)*	State Share of Costs *(if event receives a Major Disaster Federal Declaration)* % State Share	$ State Share	Notes
Sheltering	B	$32,000,000	$31,811.644	25%	$7,952,911	Total includes $31.2 million invoice for State Shelter commodities and services contract
Department of Military Affairs	B	$2,200,000	$1,420,470	25%	$355,118	DMA - personnel, supplies & equipment.
Virginia Emergency Operations Center	B	$500,000	$2,022,766	25%	$505,692	Activation of the EOC including overtime costs, meals, logistical support
Other State Agencies	B	$2,103,660	$3,954,249	25%	$988,562	Estimated costs incurred by other state agencies
Special Teams	B	$21,796,340	$2,665,912	25%	$666,478	Type III Incident Management Team, National Incident Management System (NIMS) Type I HazMat Entry Team, NIMS Type IV Standing/Floodwater Team, Type I Communication Cache Team, NIMS Swiftwater Rescue Team, Urban Search and Rescue Teams
Transportation	B	$1,300,000	$1,201,909	25%	$300,477	Estimated costs for contract buses to evacuate people needing transportation from the Hampton Roads area.
FEMA - Direct Support	B	$0	$200,000	25%	$50,000	Estimated costs related to pre-positioned resources provided by FEMA as a result of the Pre-landfall Emergency Federal Declaration approved on September 11, 2018.
After Action Report	Z	$100,000	$100,000	0%	$0	Estimated costs for completing the disaster After Action Report
Total		**$60,000,000**	**$43,376,950**		**$10,819,238**	

Hurricane Florence Update

- **Prior Storms Sum Sufficient Expenditures:** *(state share only)*
  - Hurricane Floyd (1999) $10.5 million
  - Hurricane Isabel (2003) $66.3 million
  - Hurricane Irene (2011) $13.3 million
  - Hurricane Matthew (2016) $5.6 million

- **Expected state share for Hurricane Florence – $10.8 million**

  (based on obligated costs as of October 11, 2018)

Hurricane Florence Preparedness, Response, and Recovery Efforts Timeline

Saturday September 8th

- Governor Northam verbally declares a state of emergency
- Authorizes $27.2 million

Monday September 10th

- Executive Order #17 issued ($27.2 million)
- Evacuation of Zone A ordered, effective September 11

Tuesday September 11th

- President Trump approves Pre-landfall declaration
- DRC (SLS) contract is issued to supply three state-managed shelters

Wednesday September 12th

- Availability of state-managed shelters announced to public
- Amount authorized for EO #17 revised to $60.0 million

Friday September 14th

- Florence makes landfall in North Carolina
- Zone A mandatory evacuation is lifted
- Process to close state-managed shelters begins

Saturday September 15th

- Resources shifted to southwest VA and to North Carolina

Wednesday October 3rd

- Letter from FEMA acknowledging receipt of Major Disaster Declaration request; if approved FEMA will provide 75% of eligible costs

Known Funding Commitments / Risks

- **Major Employment and Investment** (MEI) **Project Approval Commission Obligations**
  - **Micron Technology, Inc. – $70 million**
- **Virginia Retirement System** (VRS) **Investment Earnings**
- **Federal Actions**
  - Grants Funding
    - **Medicaid Disallowances and Deferrals – $200 million**
  - Budget
- **Agency Projects**
  - **VITA – Northrop Grumman Settlement / Transition – $100 million**
  - DOA / DHRM – Human Resource System Replacement
  - Virginia State Police Communications – *Statewide Agencies Radio System* (STARS)
- **Transportation Funding**
- **Capital Allocation**
  - Priority
  - Deferred Maintenance
- **Hurricane Florence**
  - **September 11, 2018 – $10.8 million, net *(expected)***
- **Cash Reserves** (Liquidity)
- **Expenditure Forecasts**
  - Medicaid
  - K-12

Example of Burden on Taxpayers and Preparers: Minnesota's Deconformity from the TCJA

- Minnesota will deconform from the Tax Cuts and Jobs Act ("TCJA") and other federal changes for Taxable Year 2018.
- Individuals and businesses will be required to make several complex modifications on their Minnesota income tax returns to account for deconformity.
- The Minnesota Department of Revenue has published updated schedules, worksheets, and instructions to help taxpayers complete their income tax returns.
- As shown in the following slides, impacted individuals will be required to complete and utilize a new 18-page schedule, including additional worksheets to compute the ongoing adjustments that must be made to the state return.
- If Virginia fails to enact timely conformity legislation, it would require individuals to make up to 20 complex modifications and businesses to make up to 30 complex modifications on their Taxable Year 2018 returns.
- The effort required of such individuals and businesses to account for deconformity would be similar to that which will be required by Minnesota taxpayers.

