

SENATE
STATE OF MINNESOTA
EIGHTY-NINTH SESSION

S.F. No. 1624

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DATE	D-PG	OFFICIAL STATUS
03/11/2015	681	Introduction and first reading Referred to Finance

A bill for an act

1.1
1.2 relating to higher education; encouraging saving for higher education expenses;
1.3 amending Minnesota Statutes 2014, section 290.01, subdivision 19b; proposing
1.4 coding for new law in Minnesota Statutes, chapter 136G.

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

1.6 Section 1. **[136G.12] MATCHING GRANTS.**

1.7 Subdivision 1. **Matching grant qualification.** By July 1 of each year, a state
1.8 matching grant must be added to each account established under the program if the
1.9 following conditions are met:

1.10 (1) the contributor applies, in writing in a form prescribed by the commissioner,
1.11 for a matching grant;

1.12 (2) a minimum contribution of \$200 was made during the preceding calendar year;

1.13 (3) the beneficiary's family meets Minnesota college savings plan residency
1.14 requirements; and

1.15 (4) the family income of the beneficiary did not exceed \$80,000.

1.16 Subd. 2. **Family income.** (a) For purposes of this section, "family income" means:

1.17 (1) if the beneficiary is under age 25, the combined adjusted gross income of the
1.18 beneficiary's parents or legal guardians as reported on the federal tax return or returns for
1.19 the calendar year in which contributions were made. If the beneficiary's parents or legal
1.20 guardians are divorced, the income of the parent claiming the beneficiary as a dependent
1.21 on the federal individual income tax return and the income of that parent's spouse, if
1.22 any, is used to determine family income; or

1.23 (2) if the beneficiary is age 25 or older, the combined adjusted gross income of the
1.24 beneficiary and the beneficiary's spouse, if any.

2.1 (b) For a parent or legal guardian of beneficiaries under age 25 and for beneficiaries
2.2 age 25 or older who resided in Minnesota and filed a federal individual income tax return,
2.3 the matching grant must be based on family income from the calendar year in which
2.4 contributions were made.

2.5 Subd. 3. **Residency requirement.** (a) If the beneficiary is under age 25, the
2.6 beneficiary's parents or legal guardians must be Minnesota residents to qualify for a
2.7 matching grant. If the beneficiary is age 25 or older, the beneficiary must be a Minnesota
2.8 resident to qualify for a matching grant.

2.9 (b) To meet the residency requirements, the parent or legal guardian of beneficiaries
2.10 under age 25 must have filed a Minnesota individual income tax return as a Minnesota
2.11 resident and claimed the beneficiary as a dependent on the parent or legal guardian's
2.12 federal tax return for the calendar year in which contributions were made. If the
2.13 beneficiary's parents are divorced, the parent or legal guardian claiming the beneficiary as
2.14 a dependent on the federal individual income tax return must be a Minnesota resident.
2.15 For beneficiaries age 25 or older, the beneficiary, and a spouse, if any, must have filed
2.16 a Minnesota and a federal individual income tax return as a Minnesota resident for the
2.17 calendar year in which contributions were made.

2.18 (c) A parent of beneficiaries under age 25 and beneficiaries age 25 or older who
2.19 did not reside in Minnesota in the calendar year in which contributions were made are
2.20 not eligible for a matching grant.

2.21 Subd. 4. **Age and date of birth determination of beneficiary.** In determining the
2.22 age of the beneficiary for purposes of a matching grant, the plan administrator shall use
2.23 the age of the beneficiary as reported on the participation agreement on December 31 of
2.24 the year in which the request for a matching grant is made.

2.25 Subd. 5. **Amount of matching grant.** The amount of the matching grant for a
2.26 beneficiary equals:

2.27 (1) if the beneficiary's family income is \$50,000 or less, 15 percent of the sum of the
2.28 contributions made to the beneficiary's account during the calendar year, not to exceed
2.29 \$400; and

2.30 (2) if the beneficiary's family income is more than \$50,000 but not more than
2.31 \$80,000, ten percent of the sum of the contributions made to the beneficiary's account
2.32 during the calendar year, not to exceed \$400.

2.33 Subd. 6. **Budget limit.** If the total amount of matching grants determined under
2.34 subdivision 3 exceeds the amount of the appropriation for the fiscal year, the commissioner
2.35 shall proportionately reduce each grant so that the total equals the available appropriation.

3.1 The commissioner must reduce matching grants so that the amount of the matching grant
3.2 assigned to a beneficiary's account equals:

3.3 (1) the ratio of state appropriations for the matching grant divided by the total dollar
3.4 amount of matching grants for all beneficiaries, multiplied by

3.5 (2) the dollar amount of the matching grant for each eligible beneficiary.

