

State of Minnesota

HOUSE OF REPRESENTATIVES

EIGHTY-EIGHTH SESSION

H. F. No. **1777**

04/15/2013 Authored by Lenczewski, Beard, Davids, Falk, Halverson and others
The bill was read for the first time and referred to the Committee on Taxes

03/03/2014 Adoption of Report: Amended and re-referred to the Committee on Ways and Means

03/04/2014 Adoption of Report: Amended and Placed on the General Register
Read Second Time

03/06/2014 Calendar for the Day, Amended
Read Third Time as Amended
Passed by the House as Amended and transmitted to the Senate to include Floor Amendments

1.1 A bill for an act

1.2 relating to taxation; income and franchise; sales and use; conforming to changes

1.3 in the Internal Revenue Code; extending the working family credit phaseout for

1.4 married filers; exempting certain business transactions; providing for refunds;

1.5 appropriating money; amending Minnesota Statutes 2012, sections 289A.02,

1.6 subdivision 7; 289A.08, subdivision 7; 290.01, subdivision 19a, by adding a

1.7 subdivision; 290.067, subdivisions 1, 2a; 290.0671, subdivision 1; 290.0675,

1.8 subdivision 1; 297A.68, by adding a subdivision; Minnesota Statutes 2013

1.9 Supplement, sections 290.01, subdivisions 19, 19b, 31; 290.06, subdivision

1.10 2c; 290.091, subdivision 2; 290A.03, subdivision 15; 297A.61, subdivision 3;

1.11 297A.68, subdivision 5; repealing Minnesota Statutes 2013 Supplement, section

1.12 297A.61, subdivision 57.

1.13 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.14 Section 1. Minnesota Statutes 2012, section 289A.02, subdivision 7, is amended to read:

1.15 Subd. 7. **Internal Revenue Code.** Unless specifically defined otherwise, "Internal

1.16 Revenue Code" means the Internal Revenue Code of 1986, as amended through ~~April 14,~~

1.17 ~~2011~~ December 20, 2013.

1.18 **EFFECTIVE DATE.** This section is effective retroactively for taxable years

1.19 beginning after December 31, 2012.

1.20 Sec. 2. Minnesota Statutes 2012, section 289A.08, subdivision 7, is amended to read:

1.21 Subd. 7. **Composite income tax returns for nonresident partners, shareholders,**

1.22 **and beneficiaries.** (a) The commissioner may allow a partnership with nonresident

1.23 partners to file a composite return and to pay the tax on behalf of nonresident partners who

1.24 have no other Minnesota source income. This composite return must include the names,

1.25 addresses, Social Security numbers, income allocation, and tax liability for the nonresident

1.26 partners electing to be covered by the composite return.

2.1 (b) The computation of a partner's tax liability must be determined by multiplying
2.2 the income allocated to that partner by the highest rate used to determine the tax liability
2.3 for individuals under section 290.06, subdivision 2c. Nonbusiness deductions, standard
2.4 deductions, or personal exemptions are not allowed.

2.5 (c) The partnership must submit a request to use this composite return filing method
2.6 for nonresident partners. The requesting partnership must file a composite return in the
2.7 form prescribed by the commissioner of revenue. The filing of a composite return is
2.8 considered a request to use the composite return filing method.

2.9 (d) The electing partner must not have any Minnesota source income other than the
2.10 income from the partnership and other electing partnerships. If it is determined that the
2.11 electing partner has other Minnesota source income, the inclusion of the income and tax
2.12 liability for that partner under this provision will not constitute a return to satisfy the
2.13 requirements of subdivision 1. The tax paid for the individual as part of the composite return
2.14 is allowed as a payment of the tax by the individual on the date on which the composite
2.15 return payment was made. If the electing nonresident partner has no other Minnesota
2.16 source income, filing of the composite return is a return for purposes of subdivision 1.

2.17 (e) This subdivision does not negate the requirement that an individual pay estimated
2.18 tax if the individual's liability would exceed the requirements set forth in section 289A.25.
2.19 The individual's liability to pay estimated tax is, however, satisfied when the partnership
2.20 pays composite estimated tax in the manner prescribed in section 289A.25.

2.21 (f) If an electing partner's share of the partnership's gross income from Minnesota
2.22 sources is less than the filing requirements for a nonresident under this subdivision, the tax
2.23 liability is zero. However, a statement showing the partner's share of gross income must
2.24 be included as part of the composite return.

2.25 (g) The election provided in this subdivision is only available to a partner who has
2.26 no other Minnesota source income and who is either (1) a full-year nonresident individual
2.27 or (2) a trust or estate that does not claim a deduction under either section 651 or 661 of
2.28 the Internal Revenue Code.

2.29 (h) A corporation defined in section 290.9725 and its nonresident shareholders may
2.30 make an election under this paragraph. The provisions covering the partnership apply to
2.31 the corporation and the provisions applying to the partner apply to the shareholder.

2.32 (i) Estates and trusts distributing current income only and the nonresident individual
2.33 beneficiaries of the estates or trusts may make an election under this paragraph. The
2.34 provisions covering the partnership apply to the estate or trust. The provisions applying to
2.35 the partner apply to the beneficiary.

3.1 (j) For the purposes of this subdivision, "income" means the partner's share of
3.2 federal adjusted gross income from the partnership modified by the additions provided in
3.3 section 290.01, subdivision 19a, clauses (6) to ~~(10)~~ (9), and the subtractions provided in:
3.4 (i) section 290.01, subdivision 19b, clause (8), to the extent the amount is assignable or
3.5 allocable to Minnesota under section 290.17; and (ii) section 290.01, subdivision 19b,
3.6 clause (13). The subtraction allowed under section 290.01, subdivision 19b, clause (8), is
3.7 only allowed on the composite tax computation to the extent the electing partner would
3.8 have been allowed the subtraction.

3.9 **EFFECTIVE DATE.** This section is effective retroactively for taxable years
3.10 beginning after December 31, 2012.

3.11 Sec. 3. Minnesota Statutes 2013 Supplement, section 290.01, subdivision 19, is
3.12 amended to read:

3.13 Subd. 19. **Net income.** The term "net income" means the federal taxable income,
3.14 as defined in section 63 of the Internal Revenue Code of 1986, as amended through the
3.15 date named in this subdivision, incorporating the federal effective dates of changes to the
3.16 Internal Revenue Code and any elections made by the taxpayer in accordance with the
3.17 Internal Revenue Code in determining federal taxable income for federal income tax
3.18 purposes, and with the modifications provided in subdivisions 19a to 19f.

3.19 In the case of a regulated investment company or a fund thereof, as defined in section
3.20 851(a) or 851(g) of the Internal Revenue Code, federal taxable income means investment
3.21 company taxable income as defined in section 852(b)(2) of the Internal Revenue Code,
3.22 except that:

3.23 (1) the exclusion of net capital gain provided in section 852(b)(2)(A) of the Internal
3.24 Revenue Code does not apply;

3.25 (2) the deduction for dividends paid under section 852(b)(2)(D) of the Internal
3.26 Revenue Code must be applied by allowing a deduction for capital gain dividends and
3.27 exempt-interest dividends as defined in sections 852(b)(3)(C) and 852(b)(5) of the Internal
3.28 Revenue Code; and

3.29 (3) the deduction for dividends paid must also be applied in the amount of any
3.30 undistributed capital gains which the regulated investment company elects to have treated
3.31 as provided in section 852(b)(3)(D) of the Internal Revenue Code.

3.32 The net income of a real estate investment trust as defined and limited by section
3.33 856(a), (b), and (c) of the Internal Revenue Code means the real estate investment trust
3.34 taxable income as defined in section 857(b)(2) of the Internal Revenue Code.

4.1 The net income of a designated settlement fund as defined in section 468B(d) of
4.2 the Internal Revenue Code means the gross income as defined in section 468B(b) of the
4.3 Internal Revenue Code.

4.4 The Internal Revenue Code of 1986, as amended through ~~April 14, 2011~~ December
4.5 20, 2013, shall be in effect for taxable years beginning after December 31, 1996, ~~and~~
4.6 ~~before January 1, 2012, and for taxable years beginning after December 31, 2012.~~ The
4.7 ~~Internal Revenue Code of 1986, as amended through January 3, 2013, is in effect for~~
4.8 ~~taxable years beginning after December 31, 2011, and before January 1, 2013.~~

4.9 ~~The provisions of sections 315 and 331 of the American Taxpayer Relief Act of~~
4.10 ~~2012, Public Law 112-240, extension of increased expensing limitations and treatment~~
4.11 ~~of certain real property as section 179 property and extension and modification of bonus~~
4.12 ~~depreciation, are effective at the same time they become effective for federal purposes.~~

4.13 Except as otherwise provided, references to the Internal Revenue Code in
4.14 subdivisions 19 to 19f mean the code in effect for purposes of determining net income for
4.15 the applicable year.

4.16 **EFFECTIVE DATE.** This section is effective the day following final enactment,
4.17 except the changes incorporated by federal changes are effective retroactively at the same
4.18 time as the changes were effective for federal purposes.