Example: Minnesota's Deconformity Schedule

DEPARTMENT OF REVENUE

FINAL DRAFT 10/17/18

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2018 Schedule M1NC, Federal Adjustments

Minnesota has not adopted the federal law changes made after December 16, 2016, that affect federal adjusted gross income for tax year 2018.

Your First Name and Initial | Last Name | Social Security Number

*Before you complete this schedule, **read the instructions which are on a separate sheet**. Do not enter amounts in gray boxes.*

Adjustments to federal adjusted gross income (AGI)

		Additions	Subtractions
1	Bicycle commuting expenses reimbursed by your employer 1		
2	Moving expense deduction *(enclose Schedule M1MOVE)*. 2		
3	Excess reimbursements received from your employer reported on line 8 of Schedule M1UE 3		
4	Student loan forgiven due to death or permanent disability. 4		
5	Earnings from an education savings account used for K-12 education tuition expenses or rolled over to an ABLE account 5		
6	Casualty or theft gain *(Enclose Schedule M1CAT)*. 6		
7	Distributed earnings from an ABLE account attributed to excess contributions 7		
8	This line intentionally left blank. 8		
9	Income from qualified stock received from your employer that is deferred for federal tax purposes 9		
10	Adjustment for rule changes in capitalization provisions *(see instructions)* 10		
11	a. Federal bonus depreciation in excess of 40% and on certain assets. Complete the worksheet in the instructions.. . . . . . 11a		
	b. Enter the amount of allowable depreciation for assets on line 11a. 11b		
	c. This line intentionally left blank 11c		
12	a. Adjustment for Section 179 rules for expensing depreciable assets. Complete worksheet in the instructions. 12a		
	b. Enter the amount of allowable depreciation for assets on line 12a. 12b		
	c. This line intentionally left blank 12c		
13	a. Adjustment for other depreciation provisions *(See instructions for further details)* 13a		
	b. Depreciation on assets from line 13a disregarding changes in depreciation rules since December 16, 2016 . . . . . . 13b		
14	Depreciation on assets reported on 2017 Schedule M1NC lines 3 and 6. 14		
15	a. This line intentionally left blank 15a		
	b. This line intentionally left blank 15b		
16	Deduction for certain business expenses such as employee fringe benefits, meals and entertainment expenses, certain settlement payments, and lobbying *(see instructions)* 16		
17	a. Like-Kind exchange adjustment from Schedule LK 17a		
	b. Recalculated cost recovery for property on Line 17a 17b		

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* 1 8 1 4 1 1 *

18	Adjustment due to 30 percent limitation on net business interest deduction 18		
19	Limitation on allowance of Partner's share of loss 19		
20	Adjustment for tax treatment of Alaska Native Settlement corporations and trusts . . . 20		
21	Adjustment for capital gains invested in Opportunity Zones 21		
22	Adjustments due to the disallowance of an excess business loss. 22		
23	a. Adjustment for Section 965 Deferred Foreign Income 23a		
	b. Amount of actual Section 965 repatriated income. 23b		
24	Adjustment for Global Intangible Low Taxed Income 24		
25	Adjustment for Foreign Derived Intangible Income. 25		
26	This line intentionally left blank. 26		
27	Adjustment for related party amounts paid in hybrid transactions 27		
28	Adjustment due to changes in Subpart F 28		
29	**Additional Adjustments** *(see instructions)*. 29		
30	Adjustments created by federal credits and tax incentives for businesses *(see instructions)*. 30		
31	2017 Schedule M1NC carryforward loss or distribution from IRA with added Minnesota basis 31		
32	If you have an adjustment to income subject to a rule involving AGI (such as 2018 IRA deductions, Social Security Income, student loan interest deduction or rental real estate losses), see instructions 32		
33	This line intentionally left blank. 33		
34	Add the amounts in the **Additions** column. 34		
35	Add the amounts in the **Subtractions** column 35		
36	**If line 34 is more than line 35**, subtract line 35 from line 34. Enter the result here and on line 13 of Schedule M1M. **If line 35 is more than line 34**, subtract line 34 from line 35. Enter the result here and on line 40 of Schedule M1M. 36		
37	Enter the amount from line 1 of Form M1 37		
38	If line 34 is more than line 35, add line 36 to line 37. If line 35 is more than line 34, subtract line 36 from line 37. 38		

You must include this schedule when you file Form M1.

