

SENATE

STATE OF MINNESOTA

EIGHTY-NINTH SESSION

S.F. No. 2635

(SENATE AUTHORS: SENJEM and Thompson)

DATE	D-PG	OFFICIAL STATUS
03/14/2016	5024	Introduction and first reading Referred to Taxes

1.1 A bill for an act

1.2 relating to taxation; conforming certain income, franchise, and property tax

1.3 refund provisions to changes in federal law; amending Minnesota Statutes 2014,

1.4 sections 290.01, subdivisions 19a, 19b, 19c; 290.091, subdivision 2; Minnesota

1.5 Statutes 2015 Supplement, sections 289A.02, subdivision 7; 290.01, subdivisions

1.6 19, 31; 290.0671, subdivision 1; 290A.03, subdivision 15; 291.005, subdivision 1.

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

1.8 Section 1. Minnesota Statutes 2015 Supplement, section 289A.02, subdivision 7,

1.9 is amended to read:

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

1.11 Revenue Code" means the Internal Revenue Code of 1986, as amended through December

1.12 31, ~~2014~~ 2015.

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

1.14 Sec. 2. Minnesota Statutes 2015 Supplement, section 290.01, subdivision 19, is

1.15 amended to read:

1.16 Subd. 19. **Net income.** The term "net income" means the federal taxable income,

1.17 as defined in section 63 of the Internal Revenue Code of 1986, as amended through the

1.18 date named in this subdivision, incorporating the federal effective dates of changes to the

1.19 Internal Revenue Code and any elections made by the taxpayer in accordance with the

1.20 Internal Revenue Code in determining federal taxable income for federal income tax

1.21 purposes, and with the modifications provided in subdivisions 19a to 19f.

1.22 In the case of a regulated investment company or a fund thereof, as defined in section

1.23 851(a) or 851(g) of the Internal Revenue Code, federal taxable income means investment

company taxable income as defined in section 852(b)(2) of the Internal Revenue Code, except that:

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

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

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

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

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

The Internal Revenue Code of 1986, as amended through December 31, ~~2014~~ 2015, shall be in effect for taxable years beginning after December 31, 1996.

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

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

Sec. 3. Minnesota Statutes 2014, section 290.01, subdivision 19a, is amended to read:

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

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

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

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

(B) the portion of the exempt-interest dividends derived from interest income on obligations of the state of Minnesota or its political or governmental subdivisions, municipalities, governmental agencies or instrumentalities, but only if the portion of the exempt-interest dividends from such Minnesota sources paid to all shareholders represents 95 percent or more of the exempt-interest dividends, including any dividends exempt under subitem (A), that are paid by the regulated investment company as defined in section 851(a) of the Internal Revenue Code, or the fund of the regulated investment company as defined in section 851(g) of the Internal Revenue Code, making the payment; and

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

(2) the amount of income, sales and use, motor vehicle sales, or excise taxes paid or accrued within the taxable year under this chapter and the amount of taxes based on net income paid, sales and use, motor vehicle sales, or excise taxes paid to any other state or to any province or territory of Canada, to the extent allowed as a deduction under section 63(d) of the Internal Revenue Code, but the addition may not be more than the amount by which the state itemized deduction exceeds the amount of the standard deduction as defined in section 63(c) of the Internal Revenue Code, minus any addition that would have been required under clause (17) if the taxpayer had claimed the standard deduction. For the purpose of this clause, income, sales and use, motor vehicle sales, or excise taxes are the last itemized deductions disallowed under clause (15);

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

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

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

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

(7) for taxable years beginning before January 1, 2015, 80 percent of the depreciation deduction allowed under section 168(k) of the Internal Revenue Code. For purposes of this clause, if the taxpayer has an activity that in the taxable year generates a deduction for depreciation under section 168(k) and the activity generates a loss for the taxable year that the taxpayer is not allowed to claim for the taxable year, "the depreciation allowed under section 168(k)" for the taxable year is limited to excess of the depreciation claimed by the activity under section 168(k) over the amount of the loss from the activity that is not allowed in the taxable year. In succeeding taxable years when the losses not allowed in the taxable year are allowed, the depreciation under section 168(k) is allowed;

(8) for taxable years beginning before January 1, 2015, 80 percent of the amount by which the deduction allowed by section 179 of the Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal Revenue Code of 1986, as amended through December 31, 2003;