4.19 Sec. 4. Minnesota Statutes 2012, section 290.01, subdivision 19a, is amended to read:

4.20 Subd. 19a. **Additions to federal taxable income.** For individuals, estates, and
4.21 trusts, there shall be added to federal taxable income:

4.22 (1)(i) interest income on obligations of any state other than Minnesota or a political
4.23 or governmental subdivision, municipality, or governmental agency or instrumentality
4.24 of any state other than Minnesota exempt from federal income taxes under the Internal
4.25 Revenue Code or any other federal statute; and

4.26 (ii) exempt-interest dividends as defined in section 852(b)(5) of the Internal Revenue
4.27 Code, except:

4.28 (A) the portion of the exempt-interest dividends exempt from state taxation under
4.29 the laws of the United States; and

4.30 (B) the portion of the exempt-interest dividends derived from interest income
4.31 on obligations of the state of Minnesota or its political or governmental subdivisions,
4.32 municipalities, governmental agencies or instrumentalities, but only if the portion of the
4.33 exempt-interest dividends from such Minnesota sources paid to all shareholders represents
4.34 95 percent or more of the exempt-interest dividends, including any dividends exempt
4.35 under subitem (A), that are paid by the regulated investment company as defined in section

5.1 851(a) of the Internal Revenue Code, or the fund of the regulated investment company as
5.2 defined in section 851(g) of the Internal Revenue Code, making the payment; and

5.3 (iii) for the purposes of items (i) and (ii), interest on obligations of an Indian tribal
5.4 government described in section 7871(c) of the Internal Revenue Code shall be treated as
5.5 interest income on obligations of the state in which the tribe is located;

5.6 (2) the amount of income, sales and use, motor vehicle sales, or excise taxes paid or
5.7 accrued within the taxable year under this chapter and the amount of taxes based on net
5.8 income paid, sales and use, motor vehicle sales, or excise taxes paid to any other state or
5.9 to any province or territory of Canada, to the extent allowed as a deduction under section
5.10 63(d) of the Internal Revenue Code, but the addition may not be more than the amount by
5.11 which the ~~itemized deductions as allowed under section 63(d) of the Internal Revenue~~
5.12 ~~Code~~ state itemized deduction exceeds the amount of the standard deduction as defined
5.13 in section 63(c) of the Internal Revenue Code, ~~disregarding the amounts allowed under~~
5.14 ~~sections 63(e)(1)(C) and 63(e)(1)(E) of the Internal Revenue Code~~, minus any addition that
5.15 would have been required under clause ~~(21)~~ (17) if the taxpayer had claimed the standard
5.16 deduction. For the purpose of this paragraph, ~~the disallowance of itemized deductions~~
5.17 ~~under section 68 of the Internal Revenue Code of 1986~~ clause, income, sales and use, motor
5.18 vehicle sales, or excise taxes are the last itemized deductions disallowed under clause (15);

5.19 (3) the capital gain amount of a lump-sum distribution to which the special tax under
5.20 section 1122(h)(3)(B)(ii) of the Tax Reform Act of 1986, Public Law 99-514, applies;

5.21 (4) the amount of income taxes paid or accrued within the taxable year under this
5.22 chapter and taxes based on net income paid to any other state or any province or territory
5.23 of Canada, to the extent allowed as a deduction in determining federal adjusted gross
5.24 income. For the purpose of this paragraph, income taxes do not include the taxes imposed
5.25 by sections 290.0922, subdivision 1, paragraph (b), 290.9727, 290.9728, and 290.9729;

5.26 (5) the amount of expense, interest, or taxes disallowed pursuant to section 290.10
5.27 other than expenses or interest used in computing net interest income for the subtraction
5.28 allowed under subdivision 19b, clause (1);

5.29 (6) the amount of a partner's pro rata share of net income which does not flow
5.30 through to the partner because the partnership elected to pay the tax on the income under
5.31 section 6242(a)(2) of the Internal Revenue Code;

5.32 (7) 80 percent of the depreciation deduction allowed under section 168(k) of the
5.33 Internal Revenue Code. For purposes of this clause, if the taxpayer has an activity that
5.34 in the taxable year generates a deduction for depreciation under section 168(k) and the
5.35 activity generates a loss for the taxable year that the taxpayer is not allowed to claim for
5.36 the taxable year, "the depreciation allowed under section 168(k)" for the taxable year is

6.1 limited to excess of the depreciation claimed by the activity under section 168(k) over the
6.2 amount of the loss from the activity that is not allowed in the taxable year. In succeeding
6.3 taxable years when the losses not allowed in the taxable year are allowed, the depreciation
6.4 under section 168(k) is allowed;

6.5 (8) 80 percent of the amount by which the deduction allowed by section 179 of the
6.6 Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal
6.7 Revenue Code of 1986, as amended through December 31, 2003;

6.8 (9) to the extent deducted in computing federal taxable income, the amount of the
6.9 deduction allowable under section 199 of the Internal Revenue Code;

6.10 (10) ~~for taxable years beginning before January 1, 2013, the exclusion allowed under~~
6.11 ~~section 139A of the Internal Revenue Code for federal subsidies for prescription drug plans;~~

6.12 (11) the amount of expenses disallowed under section 290.10, subdivision 2;

6.13 (12) (11) for taxable years beginning before January 1, 2010, the amount deducted
6.14 for qualified tuition and related expenses under section 222 of the Internal Revenue Code,
6.15 to the extent deducted from gross income;

6.16 (13) (12) for taxable years beginning before January 1, 2010, the amount deducted
6.17 for certain expenses of elementary and secondary school teachers under section
6.18 62(a)(2)(D) of the Internal Revenue Code, to the extent deducted from gross income;

6.19 (14) ~~the additional standard deduction for property taxes payable that is allowable~~
6.20 ~~under section 63(c)(1)(C) of the Internal Revenue Code;~~

6.21 (15) ~~the additional standard deduction for qualified motor vehicle sales taxes~~
6.22 ~~allowable under section 63(c)(1)(E) of the Internal Revenue Code;~~

6.23 (16) (13) discharge of indebtedness income resulting from reacquisition of business
6.24 indebtedness and deferred under section 108(i) of the Internal Revenue Code;

6.25 (17) ~~the amount of unemployment compensation exempt from tax under section~~
6.26 ~~85(e) of the Internal Revenue Code;~~

6.27 (18) (14) changes to federal taxable income attributable to a net operating loss that
6.28 the taxpayer elected to carry back for more than two years for federal purposes but for
6.29 which the losses can be carried back for only two years under section 290.095, subdivision
6.30 11, paragraph (c);

6.31 (19) (15) to the extent included in the computation of federal taxable income in
6.32 taxable years beginning after December 31, 2010, the amount of disallowed itemized
6.33 deductions, but the amount of disallowed itemized deductions plus the addition required
6.34 under clause (2) may not be more than the amount by which the itemized deductions as
6.35 allowed under section 63(d) of the Internal Revenue Code exceeds the amount of the
6.36 standard deduction as defined in section 63(c) of the Internal Revenue Code, ~~disregarding~~

7.1 ~~the amounts allowed under sections 63(e)(1)(C) and 63(e)(1)(E) of the Internal Revenue~~
7.2 ~~Code~~; and reduced by any addition that would have been required under clause ~~(21)~~ (17) if
7.3 the taxpayer had claimed the standard deduction:

7.4 (i) the amount of disallowed itemized deductions is equal to the lesser of:

7.5 (A) three percent of the excess of the taxpayer's federal adjusted gross income
7.6 over the applicable amount; or

7.7 (B) 80 percent of the amount of the itemized deductions otherwise allowable to the
7.8 taxpayer under the Internal Revenue Code for the taxable year;

7.9 (ii) the term "applicable amount" means \$100,000, or \$50,000 in the case of a
7.10 married individual filing a separate return. Each dollar amount shall be increased by
7.11 an amount equal to:

7.12 (A) such dollar amount, multiplied by

7.13 (B) the cost-of-living adjustment determined under section 1(f)(3) of the Internal
7.14 Revenue Code for the calendar year in which the taxable year begins, by substituting
7.15 "calendar year 1990" for "calendar year 1992" in subparagraph (B) thereof;

7.16 (iii) the term "itemized deductions" does not include:

7.17 (A) the deduction for medical expenses under section 213 of the Internal Revenue
7.18 Code;

7.19 (B) any deduction for investment interest as defined in section 163(d) of the Internal
7.20 Revenue Code; and

7.21 (C) the deduction under section 165(a) of the Internal Revenue Code for casualty or
7.22 theft losses described in paragraph (2) or (3) of section 165(c) of the Internal Revenue
7.23 Code or for losses described in section 165(d) of the Internal Revenue Code;

7.24 ~~(20)~~ (16) to the extent included in federal taxable income in taxable years beginning
7.25 after December 31, 2010, the amount of disallowed personal exemptions for taxpayers
7.26 with federal adjusted gross income over the threshold amount:

7.27 (i) the disallowed personal exemption amount is equal to the dollar amount of the
7.28 personal exemptions claimed by the taxpayer in the computation of federal taxable income
7.29 multiplied by the applicable percentage;

7.30 (ii) "applicable percentage" means two percentage points for each \$2,500 (or
7.31 fraction thereof) by which the taxpayer's federal adjusted gross income for the taxable
7.32 year exceeds the threshold amount. In the case of a married individual filing a separate
7.33 return, the preceding sentence shall be applied by substituting "\$1,250" for "\$2,500." In
7.34 no event shall the applicable percentage exceed 100 percent;

7.35 (iii) the term "threshold amount" means:

7.36 (A) \$150,000 in the case of a joint return or a surviving spouse;

8.1 (B) \$125,000 in the case of a head of a household;

8.2 (C) \$100,000 in the case of an individual who is not married and who is not a

8.3 surviving spouse or head of a household; and

8.4 (D) \$75,000 in the case of a married individual filing a separate return; and

8.5 (iv) the thresholds shall be increased by an amount equal to:

8.6 (A) such dollar amount, multiplied by

8.7 (B) the cost-of-living adjustment determined under section 1(f)(3) of the Internal

8.8 Revenue Code for the calendar year in which the taxable year begins, by substituting

8.9 "calendar year 1990" for "calendar year 1992" in subparagraph (B) thereof; and

8.10 ~~(21)~~ (17) to the extent deducted in the computation of federal taxable income, for

8.11 taxable years beginning after December 31, 2010, and before January 1, ~~2013~~ 2014, the

8.12 difference between the standard deduction allowed under section 63(c) of the Internal

8.13 Revenue Code and the standard deduction allowed for 2011 ~~and~~, 2012, and 2013 under the

8.14 Internal Revenue Code as amended through December 1, 2010.

8.15 **EFFECTIVE DATE.** This section is effective retroactively for taxable years

8.16 beginning after December 31, 2012.