Example: Excerpt of Minnesota's Deconformity Worksheets

Schedule M1NC Worksheets

Worksheet for Line 11a — Bonus Depreciation

1 Enter amounts from lines 14 and 25 of your federal Form 4562

2 Enter the total bonus depreciation received from any non-Minnesota partnership, S corporation, or fiduciary in which you own an interest that was not reported on step 1.

3 Add steps 1 and 2

4 Net like-kind exchange adjustment from Schedule LK. See step instructions

5 Enter bonus depreciation claimed on used property, television, film, and theatrical production expenses

6 Add steps 4 and 5

7 Subtract step 6 from step 3.

8 Enter amount of bonus depreciation claimed that exceeds 40% of the depreciable base of property in step 7

9 Subtract step 8 from step 7

10 40% bonus depreciation for public utility and vehicle dealer property you are claiming for Minnesota purposes.

11 Property for which you are claiming 40% bonus depreciation for Minnesota purposes. See instructions.

12 Add steps 9 through 11

13 Subtract step 12 from step 3

14 Enter any bonus depreciation nonconformity adjustments you receive from a Minnesota partnership, S corporation, or fiduciary in which you own an interest

15 Add steps 13 and 14. **If the result is positive, include the amount in the Additions column of line 11a. If the result is negative, include the result as a positive number in the Subtractions column of line 11a**

16 Total bonus depreciation you receive from a Minnesota partnership, S corporation, or fiduciary in which you own an interest that is not reported on step 1 or 2. See instructions.

17 Add steps 3 and 16

18 Subtract step 15 from step 17. Enter this amount on your Minnesota NC 4562 on line 14 or 25. Use this amount to complete line 3 of Schedule M1M.

Instructions for Worksheet for Line 2a – Bonus depreciation

Step 2 – Enter the total bonus depreciation from entities for which you have not received a Minnesota nonconformity schedule. Do not include amounts reported on step 16.

Step 4 - If you are filing Schedule LK, include the difference between your federal depreciable basis and your Minnesota depreciable basis for the property you identified on line 2 of Schedule LK. Include only the portion for which you claimed federal bonus depreciation and that qualifies for bonus depreciation under 2016 IRC.

Step 5 – Federal tax law changes expanded bonus depreciation to include used, television, film, and theatrical production property. This property does not qualify for bonus depreciation under 2016 IRC.

The property listed on Step 5 may be eligible for section 179 expensing or another method of depreciation under 2016 IRC. If the property is eligible for section 179 expensing under 2016 IRC and you choose section 179 expensing for Minnesota purposes, include the amount on line 6 of the Minnesota NC 4562. Any property for which you are not choosing section 179 expensing may use another allowable method under 2016 IRC. Report that depreciation amount in the Subtractions column of Line 11b as a positive amount.

Step 8 – Federal tax law changes increased the percentage of bonus depreciation to 100% of the depreciable base. For Minnesota purposes, the percentage is 40% of the depreciable base for assets placed in service during 2018. Enter the amount of federal bonus depreciation claimed that exceeds 40% of the depreciable base.

Step 10 – Enter the amount of public utility property and vehicle dealer property for which you are claiming bonus depreciation under 2016 IRC. If you do not choose to claim bonus depreciation for this type of property, enter zero.

Step 11 – Enter 40% of the depreciable basis of any property for which you are claiming bonus depreciation for Minnesota purposes. You may only claim bonus depreciation for Minnesota purposes if all of the following are true:

- You claimed a federal deduction for section 179 expensing on the property.
- The property does not qualify as section 179 property under 2016 IRC.
- The property qualifies for bonus depreciation under 2016 IRC.

Step 14 – Enter on Step 14 any bonus depreciation nonconformity adjustments you received on Schedules KFNC, KSNC, and KPINC for your pro rata interest in another entity.

Step 15 – This is your total nonconformity adjustment for bonus depreciation this year. **Enter this amount in the Additions column of line 11a of Schedule M1NC.**

Step 16 – Enter the total bonus depreciation from any entity from which you have received a Minnesota nonconformity schedule. Do not include amounts reported on step 2.