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

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

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

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

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

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

(15) the amount of disallowed itemized deductions, but the amount of disallowed itemized deductions plus the addition required under clause (2) may not be more than the amount by which the itemized deductions as allowed under section 63(d) of the Internal Revenue Code exceeds the amount of the standard deduction as defined in section 63(c) of the Internal Revenue Code, and reduced by any addition that would have been required under clause (17) if the taxpayer had claimed the standard deduction:

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

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

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

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

(A) such dollar amount, multiplied by

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

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

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

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

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

(16) the amount of disallowed personal exemptions for taxpayers with federal adjusted gross income over the threshold amount:

(i) the disallowed personal exemption amount is equal to the number of personal exemptions allowed under section 151(b) and (c) of the Internal Revenue Code multiplied by the dollar amount for personal exemptions under section 151(d)(1) and (2) of the Internal Revenue Code, as adjusted for inflation by section 151(d)(4) of the Internal Revenue Code, and by the applicable percentage;

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

(iii) the term "threshold amount" means:

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

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

(C) \$100,000 in the case of an individual who is not married and who is not a surviving spouse or head of a household; and

(D) \$75,000 in the case of a married individual filing a separate return; and
(iv) the thresholds shall be increased by an amount equal to:
(A) such dollar amount, multiplied by
(B) the cost-of-living adjustment determined under section 1(f)(3) of the Internal Revenue Code for the calendar year in which the taxable year begins, by substituting "calendar year 1990" for "calendar year 1992" in subparagraph (B) thereof; and
(17) to the extent deducted in the computation of federal taxable income, for taxable years beginning after December 31, 2010, and before January 1, 2014, the difference between the standard deduction allowed under section 63(c) of the Internal Revenue Code and the standard deduction allowed for 2011, 2012, and 2013 under the Internal Revenue Code as amended through December 1, 2010.

EFFECTIVE DATE. This section is effective retroactively for taxable years beginning after December 31, 2014.

Sec. 4. Minnesota Statutes 2014, section 290.01, subdivision 19b, is amended to read:

Subd. 19b. **Subtractions from federal taxable income.** For individuals, estates, and trusts, there shall be subtracted from federal taxable income:

(1) net interest income on obligations of any authority, commission, or instrumentality of the United States to the extent includable in taxable income for federal income tax purposes but exempt from state income tax under the laws of the United States;

(2) if included in federal taxable income, the amount of any overpayment of income tax to Minnesota or to any other state, for any previous taxable year, whether the amount is received as a refund or as a credit to another taxable year's income tax liability;

(3) the amount paid to others, less the amount used to claim the credit allowed under section 290.0674, not to exceed \$1,625 for each qualifying child in grades kindergarten to 6 and \$2,500 for each qualifying child in grades 7 to 12, for tuition, textbooks, and transportation of each qualifying child in attending an elementary or secondary school situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a resident of this state may legally fulfill the state's compulsory attendance laws, which is not operated for profit, and which adheres to the provisions of the Civil Rights Act of 1964 and chapter 363A. For the purposes of this clause, "tuition" includes fees or tuition as defined in section 290.0674, subdivision 1, clause (1). As used in this clause, "textbooks" includes books and other instructional materials and equipment purchased or leased for use in elementary and secondary schools in teaching only those subjects legally and commonly taught in public elementary and secondary schools in this state. Equipment expenses qualifying for deduction includes expenses as defined and limited in

section 290.0674, subdivision 1, clause (3). "Textbooks" does not include instructional books and materials used in the teaching of religious tenets, doctrines, or worship, the purpose of which is to instill such tenets, doctrines, or worship, nor does it include books or materials for, or transportation to, extracurricular activities including sporting events, musical or dramatic events, speech activities, driver's education, or similar programs. No deduction is permitted for any expense the taxpayer incurred in using the taxpayer's or the qualifying child's vehicle to provide such transportation for a qualifying child. For purposes of the subtraction provided by this clause, "qualifying child" has the meaning given in section 32(c)(3) of the Internal Revenue Code;

(4) income as provided under section 290.0802;