8.17 Sec. 5. Minnesota Statutes 2013 Supplement, section 290.01, subdivision 19b, is

8.18 amended to read:

8.19 Subd. 19b. **Subtractions from federal taxable income.** For individuals, estates,

8.20 and trusts, there shall be subtracted from federal taxable income:

8.21 (1) net interest income on obligations of any authority, commission, or

8.22 instrumentality of the United States to the extent includable in taxable income for federal

8.23 income tax purposes but exempt from state income tax under the laws of the United States;

8.24 (2) if included in federal taxable income, the amount of any overpayment of income

8.25 tax to Minnesota or to any other state, for any previous taxable year, whether the amount

8.26 is received as a refund or as a credit to another taxable year's income tax liability;

8.27 (3) the amount paid to others, less the amount used to claim the credit allowed under

8.28 section 290.0674, not to exceed \$1,625 for each qualifying child in grades kindergarten

8.29 to 6 and \$2,500 for each qualifying child in grades 7 to 12, for tuition, textbooks, and

8.30 transportation of each qualifying child in attending an elementary or secondary school

8.31 situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a

8.32 resident of this state may legally fulfill the state's compulsory attendance laws, which

8.33 is not operated for profit, and which adheres to the provisions of the Civil Rights Act

8.34 of 1964 and chapter 363A. For the purposes of this clause, "tuition" includes fees or

8.35 tuition as defined in section 290.0674, subdivision 1, clause (1). As used in this clause,

9.1 "textbooks" includes books and other instructional materials and equipment purchased
9.2 or leased for use in elementary and secondary schools in teaching only those subjects
9.3 legally and commonly taught in public elementary and secondary schools in this state.
9.4 Equipment expenses qualifying for deduction includes expenses as defined and limited in
9.5 section 290.0674, subdivision 1, clause (3). "Textbooks" does not include instructional
9.6 books and materials used in the teaching of religious tenets, doctrines, or worship, the
9.7 purpose of which is to instill such tenets, doctrines, or worship, nor does it include books
9.8 or materials for, or transportation to, extracurricular activities including sporting events,
9.9 musical or dramatic events, speech activities, driver's education, or similar programs. No
9.10 deduction is permitted for any expense the taxpayer incurred in using the taxpayer's or
9.11 the qualifying child's vehicle to provide such transportation for a qualifying child. For
9.12 purposes of the subtraction provided by this clause, "qualifying child" has the meaning
9.13 given in section 32(c)(3) of the Internal Revenue Code;

9.14 (4) income as provided under section 290.0802;

9.15 (5) to the extent included in federal adjusted gross income, income realized on
9.16 disposition of property exempt from tax under section 290.491;

9.17 (6) to the extent not deducted or not deductible pursuant to section 408(d)(8)(E)
9.18 of the Internal Revenue Code in determining federal taxable income by an individual
9.19 who does not itemize deductions for federal income tax purposes for the taxable year, an
9.20 amount equal to 50 percent of the excess of charitable contributions over \$500 allowable
9.21 as a deduction for the taxable year under section 170(a) of the Internal Revenue Code,
9.22 under the provisions of Public Law 109-1 and Public Law 111-126;

9.23 (7) for individuals who are allowed a federal foreign tax credit for taxes that do not
9.24 qualify for a credit under section 290.06, subdivision 22, an amount equal to the carryover
9.25 of subnational foreign taxes for the taxable year, but not to exceed the total subnational
9.26 foreign taxes reported in claiming the foreign tax credit. For purposes of this clause,
9.27 "federal foreign tax credit" means the credit allowed under section 27 of the Internal
9.28 Revenue Code, and "carryover of subnational foreign taxes" equals the carryover allowed
9.29 under section 904(c) of the Internal Revenue Code minus national level foreign taxes to
9.30 the extent they exceed the federal foreign tax credit;

9.31 (8) in each of the five tax years immediately following the tax year in which an
9.32 addition is required under subdivision 19a, clause (7), or 19c, clause (12), in the case of a
9.33 shareholder of a corporation that is an S corporation, an amount equal to one-fifth of the
9.34 delayed depreciation. For purposes of this clause, "delayed depreciation" means the amount
9.35 of the addition made by the taxpayer under subdivision 19a, clause (7), or subdivision 19c,
9.36 clause (12), in the case of a shareholder of an S corporation, minus the positive value of

10.1 any net operating loss under section 172 of the Internal Revenue Code generated for the
10.2 tax year of the addition. The resulting delayed depreciation cannot be less than zero;

10.3 (9) job opportunity building zone income as provided under section 469.316;

10.4 (10) to the extent included in federal taxable income, the amount of compensation
10.5 paid to members of the Minnesota National Guard or other reserve components of the
10.6 United States military for active service, excluding compensation for services performed
10.7 under the Active Guard Reserve (AGR) program. For purposes of this clause, "active
10.8 service" means (i) state active service as defined in section 190.05, subdivision 5a, clause
10.9 (1); or (ii) federally funded state active service as defined in section 190.05, subdivision
10.10 5b, but "active service" excludes service performed in accordance with section 190.08,
10.11 subdivision 3;

10.12 (11) to the extent included in federal taxable income, the amount of compensation
10.13 paid to Minnesota residents who are members of the armed forces of the United States
10.14 or United Nations for active duty performed under United States Code, title 10; or the
10.15 authority of the United Nations;

10.16 (12) an amount, not to exceed \$10,000, equal to qualified expenses related to a
10.17 qualified donor's donation, while living, of one or more of the qualified donor's organs
10.18 to another person for human organ transplantation. For purposes of this clause, "organ"
10.19 means all or part of an individual's liver, pancreas, kidney, intestine, lung, or bone marrow;
10.20 "human organ transplantation" means the medical procedure by which transfer of a human
10.21 organ is made from the body of one person to the body of another person; "qualified
10.22 expenses" means unreimbursed expenses for both the individual and the qualified donor
10.23 for (i) travel, (ii) lodging, and (iii) lost wages net of sick pay, except that such expenses
10.24 may be subtracted under this clause only once; and "qualified donor" means the individual
10.25 or the individual's dependent, as defined in section 152 of the Internal Revenue Code. An
10.26 individual may claim the subtraction in this clause for each instance of organ donation for
10.27 transplantation during the taxable year in which the qualified expenses occur;

10.28 (13) in each of the five tax years immediately following the tax year in which an
10.29 addition is required under subdivision 19a, clause (8), or 19c, clause (13), in the case of a
10.30 shareholder of a corporation that is an S corporation, an amount equal to one-fifth of the
10.31 addition made by the taxpayer under subdivision 19a, clause (8), or 19c, clause (13), in the
10.32 case of a shareholder of a corporation that is an S corporation, minus the positive value of
10.33 any net operating loss under section 172 of the Internal Revenue Code generated for the
10.34 tax year of the addition. If the net operating loss exceeds the addition for the tax year, a
10.35 subtraction is not allowed under this clause;

11.1 (14) to the extent included in the federal taxable income of a nonresident of
11.2 Minnesota, compensation paid to a service member as defined in United States Code, title
11.3 10, section 101(a)(5), for military service as defined in the Servicemembers Civil Relief
11.4 Act, Public Law 108-189, section 101(2);

11.5 (15) to the extent included in federal taxable income, the amount of national service
11.6 educational awards received from the National Service Trust under United States Code,
11.7 title 42, sections 12601 to 12604, for service in an approved Americorps National Service
11.8 program;

11.9 (16) to the extent included in federal taxable income, discharge of indebtedness
11.10 income resulting from reacquisition of business indebtedness included in federal taxable
11.11 income under section 108(i) of the Internal Revenue Code. This subtraction applies only
11.12 to the extent that the income was included in net income in a prior year as a result of the
11.13 addition under section 290.01, subdivision 19a, clause ~~(16)~~ (13);

11.14 (17) the amount of the net operating loss allowed under section 290.095, subdivision
11.15 11, paragraph (c); ~~and~~

11.16 (18) the amount of expenses not allowed for federal income tax purposes due
11.17 to claiming the railroad track maintenance credit under section 45G(a) of the Internal
11.18 Revenue Code;

11.19 (19) the amount of the limitation on itemized deductions under section 68(b) of
11.20 the Internal Revenue Code; and

11.21 (20) the amount of the phaseout of personal exemptions under section 151(d) of the
11.22 Internal Revenue Code.