Step 18 – This is your Minnesota bonus depreciation under 2016 IRC. Use this amount to calculate your Minnesota modification on line 3 of Schedule M1M.

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Worksheet for Line 12a – Section 179 Expensing

1 Enter the total cost of section 179 property placed in service on line 2 of your federal Form 4562.

2 Section 179 deduction from line 12 of your federal Form 4562

3 Qualified real property. (See instructions.)

4 Certain depreciable tangible personal property used to furnish lodging. (See instructions.)

5 Net like-kind exchange adjustment from Schedule LK. (See instructions.)

6 Add steps 3 through 5

7 Qualified leasehold improvement property. (See instructions.)

8 Qualified retail improvement property. (See instructions.)

9 Qualified restaurant property. (See instructions.)

10 Add steps 7 through 9.

11 Subtract step 6 from 10. If the result is less than zero, enter as a negative amount

12 Add steps 1 and 11. This is your adjusted total cost of section 179 property placed in service. Enter this amount on line 2 of your Minnesota NC 4562.

13 Recalculate lines 4, 5, 6, 7, 8, 9, 11, and 12 of your Minnesota NC 4562. Enter the amount from line 12 of the Minnesota NC 4562 on this step

14 Subtract step 13 from step 2. Enter the result here and include **If the result is positive, enter this amount in the Additions column of line 12a. If the result is negative, enter the amount in the Subtractions column of line 12a as a positive number**

Instructions for Worksheet for Line 12a – Section 179 Expensing

Step 3 – Enter the total cost of property defined as qualified real property under 2018 IRC. Qualified real property includes qualified improvement property and the following types of improvements to nonresidential real property:

- Roofs
- Heating, ventilation, and air-conditioning property
- Fire protection and alarm systems
- Security systems

Step 4 – Enter the cost of certain depreciable tangible personal property used to furnish lodging allowed under 2018 IRC. Examples of property used to furnish lodging includes beds and other furniture, refrigerators, ranges, and other equipment used in the living quarters of a lodging facility such as an apartment house, dormitory, or any other facility where sleeping accommodations are provided.

Step 5 – If are you filing Schedule LK, include the difference between your federal depreciable basis and your Minnesota depreciable basis for the property you identified on line 2 of Schedule LK. Include only the portion eligible for section 179 expensing under 2016 IRC.

Step 7 – Enter the cost of property defined as qualified leasehold improvement property under 2016 IRC. Qualified leasehold improvement property typically are improvements to existing building spaces of a lessor or lessee.

Step 8 – Enter the cost of property defined as qualified retail improvement property under 2016 IRC. Qualified retail improvement property typically includes improvements made to an existing building used for a retail business.

Step 9 – Enter the cost of property defined as qualified restaurant property under 2016 IRC. Qualified restaurant property typically includes buildings or improvements to buildings for which more than 50% of the square footage is used as a restaurant.

Step 13 – Complete the Minnesota NC 4562 using the maximum amount of $520,000 on line 1 and the threshold amount of $2,070,000 on line 3. If you have qualified zone property of an enterprise zone business, adjust the lines 1 and 3 amounts by the dollar limit increase allowed under section 1397A of 2016 IRC.

Recalculate lines 4, 5, 6, 7, 8, 9, 11 and 12 of your Minnesota NC 4562. For lines 6 and 7, start with the elected cost from line 6 and 7 of your federal 4562. Remove elected costs for property reported on steps 3, 4, and 5 of the *Worksheet for Line 12a – Section 179 Expensing*.

You may take 179 expensing for qualified leasehold improvement property, qualified retail improvement property, and qualified restaurant property reported on steps 7, 8, and 9 of the *Worksheet for Line 12a – Section 179 Expensing* up to Minnesota limitations.

For amounts that exceed the Minnesota NC 4562 line 5 limitation, you may use any MACRS depreciation method allowable under 2016 IRC.

Report your Minnesota cost allowable under 2016 IRC section 179 on line 6 and 7 of Minnesota 4562 NC.

Enter the amount from line 12 of the Minnesota NC 4562 on Step 13 of this worksheet.