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

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

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

(8) in each of the five tax years immediately following the tax year in which an addition is required under subdivision 19a, clause (7), or 19c, clause (12), in the case of a shareholder of a corporation that is an S corporation, an amount equal to one-fifth of the delayed depreciation. For purposes of this clause, "delayed depreciation" means the amount of the addition made by the taxpayer under subdivision 19a, clause (7), or subdivision 19c, clause (12), in the case of a shareholder of an S corporation, minus the positive value of any net operating loss under section 172 of the Internal Revenue Code generated for the tax year of the addition. The resulting delayed depreciation cannot be less than zero;

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

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

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

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

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

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

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

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

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

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

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

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

~~(21) to the extent included in federal taxable income, the amount of qualified transportation fringe benefits described in section 132(f)(1)(A) and (B) of the Internal Revenue Code. The subtraction is limited to the lesser of the amount of qualified transportation fringe benefits received in excess of the limitations under section 132(f)(2)(A) of the Internal Revenue Code for the year or the difference between the maximum qualified parking benefits excludable under section 132(f)(2)(B) of the Internal Revenue Code minus the amount of transit benefits excludable under section 132(f)(2)(A) of the Internal Revenue Code.~~

EFFECTIVE DATE. This section is effective retroactively for taxable years beginning after December 31, 2014.

Sec. 5. Minnesota Statutes 2014, section 290.01, subdivision 19c, is amended to read:

Subd. 19c. **Corporations; additions to federal taxable income.** For corporations, there shall be added to federal taxable income:

(1) the amount of any deduction taken for federal income tax purposes for income, excise, or franchise taxes based on net income or related minimum taxes, including but not limited to the tax imposed under section 290.0922, paid by the corporation to Minnesota,

10.1 another state, a political subdivision of another state, the District of Columbia, or any
10.2 foreign country or possession of the United States;

10.3 (2) interest not subject to federal tax upon obligations of: the United States, its
10.4 possessions, its agencies, or its instrumentalities; the state of Minnesota or any other
10.5 state, any of its political or governmental subdivisions, any of its municipalities, or any
10.6 of its governmental agencies or instrumentalities; the District of Columbia; or Indian
10.7 tribal governments;

10.8 (3) exempt-interest dividends received as defined in section 852(b)(5) of the Internal
10.9 Revenue Code;

10.10 (4) the amount of any net operating loss deduction taken for federal income tax
10.11 purposes under section 172 or 832(c)(10) of the Internal Revenue Code or operations loss
10.12 deduction under section 810 of the Internal Revenue Code;

10.13 (5) the amount of any special deductions taken for federal income tax purposes
10.14 under sections 241 to 247 and 965 of the Internal Revenue Code;

10.15 (6) losses from the business of mining, as defined in section 290.05, subdivision 1,
10.16 clause (a), that are not subject to Minnesota income tax;

10.17 (7) the amount of any capital losses deducted for federal income tax purposes under
10.18 sections 1211 and 1212 of the Internal Revenue Code;

10.19 (8) the amount of percentage depletion deducted under sections 611 through 614 and
10.20 291 of the Internal Revenue Code;

10.21 (9) for certified pollution control facilities placed in service in a taxable year
10.22 beginning before December 31, 1986, and for which amortization deductions were elected
10.23 under section 169 of the Internal Revenue Code of 1954, as amended through December
10.24 31, 1985, the amount of the amortization deduction allowed in computing federal taxable
10.25 income for those facilities;

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

10.29 (11) any increase in subpart F income, as defined in section 952(a) of the Internal
10.30 Revenue Code, for the taxable year when subpart F income is calculated without regard to
10.31 the provisions of Division C, title III, section 303(b) of Public Law 110-343;

10.32 (12) for taxable years beginning before January 1, 2015, 80 percent of the
10.33 depreciation deduction allowed under section 168(k)(1)(A) and (k)(4)(A) of the Internal
10.34 Revenue Code. For purposes of this clause, if the taxpayer has an activity that in the taxable
10.35 year generates a deduction for depreciation under section 168(k)(1)(A) and (k)(4)(A) and
10.36 the activity generates a loss for the taxable year that the taxpayer is not allowed to claim for

the taxable year, "the depreciation allowed under section 168(k)(1)(A) and (k)(4)(A)" for the taxable year is limited to excess of the depreciation claimed by the activity under section 168(k)(1)(A) and (k)(4)(A) over the amount of the loss from the activity that is not allowed in the taxable year. In succeeding taxable years when the losses not allowed in the taxable year are allowed, the depreciation under section 168(k)(1)(A) and (k)(4)(A) is allowed;

(13) for taxable years beginning before January 1, 2015, 80 percent of the amount by which the deduction allowed by section 179 of the Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal Revenue Code of 1986, as amended through December 31, 2003;

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

(15) the amount of expenses disallowed under section 290.10, subdivision 2; and

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

EFFECTIVE DATE. This section is effective retroactively for taxable years beginning after December 31, 2014.