11.23 **EFFECTIVE DATE.** This section is effective retroactively for taxable years
11.24 beginning after December 31, 2012.

11.25 Sec. 6. Minnesota Statutes 2012, section 290.01, is amended by adding a subdivision
11.26 to read:

11.27 Subd. 29a. **State itemized deduction.** "State itemized deduction" means
11.28 federal itemized deductions, as defined in section 63(d) of the Internal Revenue Code,
11.29 disregarding any limitation under section 68 of the Internal Revenue Code, and reduced
11.30 by the amount of the addition required under subdivision 19a, clause (15).

11.31 **EFFECTIVE DATE.** This section is effective retroactively for taxable years
11.32 beginning after December 31, 2012.

12.1 Sec. 7. Minnesota Statutes 2013 Supplement, section 290.01, subdivision 31, is
12.2 amended to read:

12.3 Subd. 31. **Internal Revenue Code.** Unless specifically defined otherwise, ~~for~~
12.4 ~~taxable years beginning before January 1, 2012, and after December 31, 2012,~~ "Internal
12.5 Revenue Code" means the Internal Revenue Code of 1986, as amended through ~~April 14,~~
12.6 ~~2011; and for taxable years beginning after December 31, 2011, and before January 1,~~
12.7 ~~2013,~~ "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended
12.8 ~~through January 3~~ December 20, 2013. Internal Revenue Code also includes any
12.9 uncodified provision in federal law that relates to provisions of the Internal Revenue
12.10 Code that are incorporated into Minnesota law. When used in this chapter, the reference
12.11 to "subtitle A, chapter 1, subchapter N, part 1, of the Internal Revenue Code" is to the
12.12 Internal Revenue Code as amended through March 18, 2010.

12.13 **EFFECTIVE DATE.** This section is effective the day following final enactment,
12.14 except the changes incorporated by federal changes are effective retroactively at the same
12.15 time the changes were effective for federal purposes.

12.16 Sec. 8. Minnesota Statutes 2013 Supplement, section 290.06, subdivision 2c, is
12.17 amended to read:

12.18 Subd. 2c. **Schedules of rates for individuals, estates, and trusts.** (a) The income
12.19 taxes imposed by this chapter upon married individuals filing joint returns and surviving
12.20 spouses as defined in section 2(a) of the Internal Revenue Code must be computed by
12.21 applying to their taxable net income the following schedule of rates:

- 12.22 (1) On the first \$35,480, 5.35 percent;
12.23 (2) On all over \$35,480, but not over \$140,960, 7.05 percent;
12.24 (3) On all over \$140,960, but not over \$250,000, 7.85 percent;
12.25 (4) On all over \$250,000, 9.85 percent.

12.26 Married individuals filing separate returns, estates, and trusts must compute their
12.27 income tax by applying the above rates to their taxable income, except that the income
12.28 brackets will be one-half of the above amounts.

12.29 (b) The income taxes imposed by this chapter upon unmarried individuals must be
12.30 computed by applying to taxable net income the following schedule of rates:

- 12.31 (1) On the first \$24,270, 5.35 percent;
12.32 (2) On all over \$24,270, but not over \$79,730, 7.05 percent;
12.33 (3) On all over \$79,730, but not over \$150,000, 7.85 percent;
12.34 (4) On all over \$150,000, 9.85 percent.

13.1 (c) The income taxes imposed by this chapter upon unmarried individuals qualifying
13.2 as a head of household as defined in section 2(b) of the Internal Revenue Code must be
13.3 computed by applying to taxable net income the following schedule of rates:

13.4 (1) On the first \$29,880, 5.35 percent;

13.5 (2) On all over \$29,880, but not over \$120,070, 7.05 percent;

13.6 (3) On all over \$120,070, but not over \$200,000, 7.85 percent;

13.7 (4) On all over \$200,000, 9.85 percent.

13.8 (d) In lieu of a tax computed according to the rates set forth in this subdivision, the
13.9 tax of any individual taxpayer whose taxable net income for the taxable year is less than
13.10 an amount determined by the commissioner must be computed in accordance with tables
13.11 prepared and issued by the commissioner of revenue based on income brackets of not
13.12 more than \$100. The amount of tax for each bracket shall be computed at the rates set
13.13 forth in this subdivision, provided that the commissioner may disregard a fractional part of
13.14 a dollar unless it amounts to 50 cents or more, in which case it may be increased to \$1.

13.15 (e) An individual who is not a Minnesota resident for the entire year must compute
13.16 the individual's Minnesota income tax as provided in this subdivision. After the
13.17 application of the nonrefundable credits provided in this chapter, the tax liability must
13.18 then be multiplied by a fraction in which:

13.19 (1) the numerator is the individual's Minnesota source federal adjusted gross income
13.20 as defined in section 62 of the Internal Revenue Code and increased by the additions
13.21 required under section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), (9), ~~(12)~~,
13.22 ~~(13)~~, and ~~(16) to (18)~~ and (11) to (14), and reduced by the Minnesota assignable portion of
13.23 the subtraction for United States government interest under section 290.01, subdivision
13.24 19b, clause (1), and the subtractions under section 290.01, subdivision 19b, clauses (8),
13.25 (9), (13), (14), (16), and (17), after applying the allocation and assignability provisions of
13.26 section 290.081, clause (a), or 290.17; and

13.27 (2) the denominator is the individual's federal adjusted gross income as defined in
13.28 section 62 of the Internal Revenue Code of 1986, increased by the amounts specified in
13.29 section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), (9), ~~(12)~~, ~~(13)~~, and ~~(16) to~~
13.30 ~~(18)~~ and (11) to (14), and reduced by the amounts specified in section 290.01, subdivision
13.31 19b, clauses (1), (8), (9), (13), (14), (16), and (17).

13.32 **EFFECTIVE DATE.** This section is effective retroactively for taxable years
13.33 beginning after December 31, 2012.

13.34 Sec. 9. Minnesota Statutes 2012, section 290.067, subdivision 1, is amended to read:

14.1 Subdivision 1. **Amount of credit.** (a) A taxpayer may take as a credit against the
14.2 tax due from the taxpayer and a spouse, if any, under this chapter an amount equal to the
14.3 dependent care credit for which the taxpayer is eligible pursuant to the provisions of
14.4 section 21 of the Internal Revenue Code subject to the limitations provided in subdivision
14.5 2 except that in determining whether the child qualified as a dependent, income received
14.6 as a Minnesota family investment program grant or allowance to or on behalf of the child
14.7 must not be taken into account in determining whether the child received more than half
14.8 of the child's support from the taxpayer, and the provisions of section 32(b)(1)(D) of
14.9 the Internal Revenue Code do not apply.

14.10 (b) If a child who has not attained the age of six years at the close of the taxable year
14.11 is cared for at a licensed family day care home operated by the child's parent, the taxpayer
14.12 is deemed to have paid employment-related expenses. If the child is 16 months old or
14.13 younger at the close of the taxable year, the amount of expenses deemed to have been paid
14.14 equals the maximum limit for one qualified individual under section 21(c) and (d) of the
14.15 Internal Revenue Code. If the child is older than 16 months of age but has not attained the
14.16 age of six years at the close of the taxable year, the amount of expenses deemed to have
14.17 been paid equals the amount the licensee would charge for the care of a child of the same
14.18 age for the same number of hours of care.

14.19 (c) If a married couple:

14.20 (1) has a child who has not attained the age of one year at the close of the taxable year;

14.21 (2) files a joint tax return for the taxable year; and

14.22 (3) does not participate in a dependent care assistance program as defined in section
14.23 129 of the Internal Revenue Code, in lieu of the actual employment related expenses paid
14.24 for that child under paragraph (a) or the deemed amount under paragraph (b), the lesser of
14.25 (i) the combined earned income of the couple or (ii) the amount of the maximum limit for
14.26 one qualified individual under section 21(c) and (d) of the Internal Revenue Code will
14.27 be deemed to be the employment related expense paid for that child. The earned income
14.28 limitation of section 21(d) of the Internal Revenue Code shall not apply to this deemed
14.29 amount. These deemed amounts apply regardless of whether any employment-related
14.30 expenses have been paid.

14.31 (d) If the taxpayer is not required and does not file a federal individual income tax
14.32 return for the tax year, no credit is allowed for any amount paid to any person unless:

14.33 (1) the name, address, and taxpayer identification number of the person are included
14.34 on the return claiming the credit; or

15.1 (2) if the person is an organization described in section 501(c)(3) of the Internal
15.2 Revenue Code and exempt from tax under section 501(a) of the Internal Revenue Code,
15.3 the name and address of the person are included on the return claiming the credit.

15.4 In the case of a failure to provide the information required under the preceding sentence,
15.5 the preceding sentence does not apply if it is shown that the taxpayer exercised due
15.6 diligence in attempting to provide the information required.

15.7 (e) In the case of a nonresident, part-year resident, or a person who has earned
15.8 income not subject to tax under this chapter including earned income excluded pursuant to
15.9 section 290.01, subdivision 19b, clause (9), the credit determined under section 21 of the
15.10 Internal Revenue Code must be allocated based on the ratio by which the earned income
15.11 of the claimant and the claimant's spouse from Minnesota sources bears to the total earned
15.12 income of the claimant and the claimant's spouse.

15.13 (f) For residents of Minnesota, the subtractions for military pay under section
15.14 290.01, subdivision 19b, clauses (10) and (11), are not considered "earned income not
15.15 subject to tax under this chapter."

