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State of Minnesota

HOUSE OF REPRESENTATIVES

NINETIETH SESSION

H. F. No. **955**

02/09/2017 Authored by Garofalo
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; modifying rates; amending Minnesota
1.3 Statutes 2016, sections 290.06, subdivisions 2c, 2d; 290.091, subdivisions 1, 2, 6.

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

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

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

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

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

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

1.13 ~~(4) On all over \$250,000, 9.85 percent.~~

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

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

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

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

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

2.2 ~~(4) On all over \$150,000, 9.85 percent.~~

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

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

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

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

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

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

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

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

2.28 (2) the denominator is the individual's federal adjusted gross income as defined in section
2.29 62 of the Internal Revenue Code, increased by the amounts specified in section 290.0131,
2.30 subdivisions 2 and 6 to 11, and reduced by the amounts specified in section 290.0132,
2.31 subdivisions 2, 9, 10, 14, 15, 17, and 18.

3.1 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December
 3.2 31, 2016.

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

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

3.14 (b) The commissioner shall adjust the rate brackets and by the percentage determined
 3.15 pursuant to the provisions of section 1(f) of the Internal Revenue Code, except that in section
 3.16 1(f)(3)(B) the word "~~2012~~" "2016" shall be substituted for the word "1992." For ~~2014~~ 2018,
 3.17 the commissioner shall then determine the percent change from the 12 months ending on
 3.18 August 31, ~~2012~~ 2016, to the 12 months ending on August 31, ~~2013~~ 2017, and in each
 3.19 subsequent year, from the 12 months ending on August 31, ~~2012~~ 2016, to the 12 months
 3.20 ending on August 31 of the year preceding the taxable year. The determination of the
 3.21 commissioner pursuant to this subdivision shall not be considered a "rule" and shall not be
 3.22 subject to the Administrative Procedure Act contained in chapter 14.

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

3.25 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December
 3.26 31, 2016.

3.27 Sec. 3. Minnesota Statutes 2016, section 290.091, subdivision 1, is amended to read:

3.28 Subdivision 1. **Imposition of tax.** In addition to all other taxes imposed by this chapter
 3.29 a tax is imposed on individuals, estates, and trusts equal to the excess (if any) of

3.30 (a) an amount equal to ~~6.75~~ 6.4 percent of alternative minimum taxable income after
 3.31 subtracting the exemption amount, over

3.32 (b) the regular tax for the taxable year.

4.1 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December
4.2 31, 2016.

4.3 Sec. 4. Minnesota Statutes 2016, section 290.091, subdivision 2, is amended to read:

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

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

4.8 (1) the taxpayer's federal alternative minimum taxable income as defined in section
4.9 55(b)(2) of the Internal Revenue Code;

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

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

4.13 (ii) the medical expense deduction;

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

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

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

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

4.25 (5) to the extent not included in federal alternative minimum taxable income, the amount
4.26 of interest income as provided by section 290.0131, subdivision 2; and

4.27 (6) the amount of addition required by section 290.0131, subdivisions 9 to 11;

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

4.29 (1) interest income as defined in section 290.0132, subdivision 2;

5.1 (2) an overpayment of state income tax as provided by section 290.0132, subdivision 3,
5.2 to the extent included in federal alternative minimum taxable income;

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

5.7 (4) amounts subtracted from federal taxable income as provided by section 290.0132,
5.8 subdivisions 7, 9 to 15, 17, and 21; and

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

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

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

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

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

5.19 (e) "Tentative minimum tax" equals ~~6.75~~ 6.4 percent of alternative minimum taxable
5.20 income after subtracting the exemption amount determined under subdivision 3.

5.21 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December
5.22 31, 2016.

5.23 Sec. 5. Minnesota Statutes 2016, section 290.091, subdivision 6, is amended to read:

5.24 Subd. 6. **Credit for prior years' liability.** (a) A credit is allowed against the tax imposed
5.25 by this chapter on individuals, trusts, and estates equal to the minimum tax credit for the
5.26 taxable year. The minimum tax credit equals the adjusted net minimum tax for taxable years
5.27 beginning after December 31, 1988, reduced by the minimum tax credits allowed in a prior
5.28 taxable year. The credit may not exceed the excess (if any) for the taxable year of

5.29 (1) the regular tax, over

5.30 (2) the greater of (i) the tentative alternative minimum tax, or (ii) zero.

6.1 (b) The adjusted net minimum tax for a taxable year equals the lesser of the net minimum
6.2 tax or the excess (if any) of

6.3 (1) the tentative minimum tax, over

6.4 (2) ~~6.75~~ 6.4 percent of the sum of

6.5 (i) adjusted gross income as defined in section 62 of the Internal Revenue Code,

6.6 (ii) interest income as defined in section 290.0131, subdivision 2,

6.7 (iii) interest on specified private activity bonds, as defined in section 57(a)(5) of the
6.8 Internal Revenue Code, to the extent not included under clause (ii),

6.9 (iv) depletion as defined in section 57(a)(1), determined without regard to the last sentence
6.10 of paragraph (1), of the Internal Revenue Code, less

6.11 (v) the deductions allowed in computing alternative minimum taxable income provided
6.12 in subdivision 2, paragraph (a), clause (2) of the first series of clauses and clauses (1), (2),
6.13 and (3) of the second series of clauses, and

6.14 (vi) the exemption amount determined under subdivision 3.

6.15 In the case of an individual who is not a Minnesota resident for the entire year, adjusted
6.16 net minimum tax must be multiplied by the fraction defined in section 290.06, subdivision
6.17 2c, paragraph (e). In the case of a trust or estate, adjusted net minimum tax must be multiplied
6.18 by the fraction defined under subdivision 4, paragraph (b).

6.19 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December
6.20 31, 2016.