Sec. 6. Minnesota Statutes 2015 Supplement, section 290.01, subdivision 31, is amended to read:

Subd. 31. **Internal Revenue Code.** Unless specifically defined otherwise, "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through December 31, ~~2014~~ 2015. Internal Revenue Code also includes any uncodified provision in federal law that relates to provisions of the Internal Revenue Code that are incorporated into Minnesota law. When used in this chapter, the reference to "subtitle A, chapter 1, subchapter N, part 1, of the Internal Revenue Code" is to the Internal Revenue Code as amended through March 18, 2010.

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

Sec. 7. Minnesota Statutes 2015 Supplement, section 290.0671, subdivision 1, is amended to read:

Subdivision 1. **Credit allowed.** (a) An individual who is a resident of Minnesota is allowed a credit against the tax imposed by this chapter equal to a percentage of earned

12.1 income. To receive a credit, a taxpayer must be eligible for a credit under section 32 of the
12.2 Internal Revenue Code.

12.3 (b) For individuals with no qualifying children, the credit equals 2.10 percent of the
12.4 first \$6,180 of earned income. The credit is reduced by 2.01 percent of earned income
12.5 or adjusted gross income, whichever is greater, in excess of \$8,130, but in no case is
12.6 the credit less than zero.

12.7 (c) For individuals with one qualifying child, the credit equals 9.35 percent of the
12.8 first \$11,120 of earned income. The credit is reduced by 6.02 percent of earned income
12.9 or adjusted gross income, whichever is greater, in excess of \$21,190, but in no case is
12.10 the credit less than zero.

12.11 (d) For individuals with two or more qualifying children, the credit equals 11 percent
12.12 of the first \$18,240 of earned income. The credit is reduced by 10.82 percent of earned
12.13 income or adjusted gross income, whichever is greater, in excess of \$25,130, but in no
12.14 case is the credit less than zero.

12.15 (e) For a part-year resident, the credit must be allocated based on the percentage
12.16 calculated under section 290.06, subdivision 2c, paragraph (e).

12.17 (f) For a person who was a resident for the entire tax year and has earned income
12.18 not subject to tax under this chapter, including income excluded under section 290.01,
12.19 subdivision 19b, clause (9), the credit must be allocated based on the ratio of federal
12.20 adjusted gross income reduced by the earned income not subject to tax under this chapter
12.21 over federal adjusted gross income. For purposes of this paragraph, the subtractions
12.22 for military pay under section 290.01, subdivision 19b, clauses (10) and (11), are not
12.23 considered "earned income not subject to tax under this chapter."

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

12.27 ~~(g) For tax years beginning after December 31, 2007, and before December 31,~~
12.28 ~~2010, and for tax years beginning after December 31, 2017, the \$8,130 in paragraph (b),~~
12.29 ~~the \$21,190 in paragraph (c), and the \$25,130 in paragraph (d), after being adjusted for~~
12.30 ~~inflation under subdivision 7, are each increased by \$3,000 for married taxpayers filing joint~~
12.31 ~~returns. For tax years beginning after December 31, 2008, the commissioner shall annually~~
12.32 ~~adjust the \$3,000 by the percentage determined pursuant to the provisions of section 1(f)~~
12.33 ~~of the Internal Revenue Code, except that in section 1(f)(3)(B), the word "2007" shall be~~
12.34 ~~substituted for the word "1992." For 2009, the commissioner shall then determine the~~
12.35 ~~percent change from the 12 months ending on August 31, 2007, to the 12 months ending on~~
12.36 ~~August 31, 2008, and in each subsequent year, from the 12 months ending on August 31,~~

2007, to the 12 months ending on August 31 of the year preceding the taxable year. The earned income thresholds as adjusted for inflation must be rounded to the nearest \$10. If the amount ends in \$5, the amount is rounded up to the nearest \$10. The determination of the commissioner under this subdivision is not a rule under the Administrative Procedure Act.