15.16 (g) For residents of Minnesota, the exclusion of combat pay under section 112 of
15.17 the Internal Revenue Code is not considered "earned income not subject to tax under
15.18 this chapter."

15.19 **EFFECTIVE DATE.** This section is effective retroactively for taxable years
15.20 beginning after December 31, 2012.

15.21 Sec. 10. Minnesota Statutes 2012, section 290.067, subdivision 2a, is amended to read:

15.22 Subd. 2a. **Income.** (a) For purposes of this section, "income" means the sum of
15.23 the following:

15.24 (1) federal adjusted gross income as defined in section 62 of the Internal Revenue
15.25 Code; and

15.26 (2) the sum of the following amounts to the extent not included in clause (1):

15.27 (i) all nontaxable income;

15.28 (ii) the amount of a passive activity loss that is not disallowed as a result of section
15.29 469, paragraph (i) or (m) of the Internal Revenue Code and the amount of passive activity
15.30 loss carryover allowed under section 469(b) of the Internal Revenue Code;

15.31 (iii) an amount equal to the total of any discharge of qualified farm indebtedness
15.32 of a solvent individual excluded from gross income under section 108(g) of the Internal
15.33 Revenue Code;

15.34 (iv) cash public assistance and relief;

16.1 (v) any pension or annuity (including railroad retirement benefits, all payments
16.2 received under the federal Social Security Act, supplemental security income, and veterans
16.3 benefits), which was not exclusively funded by the claimant or spouse, or which was
16.4 funded exclusively by the claimant or spouse and which funding payments were excluded
16.5 from federal adjusted gross income in the years when the payments were made;

16.6 (vi) interest received from the federal or a state government or any instrumentality
16.7 or political subdivision thereof;

16.8 (vii) workers' compensation;

16.9 (viii) nontaxable strike benefits;

16.10 (ix) the gross amounts of payments received in the nature of disability income or
16.11 sick pay as a result of accident, sickness, or other disability, whether funded through
16.12 insurance or otherwise;

16.13 (x) a lump-sum distribution under section 402(e)(3) of the Internal Revenue Code of
16.14 1986, as amended through December 31, 1995;

16.15 (xi) contributions made by the claimant to an individual retirement account,
16.16 including a qualified voluntary employee contribution; simplified employee pension plan;
16.17 self-employed retirement plan; cash or deferred arrangement plan under section 401(k)
16.18 of the Internal Revenue Code; or deferred compensation plan under section 457 of the
16.19 Internal Revenue Code;

16.20 (xii) nontaxable scholarship or fellowship grants;

16.21 (xiii) the amount of deduction allowed under section 199 of the Internal Revenue
16.22 Code;

16.23 (xiv) the amount of deduction allowed under section 220 or 223 of the Internal
16.24 Revenue Code;

16.25 (xv) the amount of deducted for tuition expenses ~~required to be added to income~~
16.26 ~~under section 290.01, subdivision 19a, clause (12) under section 222 of the Internal~~
16.27 Revenue Code; and

16.28 (xvi) the amount deducted for certain expenses of elementary and secondary school
16.29 teachers under section 62(a)(2)(D) of the Internal Revenue Code; ~~and~~

16.30 ~~(xvii) unemployment compensation.~~

16.31 In the case of an individual who files an income tax return on a fiscal year basis, the
16.32 term "federal adjusted gross income" means federal adjusted gross income reflected in the
16.33 fiscal year ending in the next calendar year. Federal adjusted gross income may not be
16.34 reduced by the amount of a net operating loss carryback or carryforward or a capital loss
16.35 carryback or carryforward allowed for the year.

16.36 (b) "Income" does not include:

- 17.1 (1) amounts excluded pursuant to the Internal Revenue Code, sections 101(a) and 102;
- 17.2 (2) amounts of any pension or annuity that were exclusively funded by the claimant
- 17.3 or spouse if the funding payments were not excluded from federal adjusted gross income
- 17.4 in the years when the payments were made;
- 17.5 (3) surplus food or other relief in kind supplied by a governmental agency;
- 17.6 (4) relief granted under chapter 290A;
- 17.7 (5) child support payments received under a temporary or final decree of dissolution
- 17.8 or legal separation; and
- 17.9 (6) restitution payments received by eligible individuals and excludable interest as
- 17.10 defined in section 803 of the Economic Growth and Tax Relief Reconciliation Act of
- 17.11 2001, Public Law 107-16.

17.12 **EFFECTIVE DATE.** This section is effective retroactively for taxable years

17.13 beginning after December 31, 2012.

17.14 Sec. 11. Minnesota Statutes 2012, section 290.0671, subdivision 1, is amended to read:

17.15 Subdivision 1. **Credit allowed.** (a) An individual is allowed a credit against the tax

17.16 imposed by this chapter equal to a percentage of earned income. To receive a credit, a

17.17 taxpayer must be eligible for a credit under section 32 of the Internal Revenue Code.

17.18 (b) For individuals with no qualifying children, the credit equals 1.9125 percent of

17.19 the first \$4,620 of earned income. The credit is reduced by 1.9125 percent of earned

17.20 income or adjusted gross income, whichever is greater, in excess of \$5,770, but in no

17.21 case is the credit less than zero.

17.22 (c) For individuals with one qualifying child, the credit equals 8.5 percent of the first

17.23 \$6,920 of earned income and 8.5 percent of earned income over \$12,080 but less than

17.24 \$13,450. The credit is reduced by 5.73 percent of earned income or adjusted gross income,

17.25 whichever is greater, in excess of \$15,080, but in no case is the credit less than zero.

17.26 (d) For individuals with two or more qualifying children, the credit equals ten percent

17.27 of the first \$9,720 of earned income and 20 percent of earned income over \$14,860 but less

17.28 than \$16,800. The credit is reduced by 10.3 percent of earned income or adjusted gross

17.29 income, whichever is greater, in excess of \$17,890, but in no case is the credit less than zero.

17.30 (e) For a nonresident or part-year resident, the credit must be allocated based on the

17.31 percentage calculated under section 290.06, subdivision 2c, paragraph (e).

17.32 (f) For a person who was a resident for the entire tax year and has earned income

17.33 not subject to tax under this chapter, including income excluded under section 290.01,

17.34 subdivision 19b, clause (9), the credit must be allocated based on the ratio of federal

17.35 adjusted gross income reduced by the earned income not subject to tax under this chapter

18.1 over federal adjusted gross income. For purposes of this paragraph, the subtractions
18.2 for military pay under section 290.01, subdivision 19b, clauses (10) and (11), are not
18.3 considered "earned income not subject to tax under this chapter."

18.4 For the purposes of this paragraph, the exclusion of combat pay under section 112
18.5 of the Internal Revenue Code is not considered "earned income not subject to tax under
18.6 this chapter."

18.7 (g) For tax years beginning after December 31, 2007, and before December 31,
18.8 2010, and for tax years beginning after December 31, 2017, the \$5,770 in paragraph (b),
18.9 the \$15,080 in paragraph (c), and the \$17,890 in paragraph (d), after being adjusted for
18.10 inflation under subdivision 7, are each increased by \$3,000 for married taxpayers filing joint
18.11 returns. For tax years beginning after December 31, 2008, the commissioner shall annually
18.12 adjust the \$3,000 by the percentage determined pursuant to the provisions of section 1(f)
18.13 of the Internal Revenue Code, except that in section 1(f)(3)(B), the word "2007" shall be
18.14 substituted for the word "1992." For 2009, the commissioner shall then determine the
18.15 percent change from the 12 months ending on August 31, 2007, to the 12 months ending on
18.16 August 31, 2008, and in each subsequent year, from the 12 months ending on August 31,
18.17 2007, to the 12 months ending on August 31 of the year preceding the taxable year. The
18.18 earned income thresholds as adjusted for inflation must be rounded to the nearest \$10. If the
18.19 amount ends in \$5, the amount is rounded up to the nearest \$10. The determination of the
18.20 commissioner under this subdivision is not a rule under the Administrative Procedure Act.

18.21 (h) For tax years beginning after December 31, 2010, and before January 1, 2012,
18.22 and for tax years beginning after December 31, 2012, and before January 1, 2018, the
18.23 \$5,770 in paragraph (b), the \$15,080 in paragraph (c), and the \$17,890 in paragraph
18.24 (d), after being adjusted for inflation under subdivision 7, are each increased by \$5,000
18.25 for married taxpayers filing joint returns. For tax years beginning after December 31,
18.26 2010, and before January 1, 2012, and for tax years beginning after December 31, 2012,
18.27 and before January 1, 2018, the commissioner shall annually adjust the \$5,000 by the
18.28 percentage determined pursuant to the provisions of section 1(f) of the Internal Revenue
18.29 Code, except that in section 1(f)(3)(B), the word "2008" shall be substituted for the word
18.30 "1992." For 2011, the commissioner shall then determine the percent change from the 12
18.31 months ending on August 31, 2008, to the 12 months ending on August 31, 2010, and in
18.32 each subsequent year, from the 12 months ending on August 31, 2008, to the 12 months
18.33 ending on August 31 of the year preceding the taxable year. The earned income thresholds
18.34 as adjusted for inflation must be rounded to the nearest \$10. If the amount ends in \$5, the
18.35 amount is rounded up to the nearest \$10. The determination of the commissioner under
18.36 this subdivision is not a rule under the Administrative Procedure Act.