8

Decoupling

Standard Deduction vs. Itemization

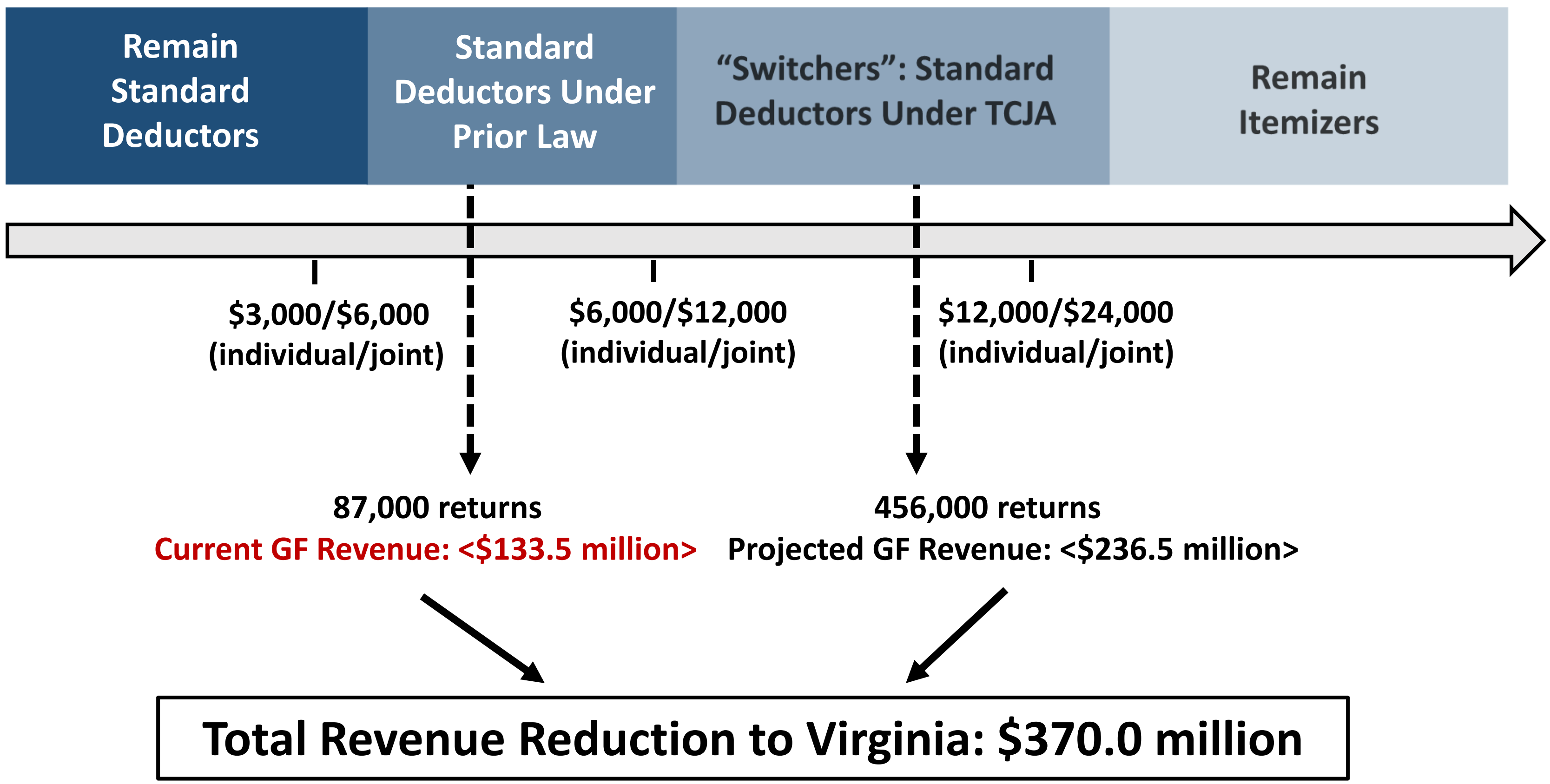
- Once conformity legislation is adopted, Virginia can determine what its tax policy response should be to the Tax Cuts and Jobs Act (“TCJA”).

- Proposals for responses to the TCJA include doubling Virginia’s standard deduction or allowing taxpayers to itemize on their Virginia returns, regardless of whether they itemized on the federal return.

- Such responses will not only impact taxpayers whose state taxes were increased as a result of the TCJA, but will also impact taxpayers whose tax liability did not change as a result of the TCJA.

Cost of Decoupling

Estimated GF Revenue Reduction-Specific Itemized Deductions*



** Estimated impact for FY 2020 assuming a Taxable Year 2019 effective date*