

SENATE

STATE OF MINNESOTA

EIGHTY-EIGHTH LEGISLATURE

S.F. No. 1649

(SENATE AUTHORS: THOMPSON, Chamberlain and Benson)

DATE	D-PG	OFFICIAL STATUS
05/08/2013	3408	Introduction and first reading Referred to Taxes

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A bill for an act

relating to taxation; individual income; providing for a maximum rate of 7.05 percent on active trade or business income; amending Minnesota Statutes 2012, sections 290.06, subdivision 2c; 290.0675, subdivisions 1, 3.

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

Section 1. Minnesota Statutes 2012, section 290.06, subdivision 2c, is amended to read:

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

(1) On the first \$25,680, 5.35 percent;

(2) On all over \$25,680, ~~but not over \$102,030,~~ 7.05 percent; and

(3) ~~On all over \$102,030, 7.85 percent~~ By applying the rate of 0.8 percent to the amount of taxable net income, after subtracting active trade or business income, over \$102,030.

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

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

(1) On the first \$17,570, 5.35 percent;

(2) On all over \$17,570, ~~but not over \$57,710,~~ 7.05 percent; and

(3) ~~On all over \$57,710, 7.85 percent~~ By applying the rate of 0.8 percent to the amount of taxable net income, after subtracting active trade or business income, over \$57,710.

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

(1) On the first \$21,630, 5.35 percent;

(2) On all over \$21,630, ~~but not over \$86,910~~, 7.05 percent; and

(3) ~~On all over \$86,910, 7.85 percent~~ By applying the rate of 0.8 percent to the amount of taxable net income, after subtracting active trade or business income, over \$86,910.

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

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

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

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

(f) For purposes of this subdivision, "active trade or business income" means income derived in the ordinary course of a trade or business, other than income from:

(1) a trade or business that is a passive activity with respect to the taxpayer, as defined in section 469 of the Internal Revenue Code; or

(2) a trade or business of trading in financial instruments or commodities, as defined in section 475(e)(2) of the Internal Revenue Code.

"Active trade or business income" also includes net gain or loss on disposition of certain active interests in partnerships and S corporations, as defined in section 1411(c)(4) of the Internal Revenue Code. "Active trade or business income" may not exceed the amount of such income that is exempt from taxation under section 1411 of the Internal Revenue Code, disregarding the income threshold amounts in section 1411(b) of the Internal Revenue Code.

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

Sec. 2. Minnesota Statutes 2012, section 290.0675, subdivision 1, is amended to read:

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

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

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

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

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

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

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

(e) "Active trade or business income" has the meaning given in section 290.06, subdivision 2c.

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

Sec. 3. Minnesota Statutes 2012, section 290.0675, subdivision 3, is amended to read:

Subd. 3. **Credit amount.** (a) The credit amount is the difference between the tax on the couple's joint Minnesota taxable income under the rates and income levels in section 290.06, subdivision 2c, paragraph (a), as adjusted for the taxable year by section 290.06, subdivision 2d, and the sum of the tax under the rates and income levels of section 290.06, subdivision 2c, paragraph (b), as adjusted for the taxable year by section 290.06, subdivision 2d, on the earned income of the lesser-earning spouse, and the tax under the rates and income levels of section 290.06, subdivision 2c, paragraph (b), as adjusted for the taxable year by section 290.06, subdivision 2d, on the couple's joint Minnesota taxable income, minus the earned income of the lesser-earning spouse.:

(1) the tax on the couple's joint Minnesota taxable income under the rates and income levels in section 290.06, subdivision 2c, paragraph (a), as adjusted for the taxable year by section 290.06, subdivision 2d, after subtracting active trade or business income in calculating the tax under section 290.06, subdivision 2c, paragraph (a), clause (3); and

(2) the sum of:

(i) the tax under the rates and income levels of section 290.06, subdivision 2c, paragraph (b), as adjusted for the taxable year by section 290.06, subdivision 2d, on the earned income of the lesser-earning spouse, after subtracting any active trade or business income included in the earned income of the lesser-earning spouse in calculating the tax under section 290.06, subdivision 2c, paragraph (b), clause (3); and

(ii) the tax under the rates and income levels of section 290.06, subdivision 2c, paragraph (b), as adjusted for the taxable year by section 290.06, subdivision 2d, on the couple's joint Minnesota taxable income, minus the earned income of the lesser-earning spouse, after subtracting any active trade or business income not included in the earned income of the lesser-earning spouse in calculating the tax under section 290.06, subdivision 2c, paragraph (b), clause (3).

(b) The commissioner of revenue shall prepare and make available to taxpayers a comprehensive table showing the credit under this section at brackets of earnings of the lesser-earning spouse and joint taxable income. The brackets of earnings shall not be more than \$2,000.

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