19.1 (i) The commissioner shall construct tables showing the amount of the credit at
19.2 various income levels and make them available to taxpayers. The tables shall follow
19.3 the schedule contained in this subdivision, except that the commissioner may graduate
19.4 the transition between income brackets.

19.5 **EFFECTIVE DATE.** This section is effective retroactively for taxable years
19.6 beginning after December 31, 2012.

19.7 Sec. 12. Minnesota Statutes 2012, section 290.0675, subdivision 1, is amended to read:

19.8 Subdivision 1. **Definitions.** (a) For purposes of this section the following terms
19.9 have the meanings given.

19.10 (b) "Earned income" means the sum of the following, to the extent included in
19.11 Minnesota taxable income:

19.12 (1) earned income as defined in section 32(c)(2) of the Internal Revenue Code;

19.13 (2) income received from a retirement pension, profit-sharing, stock bonus, or
19.14 annuity plan; and

19.15 (3) Social Security benefits as defined in section 86(d)(1) of the Internal Revenue
19.16 Code.

19.17 (c) "Taxable income" means net income as defined in section 290.01, subdivision 19.

19.18 (d) "Earned income of lesser-earning spouse" means the earned income of the spouse
19.19 with the lesser amount of earned income as defined in paragraph (b) for the taxable year
19.20 minus the sum of (i) the amount for one exemption under section 151(d) of the Internal
19.21 Revenue Code and (ii) one-half the amount of the standard deduction under section
19.22 63(c)(2)(A) and (4) of the Internal Revenue Code minus one-half of any addition required
19.23 under section 290.01, subdivision 19a, clause ~~(21)~~ (17), and one-half of the addition that
19.24 would have been required under section 290.01, subdivision 19a, clause ~~(21)~~ (17), if the
19.25 taxpayer had claimed the standard deduction.

19.26 **EFFECTIVE DATE.** This section is effective retroactively for taxable years
19.27 beginning after December 31, 2012.

19.28 Sec. 13. Minnesota Statutes 2013 Supplement, section 290.091, subdivision 2, is
19.29 amended to read:

19.30 Subd. 2. **Definitions.** For purposes of the tax imposed by this section, the following
19.31 terms have the meanings given:

19.32 (a) "Alternative minimum taxable income" means the sum of the following for
19.33 the taxable year:

20.1 (1) the taxpayer's federal alternative minimum taxable income as defined in section
20.2 55(b)(2) of the Internal Revenue Code;

20.3 (2) the taxpayer's itemized deductions allowed in computing federal alternative
20.4 minimum taxable income, but excluding:

20.5 (i) the charitable contribution deduction under section 170 of the Internal Revenue
20.6 Code;

20.7 (ii) the medical expense deduction;

20.8 (iii) the casualty, theft, and disaster loss deduction; and

20.9 (iv) the impairment-related work expenses of a disabled person;

20.10 (3) for depletion allowances computed under section 613A(c) of the Internal
20.11 Revenue Code, with respect to each property (as defined in section 614 of the Internal
20.12 Revenue Code), to the extent not included in federal alternative minimum taxable income,
20.13 the excess of the deduction for depletion allowable under section 611 of the Internal
20.14 Revenue Code for the taxable year over the adjusted basis of the property at the end of the
20.15 taxable year (determined without regard to the depletion deduction for the taxable year);

20.16 (4) to the extent not included in federal alternative minimum taxable income, the
20.17 amount of the tax preference for intangible drilling cost under section 57(a)(2) of the
20.18 Internal Revenue Code determined without regard to subparagraph (E);

20.19 (5) to the extent not included in federal alternative minimum taxable income, the
20.20 amount of interest income as provided by section 290.01, subdivision 19a, clause (1); and

20.21 (6) the amount of addition required by section 290.01, subdivision 19a, clauses (7)
20.22 to (9), ~~(12), (13), and (16) to (18)~~ and (11) to (14);

20.23 less the sum of the amounts determined under the following:

20.24 (1) interest income as defined in section 290.01, subdivision 19b, clause (1);

20.25 (2) an overpayment of state income tax as provided by section 290.01, subdivision
20.26 19b, clause (2), to the extent included in federal alternative minimum taxable income;

20.27 (3) the amount of investment interest paid or accrued within the taxable year on
20.28 indebtedness to the extent that the amount does not exceed net investment income, as
20.29 defined in section 163(d)(4) of the Internal Revenue Code. Interest does not include
20.30 amounts deducted in computing federal adjusted gross income;

20.31 (4) amounts subtracted from federal taxable income as provided by section 290.01,
20.32 subdivision 19b, clauses (6), (8) to (14), and (16); and

20.33 (5) the amount of the net operating loss allowed under section 290.095, subdivision
20.34 11, paragraph (c).

20.35 In the case of an estate or trust, alternative minimum taxable income must be
20.36 computed as provided in section 59(c) of the Internal Revenue Code.

21.1 (b) "Investment interest" means investment interest as defined in section 163(d)(3)
21.2 of the Internal Revenue Code.

21.3 (c) "Net minimum tax" means the minimum tax imposed by this section.

21.4 (d) "Regular tax" means the tax that would be imposed under this chapter (without
21.5 regard to this section and section 290.032), reduced by the sum of the nonrefundable
21.6 credits allowed under this chapter.

21.7 (e) "Tentative minimum tax" equals 6.75 percent of alternative minimum taxable
21.8 income after subtracting the exemption amount determined under subdivision 3.

21.9 **EFFECTIVE DATE.** This section is effective retroactively for taxable years
21.10 beginning after December 31, 2012.

21.11 Sec. 14. Minnesota Statutes 2013 Supplement, section 290A.03, subdivision 15,
21.12 is amended to read:

21.13 Subd. 15. **Internal Revenue Code.** ~~For taxable years beginning before January 1,~~
21.14 ~~2012, and after December 31, 2012, "Internal Revenue Code" means the Internal Revenue~~
21.15 ~~Code of 1986, as amended through April 14, 2011; and for taxable years beginning after~~
21.16 ~~December 31, 2011, and before January 1, 2013, "Internal Revenue Code" means the~~
21.17 ~~Internal Revenue Code of 1986, as amended through January 3~~ December 20, 2013.

21.18 **EFFECTIVE DATE.** This section is effective retroactively for property tax refunds
21.19 based on property taxes payable after December 31, 2013, and rent paid after December
21.20 31, 2012.

21.21 Sec. 15. Minnesota Statutes 2013 Supplement, section 297A.61, subdivision 3, is
21.22 amended to read:

21.23 Subd. 3. **Sale and purchase.** (a) "Sale" and "purchase" include, but are not limited
21.24 to, each of the transactions listed in this subdivision. In applying the provisions of this
21.25 chapter, the terms "tangible personal property" and "retail sale" include the taxable
21.26 services listed in paragraph (g), clause (6), items (i) to (vi) and (viii), and the provision
21.27 of these taxable services, unless specifically provided otherwise. Services performed by
21.28 an employee for an employer are not taxable. Services performed by a partnership or
21.29 association for another partnership or association are not taxable if one of the entities owns
21.30 or controls more than 80 percent of the voting power of the equity interest in the other
21.31 entity. Services performed between members of an affiliated group of corporations are not
21.32 taxable. For purposes of the preceding sentence, "affiliated group of corporations" means

22.1 those entities that would be classified as members of an affiliated group as defined under
22.2 United States Code, title 26, section 1504, disregarding the exclusions in section 1504(b).

22.3 (b) Sale and purchase include:

22.4 (1) any transfer of title or possession, or both, of tangible personal property, whether
22.5 absolutely or conditionally, for a consideration in money or by exchange or barter; and

22.6 (2) the leasing of or the granting of a license to use or consume, for a consideration
22.7 in money or by exchange or barter, tangible personal property, other than a manufactured
22.8 home used for residential purposes for a continuous period of 30 days or more.

22.9 (c) Sale and purchase include the production, fabrication, printing, or processing of
22.10 tangible personal property for a consideration for consumers who furnish either directly or
22.11 indirectly the materials used in the production, fabrication, printing, or processing.

22.12 (d) Sale and purchase include the preparing for a consideration of food.

22.13 Notwithstanding section 297A.67, subdivision 2, taxable food includes, but is not limited
22.14 to, the following:

22.15 (1) prepared food sold by the retailer;

22.16 (2) soft drinks;

22.17 (3) candy;

22.18 (4) dietary supplements; and

22.19 (5) all food sold through vending machines.

22.20 (e) A sale and a purchase includes the furnishing for a consideration of electricity,
22.21 gas, water, or steam for use or consumption within this state.

22.22 (f) A sale and a purchase includes the transfer for a consideration of prewritten
22.23 computer software whether delivered electronically, by load and leave, or otherwise.

22.24 (g) A sale and a purchase includes the furnishing for a consideration of the following
22.25 services:

22.26 (1) the privilege of admission to places of amusement, recreational areas, or athletic
22.27 events, and the making available of amusement devices, tanning facilities, reducing
22.28 salons, steam baths, Turkish baths, health clubs, and spas or athletic facilities;

22.29 (2) lodging and related services by a hotel, rooming house, resort, campground,
22.30 motel, or trailer camp, including furnishing the guest of the facility with access to
22.31 telecommunication services, and the granting of any similar license to use real property in
22.32 a specific facility, other than the renting or leasing of it for a continuous period of 30 days
22.33 or more under an enforceable written agreement that may not be terminated without prior
22.34 notice and including accommodations intermediary services provided in connection with
22.35 other services provided under this clause;

23.1 (3) nonresidential parking services, whether on a contractual, hourly, or other
23.2 periodic basis, except for parking at a meter;

23.3 (4) the granting of membership in a club, association, or other organization if:

23.4 (i) the club, association, or other organization makes available for the use of its
23.5 members sports and athletic facilities, without regard to whether a separate charge is
23.6 assessed for use of the facilities; and

23.7 (ii) use of the sports and athletic facility is not made available to the general public
23.8 on the same basis as it is made available to members.