(h) (g)(1) For tax years beginning after December 31, 2012, and before January 1, 2014, the \$5,770 in paragraph (b), the \$15,080 in paragraph (c), and the \$17,890 in paragraph (d), after being adjusted for inflation under subdivision 7, are increased by \$5,340 for married taxpayers filing joint returns; and (2) for tax years beginning after December 31, 2013, and before January 1, 2018, the \$8,130 in paragraph (b), the \$21,190 in paragraph (c), and the \$25,130 in paragraph (d), after being adjusted for inflation under subdivision 7, are each increased by \$5,000 for married taxpayers filing joint returns. For tax years beginning after December 31, 2010, and before January 1, 2012, and for tax years beginning after December 31, 2013, and before January 1, 2018, the commissioner shall annually adjust the \$5,000 by the percentage determined pursuant to the provisions of section 1(f) of the Internal Revenue Code, except that in section 1(f)(3)(B), the word "2008" shall be substituted for the word "1992." For 2011 2014, the commissioner shall then determine the percent change from the 12 months ending on August 31, 2008, to the 12 months ending on August 31, 2010 2013, and in each subsequent year, from the 12 months ending on August 31, 2008, to the 12 months ending on August 31 of the year preceding the taxable year. The earned income thresholds as adjusted for inflation must be rounded to the nearest \$10. If the amount ends in \$5, the amount is rounded up to the nearest \$10. The determination of the commissioner under this subdivision is not a rule under the Administrative Procedure Act.

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

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

Sec. 8. Minnesota Statutes 2014, section 290.091, subdivision 2, is amended to read:

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

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

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

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

14.3 (i) the charitable contribution deduction under section 170 of the Internal Revenue
14.4 Code;

14.5 (ii) the medical expense deduction;

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

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

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

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

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

14.19 (6) the amount of addition required by section 290.01, subdivision 19a, clauses (7)
14.20 to (9), and (11) to (14);

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

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

14.23 (2) an overpayment of state income tax as provided by section 290.01, subdivision
14.24 19b, clause (2), to the extent included in federal alternative minimum taxable income;

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

14.29 (4) amounts subtracted from federal taxable income as provided by section 290.01,
14.30 subdivision 19b, clauses (6), (8) to (14), and (16), ~~and (21)~~; and

14.31 (5) the amount of the net operating loss allowed under section 290.095, subdivision
14.32 11, paragraph (c).

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

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

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

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

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

15.7 **EFFECTIVE DATE.** This section is effective retroactively for taxable years
15.8 beginning after December 31, 2014.

15.9 Sec. 9. Minnesota Statutes 2015 Supplement, section 290A.03, subdivision 15, is
15.10 amended to read:

15.11 Subd. 15. **Internal Revenue Code.** "Internal Revenue Code" means the Internal
15.12 Revenue Code of 1986, as amended through December 31, ~~2014~~ 2015.

15.13 **EFFECTIVE DATE.** This section is effective retroactively for property tax refunds
15.14 based on property taxes payable after December 31, 2015, and rent paid after December
15.15 31, 2014.

15.16 Sec. 10. Minnesota Statutes 2015 Supplement, section 291.005, subdivision 1, is
15.17 amended to read:

15.18 Subdivision 1. **Scope.** Unless the context otherwise clearly requires, the following
15.19 terms used in this chapter shall have the following meanings:

15.20 (1) "Commissioner" means the commissioner of revenue or any person to whom the
15.21 commissioner has delegated functions under this chapter.

15.22 (2) "Federal gross estate" means the gross estate of a decedent as required to be valued
15.23 and otherwise determined for federal estate tax purposes under the Internal Revenue Code,
15.24 increased by the value of any property in which the decedent had a qualifying income
15.25 interest for life and for which an election was made under section 291.03, subdivision 1d,
15.26 for Minnesota estate tax purposes, but was not made for federal estate tax purposes.

15.27 (3) "Internal Revenue Code" means the United States Internal Revenue Code of
15.28 1986, as amended through December 31, ~~2014~~ 2015.

15.29 (4) "Minnesota gross estate" means the federal gross estate of a decedent after
15.30 (a) excluding therefrom any property included in the estate which has its situs outside
15.31 Minnesota, and (b) including any property omitted from the federal gross estate which
15.32 is includable in the estate, has its situs in Minnesota, and was not disclosed to federal
15.33 taxing authorities.

