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State of Minnesota

HOUSE OF REPRESENTATIVES

NINETIETH SESSION

H. F. No. 328

01/19/2017 Authored by Anderson, S.; Hertauss and Gruenhagen
The bill was read for the first time and referred to the Committee on Taxes

1.1 A bill for an act
1.2 relating to taxation; individual income; providing for a maximum rate of 7.85
1.3 percent on active trade or business income; amending Minnesota Statutes 2016,
1.4 sections 290.06, subdivisions 2c, 2d; 290.0675, subdivisions 1, 3.

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

1.6 Section 1. Minnesota Statutes 2016, section 290.06, subdivision 2c, is amended to read:

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

1.11 (1) On the first ~~\$35,480~~ \$37,110, 5.35 percent;

1.12 (2) On all over ~~\$35,480~~ \$37,110, but not over ~~\$140,960~~ \$147,450, 7.05 percent;

1.13 (3) On all over ~~\$140,960, but not over \$250,000~~ \$147,450, 7.85 percent;

1.14 (4) On all ~~over \$250,000, 9.85 percent~~ taxable net income, after subtracting active trade
1.15 or business income, over \$261,510, an additional 2.0 percent.

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

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

1.21 (1) On the first ~~\$24,270~~ \$25,390, 5.35 percent;

2.1 (2) On all over ~~\$24,270~~ \$25,390, but not over ~~\$79,730~~ \$83,400, 7.05 percent;

2.2 (3) On all over ~~\$79,730, but not over \$150,000~~ \$83,400, 7.85 percent;

2.3 (4) On all ~~over \$150,000, 9.85 percent~~ taxable net income, after subtracting active trade
2.4 or business income, over \$156,910, an additional 2.0 percent.

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

2.8 (1) On the first ~~\$29,880~~ \$31,260, 5.35 percent;

2.9 (2) On all over ~~\$29,880~~ \$31,260, but not over ~~\$120,070~~ \$125,600, 7.05 percent;

2.10 (3) On all over ~~\$120,070, but not over \$200,000~~ \$125,600, 7.85 percent;

2.11 (4) On all ~~over \$200,000, 9.85 percent~~ taxable net income, after subtracting active trade
2.12 or business income, over \$209,210, an additional 2.0 percent.

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

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

2.24 (1) the numerator is the individual's Minnesota source federal adjusted gross income as
2.25 defined in section 62 of the Internal Revenue Code and increased by the additions required
2.26 under section 290.0131, subdivisions 2 and 6 to 11, and reduced by the Minnesota assignable
2.27 portion of the subtraction for United States government interest under section 290.0132,
2.28 subdivision 2, and the subtractions under section 290.0132, subdivisions 9, 10, 14, 15, 17,
2.29 and 18, after applying the allocation and assignability provisions of section 290.081, clause
2.30 (a), or 290.17; and

2.31 (2) the denominator is the individual's federal adjusted gross income as defined in section
2.32 62 of the Internal Revenue Code, increased by the amounts specified in section 290.0131,

subdivisions 2 and 6 to 11, and reduced by the amounts specified in section 290.0132, subdivisions 2, 9, 10, 14, 15, 17, and 18.

(f) For purposes of this subdivision, "active trade or business income" means the distributive share of income or loss, as defined in sections 703(a) and 1366(a)(2) of the Internal Revenue Code, combined from all businesses, firms, partnerships, or S corporations in which the taxpayer materially participates, as defined in section 469(h) of the Internal Revenue Code, and that have employees or tangible property in this state, but in no case less than zero.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2016.

Sec. 2. Minnesota Statutes 2016, section 290.06, subdivision 2d, is amended to read:

Subd. 2d. **Inflation adjustment of brackets.** (a) For taxable years beginning after December 31, ~~2013~~ 2017, the minimum and maximum dollar amounts for each rate bracket for which a tax is imposed in subdivision 2c shall be adjusted for inflation by the percentage determined under paragraph (b). For the purpose of making the adjustment as provided in this subdivision all of the rate brackets provided in subdivision 2c shall be the rate brackets as they existed for taxable years beginning after December 31, ~~2012~~ 2016, and before January 1, ~~2014~~ 2018. The rate applicable to any rate bracket must not be changed. The dollar amounts setting forth the tax shall be adjusted to reflect the changes in the rate brackets. The rate brackets as adjusted must be rounded to the nearest \$10 amount. If the rate bracket ends in \$5, it must be rounded up to the nearest \$10 amount.

(b) The commissioner shall adjust the rate brackets and 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 "~~2012~~" "2016" shall be substituted for the word "1992." For ~~2014~~ 2018, the commissioner shall then determine the percent change from the 12 months ending on August 31, ~~2012~~ 2016, to the 12 months ending on August 31, ~~2013~~ 2017, and in each subsequent year, from the 12 months ending on August 31, ~~2012~~ 2016, to the 12 months ending on August 31 of the year preceding the taxable year. The determination of the commissioner pursuant to this subdivision shall not be considered a "rule" and shall not be subject to the Administrative Procedure Act contained in chapter 14.

No later than December 15 of each year, the commissioner shall announce the specific percentage that will be used to adjust the tax rate brackets.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2017.

Sec. 3. Minnesota Statutes 2016, 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.

(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, 2016.

Sec. 4. Minnesota Statutes 2016, 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 (4); 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 (4); 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 (4).

(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, 2016.