23.9 Granting of membership means both onetime initiation fees and periodic membership
23.10 dues. Sports and athletic facilities include golf courses; tennis, racquetball, handball, and
23.11 squash courts; basketball and volleyball facilities; running tracks; exercise equipment;
23.12 swimming pools; and other similar athletic or sports facilities;

23.13 (5) delivery of aggregate materials by a third party, excluding delivery of aggregate
23.14 material used in road construction; and delivery of concrete block by a third party if the
23.15 delivery would be subject to the sales tax if provided by the seller of the concrete block.

23.16 For purposes of this clause, "road construction" means construction of:

23.17 (i) public roads;

23.18 (ii) cartways; and

23.19 (iii) private roads in townships located outside of the seven-county metropolitan area
23.20 up to the point of the emergency response location sign; and

23.21 (6) services as provided in this clause:

23.22 (i) laundry and dry cleaning services including cleaning, pressing, repairing, altering,
23.23 and storing clothes, linen services and supply, cleaning and blocking hats, and carpet,
23.24 drapery, upholstery, and industrial cleaning. Laundry and dry cleaning services do not
23.25 include services provided by coin operated facilities operated by the customer;

23.26 (ii) motor vehicle washing, waxing, and cleaning services, including services
23.27 provided by coin operated facilities operated by the customer, and rustproofing,
23.28 undercoating, and towing of motor vehicles;

23.29 (iii) building and residential cleaning, maintenance, and disinfecting services and
23.30 pest control and exterminating services;

23.31 (iv) detective, security, burglar, fire alarm, and armored car services; but not
23.32 including services performed within the jurisdiction they serve by off-duty licensed peace
23.33 officers as defined in section 626.84, subdivision 1, or services provided by a nonprofit
23.34 organization or any organization at the direction of a county for monitoring and electronic
23.35 surveillance of persons placed on in-home detention pursuant to court order or under the
23.36 direction of the Minnesota Department of Corrections;

24.1 (v) pet grooming services;

24.2 (vi) lawn care, fertilizing, mowing, spraying and sprigging services; garden planting
24.3 and maintenance; tree, bush, and shrub pruning, bracing, spraying, and surgery; indoor
24.4 plant care; tree, bush, shrub, and stump removal, except when performed as part of a land
24.5 clearing contract as defined in section 297A.68, subdivision 40; and tree trimming for
24.6 public utility lines. Services performed under a construction contract for the installation of
24.7 shrubbery, plants, sod, trees, bushes, and similar items are not taxable;

24.8 (vii) massages, except when provided by a licensed health care facility or
24.9 professional or upon written referral from a licensed health care facility or professional for
24.10 treatment of illness, injury, or disease; and

24.11 (viii) the furnishing of lodging, board, and care services for animals in kennels and
24.12 other similar arrangements, but excluding veterinary and horse boarding services.

24.13 (h) A sale and a purchase includes the furnishing for a consideration of tangible
24.14 personal property or taxable services by the United States or any of its agencies or
24.15 instrumentalities, or the state of Minnesota, its agencies, instrumentalities, or political
24.16 subdivisions.

24.17 (i) A sale and a purchase includes the furnishing for a consideration of
24.18 telecommunications services, ancillary services associated with telecommunication
24.19 services, and pay television services. Telecommunication services include, but are
24.20 not limited to, the following services, as defined in section 297A.669: air-to-ground
24.21 radiotelephone service, mobile telecommunication service, postpaid calling service,
24.22 prepaid calling service, prepaid wireless calling service, and private communication
24.23 services. The services in this paragraph are taxed to the extent allowed under federal law.

24.24 (j) A sale and a purchase includes the furnishing for a consideration of installation if
24.25 the installation charges would be subject to the sales tax if the installation were provided
24.26 by the seller of the item being installed.

24.27 (k) A sale and a purchase includes the rental of a vehicle by a motor vehicle dealer
24.28 to a customer when (1) the vehicle is rented by the customer for a consideration, or (2)
24.29 the motor vehicle dealer is reimbursed pursuant to a service contract as defined in section
24.30 59B.02, subdivision 11.

24.31 (l) A sale and a purchase includes furnishing for a consideration of specified digital
24.32 products or other digital products or granting the right for a consideration to use specified
24.33 digital products or other digital products on a temporary or permanent basis and regardless
24.34 of whether the purchaser is required to make continued payments for such right. Wherever
24.35 the term "tangible personal property" is used in this chapter, other than in subdivisions 10

25.1 and 38, the provisions also apply to specified digital products, or other digital products,
 25.2 unless specifically provided otherwise or the context indicates otherwise.

25.3 ~~(m) A sale and purchase includes the furnishing for consideration of the following~~
 25.4 ~~services:~~

25.5 ~~(1) repairing and maintaining electronic and precision equipment, which service can~~
 25.6 ~~be deducted as a business expense under the Internal Revenue Code. This includes, but~~
 25.7 ~~is not limited to, repair or maintenance of electronic devices, computers and computer~~
 25.8 ~~peripherals, monitors, computer terminals, storage devices, and CD-ROM drives; other~~
 25.9 ~~office equipment such as photocopying machines, printers, and facsimile machines;~~
 25.10 ~~televisions, stereos, sound systems, video or digital recorders and players; two-way radios~~
 25.11 ~~and other communications equipment; radar and sonar equipment, scientific instruments,~~
 25.12 ~~microscopes, and medical equipment;~~

25.13 ~~(2) repairing and maintaining commercial and industrial machinery and equipment.~~
 25.14 ~~For purposes of this subdivision, the following items are not commercial or industrial~~
 25.15 ~~machinery and equipment: (i) motor vehicles; (ii) furniture and fixtures; (iii) ships; (iv)~~
 25.16 ~~railroad stock; and (v) aircraft; and~~

25.17 ~~(3) warehousing or storage services for tangible personal property, excluding:~~

25.18 ~~(i) agricultural products;~~

25.19 ~~(ii) refrigerated storage;~~

25.20 ~~(iii) electronic data; and~~

25.21 ~~(iv) self-storage services and storage of motor vehicles, recreational vehicles, and~~
 25.22 ~~boats, not eligible to be deducted as a business expense under the Internal Revenue Code.~~

25.23 **EFFECTIVE DATE.** This section is effective retroactively for sales and purchases
 25.24 made after June 30, 2013. Refunds of taxes paid on purchases under the stricken paragraph
 25.25 (m) after June 30, 2013, shall be applied for as provided in section 18.

25.26 Sec. 16. Minnesota Statutes 2013 Supplement, section 297A.68, subdivision 5, is
 25.27 amended to read:

25.28 Subd. 5. **Capital equipment.** (a) Capital equipment is exempt.

25.29 "Capital equipment" means machinery and equipment purchased or leased, and used
 25.30 in this state by the purchaser or lessee primarily for manufacturing, fabricating, mining,
 25.31 or refining tangible personal property to be sold ultimately at retail if the machinery and
 25.32 equipment are essential to the integrated production process of manufacturing, fabricating,
 25.33 mining, or refining. Capital equipment also includes machinery and equipment
 25.34 used primarily to electronically transmit results retrieved by a customer of an online
 25.35 computerized data retrieval system.

- 26.1 (b) Capital equipment includes, but is not limited to:
- 26.2 (1) machinery and equipment used to operate, control, or regulate the production
- 26.3 equipment;
- 26.4 (2) machinery and equipment used for research and development, design, quality
- 26.5 control, and testing activities;
- 26.6 (3) environmental control devices that are used to maintain conditions such as
- 26.7 temperature, humidity, light, or air pressure when those conditions are essential to and are
- 26.8 part of the production process;
- 26.9 (4) materials and supplies used to construct and install machinery or equipment;
- 26.10 (5) repair and replacement parts, including accessories, whether purchased as spare
- 26.11 parts, repair parts, or as upgrades or modifications to machinery or equipment;
- 26.12 (6) materials used for foundations that support machinery or equipment;
- 26.13 (7) materials used to construct and install special purpose buildings used in the
- 26.14 production process;
- 26.15 (8) ready-mixed concrete equipment in which the ready-mixed concrete is mixed
- 26.16 as part of the delivery process regardless if mounted on a chassis, repair parts for
- 26.17 ready-mixed concrete trucks, and leases of ready-mixed concrete trucks; and
- 26.18 (9) machinery or equipment used for research, development, design, or production
- 26.19 of computer software.
- 26.20 (c) Capital equipment does not include the following:
- 26.21 (1) motor vehicles taxed under chapter 297B;
- 26.22 (2) machinery or equipment used to receive or store raw materials;
- 26.23 (3) building materials, except for materials included in paragraph (b), clauses (6)
- 26.24 and (7);
- 26.25 (4) machinery or equipment used for nonproduction purposes, including, but not
- 26.26 limited to, the following: plant security, fire prevention, first aid, and hospital stations;
- 26.27 support operations or administration; pollution control; and plant cleaning, disposal of
- 26.28 scrap and waste, plant communications, space heating, cooling, lighting, or safety;
- 26.29 (5) farm machinery and aquaculture production equipment as defined by section
- 26.30 297A.61, subdivisions 12 and 13;
- 26.31 (6) machinery or equipment purchased and installed by a contractor as part of an
- 26.32 improvement to real property;
- 26.33 (7) machinery and equipment used by restaurants in the furnishing, preparing, or
- 26.34 serving of prepared foods as defined in section 297A.61, subdivision 31;
- 26.35 (8) machinery and equipment used to furnish the services listed in section 297A.61,
- 26.36 subdivision 3, paragraph (g), clause (6), items (i) to (vi) and (viii);

27.1 (9) machinery or equipment used in the transportation, transmission, or distribution
27.2 of petroleum, liquefied gas, natural gas, water, or steam, in, by, or through pipes, lines,
27.3 tanks, mains, or other means of transporting those products. This clause does not apply to
27.4 machinery or equipment used to blend petroleum or biodiesel fuel as defined in section
27.5 239.77; or

27.6 (10) any other item that is not essential to the integrated process of manufacturing,
27.7 fabricating, mining, or refining.