16.1 (5) "Nonresident decedent" means an individual whose domicile at the time of
16.2 death was not in Minnesota.

16.3 (6) "Personal representative" means the executor, administrator or other person
16.4 appointed by the court to administer and dispose of the property of the decedent. If there
16.5 is no executor, administrator or other person appointed, qualified, and acting within this
16.6 state, then any person in actual or constructive possession of any property having a situs in
16.7 this state which is included in the federal gross estate of the decedent shall be deemed
16.8 to be a personal representative to the extent of the property and the Minnesota estate tax
16.9 due with respect to the property.

16.10 (7) "Resident decedent" means an individual whose domicile at the time of death
16.11 was in Minnesota.

16.12 (8) "Situs of property" means, with respect to:

16.13 (i) real property, the state or country in which it is located;

16.14 (ii) tangible personal property, the state or country in which it was normally kept
16.15 or located at the time of the decedent's death or for a gift of tangible personal property
16.16 within three years of death, the state or country in which it was normally kept or located
16.17 when the gift was executed;

16.18 (iii) a qualified work of art, as defined in section 2503(g)(2) of the Internal Revenue
16.19 Code, owned by a nonresident decedent and that is normally kept or located in this state
16.20 because it is on loan to an organization, qualifying as exempt from taxation under section
16.21 501(c)(3) of the Internal Revenue Code, that is located in Minnesota, the situs of the art is
16.22 deemed to be outside of Minnesota, notwithstanding the provisions of item (ii); and

16.23 (iv) intangible personal property, the state or country in which the decedent was
16.24 domiciled at death or for a gift of intangible personal property within three years of death,
16.25 the state or country in which the decedent was domiciled when the gift was executed.

16.26 For a nonresident decedent with an ownership interest in a pass-through entity with
16.27 assets that include real or tangible personal property, situs of the real or tangible personal
16.28 property, including qualified works of art, is determined as if the pass-through entity does
16.29 not exist and the real or tangible personal property is personally owned by the decedent.
16.30 If the pass-through entity is owned by a person or persons in addition to the decedent,
16.31 ownership of the property is attributed to the decedent in proportion to the decedent's
16.32 capital ownership share of the pass-through entity.

16.33 (9) "Pass-through entity" includes the following:

16.34 (i) an entity electing S corporation status under section 1362 of the Internal Revenue
16.35 Code;

16.36 (ii) an entity taxed as a partnership under subchapter K of the Internal Revenue Code;

(iii) a single-member limited liability company or similar entity, regardless of whether it is taxed as an association or is disregarded for federal income tax purposes under Code of Federal Regulations, title 26, section 301.7701-3; or

(iv) a trust to the extent the property is includible in the decedent's federal gross estate; but excludes

(v) an entity whose ownership interest securities are traded on an exchange regulated by the Securities and Exchange Commission as a national securities exchange under section 6 of the Securities Exchange Act, United States Code, title 15, section 78f.

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

Sec. 11. **INDIVIDUAL INCOME TAX COLLECTION ACTION PROHIBITED.**

Notwithstanding any law to the contrary, the commissioner of revenue shall not increase the amount due or decrease the refund for an individual income tax return for the taxable year beginning after December 31, 2014, and before January 1, 2016, to the extent the amount due was understated or the refund was overstated because the taxpayer calculated the tax or refund based on the Internal Revenue Code, as amended through December 31, 2014, rather than based on the Internal Revenue Code, as amended through December 31, 2015, as provided in this act.

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

Sec. 12. **AMENDED RETURNS.**

Subdivision 1. **Certain IRA rollovers.** An individual who excludes an amount from net income in a prior taxable year through rollover of an airline payment amount to a traditional IRA, as authorized under Public Law 114-113, division Q, title III, section 307, may file an amended individual income tax return and claim for refund of state taxes as provided under Minnesota Statutes, section 289A.40, subdivision 1, or, if later, by September 1, 2016.

Subd. 2. **Exclusion for certain incarcerated individuals.** An individual who excludes from net income in a prior taxable year civil damages, restitution, or other monetary award related to wrongful incarceration, as authorized under Public Law 114-113, division Q, title III, section 304, may file an amended individual income tax return and claim for refund of state taxes as provided under Minnesota Statutes, section 289A.40, subdivision 1, or, if later, by September 1, 2016.

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