27.8 (d) For purposes of this subdivision:

27.9 (1) "Equipment" means independent devices or tools separate from machinery but
27.10 essential to an integrated production process, including computers and computer software,
27.11 used in operating, controlling, or regulating machinery and equipment; and any subunit or
27.12 assembly comprising a component of any machinery or accessory or attachment parts of
27.13 machinery, such as tools, dies, jigs, patterns, and molds.

27.14 (2) "Fabricating" means to make, build, create, produce, or assemble components or
27.15 property to work in a new or different manner.

27.16 (3) "Integrated production process" means a process or series of operations through
27.17 which tangible personal property is manufactured, fabricated, mined, or refined. For
27.18 purposes of this clause, (i) manufacturing begins with the removal of raw materials
27.19 from inventory and ends when the last process prior to loading for shipment has been
27.20 completed; (ii) fabricating begins with the removal from storage or inventory of the
27.21 property to be assembled, processed, altered, or modified and ends with the creation
27.22 or production of the new or changed product; (iii) mining begins with the removal of
27.23 overburden from the site of the ores, minerals, stone, peat deposit, or surface materials and
27.24 ends when the last process before stockpiling is completed; and (iv) refining begins with
27.25 the removal from inventory or storage of a natural resource and ends with the conversion
27.26 of the item to its completed form.

27.27 (4) "Machinery" means mechanical, electronic, or electrical devices, including
27.28 computers and computer software, that are purchased or constructed to be used for the
27.29 activities set forth in paragraph (a), beginning with the removal of raw materials from
27.30 inventory through completion of the product, including packaging of the product.

27.31 (5) "Machinery and equipment used for pollution control" means machinery and
27.32 equipment used solely to eliminate, prevent, or reduce pollution resulting from an activity
27.33 described in paragraph (a).

27.34 (6) "Manufacturing" means an operation or series of operations where raw materials
27.35 are changed in form, composition, or condition by machinery and equipment and which
27.36 results in the production of a new article of tangible personal property. For purposes of

28.1 this subdivision, "manufacturing" includes the generation of electricity or steam to be
28.2 sold at retail.

28.3 (7) "Mining" means the extraction of minerals, ores, stone, or peat.

28.4 (8) "Online data retrieval system" means a system whose cumulation of information
28.5 is equally available and accessible to all its customers.

28.6 (9) "Primarily" means machinery and equipment used 50 percent or more of the time
28.7 in an activity described in paragraph (a).

28.8 (10) "Refining" means the process of converting a natural resource to an intermediate
28.9 or finished product, including the treatment of water to be sold at retail.

28.10 (11) This subdivision does not apply to telecommunications equipment as provided
28.11 in subdivision 35 35a, ~~and does not apply to wire, cable, fiber, poles, or conduit for~~
28.12 ~~telecommunications services.~~

28.13 **EFFECTIVE DATE.** This section is effective for sales and purchases made after
28.14 June 30, 2014.

28.15 Sec. 17. Minnesota Statutes 2012, section 297A.68, is amended by adding a
28.16 subdivision to read:

28.17 Subd. 35a. **Telecommunications and pay television services machinery and**
28.18 **equipment.** (a) Telecommunications or pay television services machinery and equipment
28.19 purchased or leased for use directly by a telecommunications or pay television service
28.20 provider primarily in the provision of telecommunications or pay television services
28.21 that are ultimately to be sold at retail are exempt, regardless of whether purchased by
28.22 the owner, a contractor, or a subcontractor.

28.23 (b) For purposes of this subdivision, "telecommunications or pay television services
28.24 machinery and equipment" includes, but is not limited to:

28.25 (1) machinery, equipment, and fixtures utilized in receiving, initiating,
28.26 amplifying, processing, transmitting, retransmitting, recording, switching, or monitoring
28.27 telecommunications or pay television services, such as computers, transformers, amplifiers,
28.28 routers, bridges, repeaters, multiplexers, and other items performing comparable functions;

28.29 (2) machinery, equipment, and fixtures used in the transportation of
28.30 telecommunications or pay television services, radio transmitters and receivers, satellite
28.31 equipment, microwave equipment, other transporting media, wire, cable, fiber, poles,
28.32 and conduit;

28.33 (3) ancillary machinery, equipment, and fixtures that regulate, control, protect, or
28.34 enable the machinery in clauses (1) and (2) to accomplish its intended function, such as
28.35 auxiliary power supply, test equipment, towers, heating, ventilating, and air conditioning

29.1 equipment necessary to the operation of the telecommunications or pay television services
29.2 equipment; and software necessary to the operation of the telecommunications or pay
29.3 television services equipment; and

29.4 (4) repair and replacement parts, including accessories, whether purchased as spare
29.5 parts, repair parts, or as upgrades or modifications to qualified machinery or equipment.

29.6 **EFFECTIVE DATE.** This section is effective for sales and purchases made after
29.7 April 30, 2014.

29.8 **Sec. 18. SALES TAX; TEMPORARY REFUND MECHANISM.**

29.9 (a) Any purchaser or vendor that paid sales tax on items under the stricken paragraph
29.10 (m) of Minnesota Statutes, section 297A.61, subdivision 3, must apply directly to the
29.11 commissioner of revenue for a refund under this section. This provision only applies to
29.12 sales made after June 30, 2013. The application must be made on a form prescribed by
29.13 the commissioner and the purchaser or vendor may make only one application for the
29.14 entire period.

29.15 (b) Vendors and purchasers shall apply for refunds of sales tax paid, collected,
29.16 or remitted under the stricken paragraph (m) of Minnesota Statutes, section 297A.61,
29.17 subdivision 3, as provided under Minnesota Statutes, section 289A.50, subdivisions 2 and
29.18 2a. If a purchaser does not meet the requirements of Minnesota Statutes, section 289A.50,
29.19 subdivision 2a, they shall apply for the refund on a form prescribed by the commissioner.

29.20 (c) Interest on the refund shall be paid at the rate in Minnesota Statutes, section
29.21 270C.405, from 90 days after the refund claim is filed with the commissioner of revenue.
29.22 The amount to make the refunds is annually appropriated to the commissioner of revenue.
29.23 The limitations on claims for refund provisions of Minnesota Statutes, section 289A.40,
29.24 also apply to these refunds.

29.25 **EFFECTIVE DATE.** This section is effective the day following final enactment.

29.26 **Sec. 19. INDIVIDUAL INCOME TAX COLLECTION ACTION PROHIBITED.**

29.27 Notwithstanding any law to the contrary, the commissioner shall not increase the
29.28 amount due or decrease the refund for an individual income tax return for the taxable
29.29 year beginning after December 31, 2012, and before January 1, 2014, to the extent the
29.30 amount due was understated or the refund was overstated because the taxpayer calculated
29.31 the tax or refund based on the Internal Revenue Code, as amended through April 14,
29.32 2011, rather than based on the Internal Revenue Code, as amended through December
29.33 20, 2013, as provided in this act.

30.1 **EFFECTIVE DATE.** This section is effective the day following final enactment.

30.2 Sec. 20. **APPROPRIATION.**

30.3 \$1,175,000 is appropriated for fiscal years 2014 and 2015 from the general fund to
30.4 the commissioner of revenue for the cost of administering this act. This is a onetime
30.5 appropriation and does not renew or become part of the base budget.

30.6 **EFFECTIVE DATE.** This section is effective the day following final enactment.

30.7 Sec. 21. **REPEALER.**

30.8 Minnesota Statutes 2013 Supplement, section 297A.61, subdivision 57, is repealed.

30.9 **EFFECTIVE DATE.** This section is effective the day after final enactment.

297A.61 DEFINITIONS.

Subd. 57. **Self-storage service.** "Self-storage service" means a storage service that provides secure areas, such as rooms, units, compartments, or containers, whether accessible from outside or from within a building, that are designated for the use of a purchaser, where the purchaser retains the care, custody, and control of the purchaser's property, including self-storage units, mini-storage units, and areas by any other name to which the purchaser retains either unlimited free access or free access within reasonable business hours or upon reasonable notice to the service provider to add or remove property, but does not mean the rental of an entire building, such as a warehouse. Self-storage service does not include general warehousing and storage services where the warehouse typically handles, stores, and retrieves a purchaser's property using the warehouse's staff and equipment, and does not allow the purchaser free access to the storage space and does not include bailments.