3.6 Subd. 7. **Coordination with Department of Revenue.** In administering matching
3.7 grants, the commissioner may require that applicants submit sufficient information to
3.8 determine whether the beneficiary qualifies for a grant, including the Social Security
3.9 numbers, family income information, and any other information the commissioner
3.10 determines necessary. The applicant or applicants may authorize the commissioner to
3.11 request information from the commissioner of revenue to verify eligibility for a grant from
3.12 tax information on file with the commissioner or obtained from the Internal Revenue
3.13 Service. If this method is used and the taxpayer has authorized a release of the information
3.14 to the commissioner, the commissioner of revenue may verify that the beneficiary is
3.15 eligible for a grant at a specified rate and maximum, and disclose that information to the
3.16 commissioner, notwithstanding the provisions of chapter 270B.

3.17 Subd. 8. **Private contributions.** (a) The office may solicit and accept contributions
3.18 from private corporations, other businesses, foundations, employers, or individuals to
3.19 provide:

3.20 (1) matching grants under this section in addition to those funded with direct
3.21 appropriations;

3.22 (2) grants to students who withdraw money from accounts established under the
3.23 program; or

3.24 (3) contributions to an account on behalf of a beneficiary.

3.25 (b) Amounts contributed may only be used for those purposes. Amounts contributed
3.26 are appropriated to the commissioner for the purposes of this subdivision.

3.27 (c) Contributors may designate a specific field of study, geographic area, or other
3.28 criteria that govern use of the grants funded with their contributions, but may not
3.29 discriminate on the basis of race, ethnicity, or gender. The office may refuse contributions
3.30 that are subject, in the judgment of the commissioner, to unacceptable conditions on
3.31 their use.

3.32 Subd. 9. **Annual application** An account owner must submit an application form
3.33 for a matching grant on an annual basis. The application must be postmarked by May 1
3.34 of the year in which the matching grant would be awarded if the applicant qualifies for a
3.35 matching grant.

4.1 Subd. 10. **Single beneficiaries with multiple accounts.** (a) A matching grant will
 4.2 first be computed on an account owned by a parent or legal guardian of the beneficiary,
 4.3 or an account owner who is also the beneficiary. If there are multiple accounts for a
 4.4 single beneficiary, any matching grant, up to the annual maximum, will be proportionately
 4.5 awarded to the beneficiary named in accounts owned by the parents or guardians.

4.6 (b) If the account owned by a parent or a guardian or an account owner who is also
 4.7 the beneficiary does not qualify for the maximum annual matching grant, any remaining
 4.8 matching grant funds are proportionately distributed to the beneficiary to an account or
 4.9 accounts owned by someone other than the parent or guardian.

4.10 (c) If the account for a beneficiary is not owned by a parent or a legal guardian, or an
 4.11 account owner who is also the beneficiary, then the matching grant will be proportionately
 4.12 distributed to the beneficiary to accounts owned by others.

4.13 Sec. 2. Minnesota Statutes 2014, section 290.01, subdivision 19b, is amended to read:

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

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

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

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

5.1 books and materials used in the teaching of religious tenets, doctrines, or worship, the
5.2 purpose of which is to instill such tenets, doctrines, or worship, nor does it include books
5.3 or materials for, or transportation to, extracurricular activities including sporting events,
5.4 musical or dramatic events, speech activities, driver's education, or similar programs. No
5.5 deduction is permitted for any expense the taxpayer incurred in using the taxpayer's or
5.6 the qualifying child's vehicle to provide such transportation for a qualifying child. For
5.7 purposes of the subtraction provided by this clause, "qualifying child" has the meaning
5.8 given in section 32(c)(3) of the Internal Revenue Code;

5.9 (4) income as provided under section 290.0802;

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

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

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

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

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

5.35 (10) to the extent included in federal taxable income, the amount of compensation
5.36 paid to members of the Minnesota National Guard or other reserve components of the

6.1 United States military for active service, including compensation for services performed
6.2 under the Active Guard Reserve (AGR) program. For purposes of this clause, "active
6.3 service" means (i) state active service as defined in section 190.05, subdivision 5a, clause
6.4 (1); or (ii) federally funded state active service as defined in section 190.05, subdivision
6.5 5b, and "active service" includes service performed in accordance with section 190.08,
6.6 subdivision 3;

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

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

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

6.31 (14) to the extent included in the federal taxable income of a nonresident of
6.32 Minnesota, compensation paid to a service member as defined in United States Code, title
6.33 10, section 101(a)(5), for military service as defined in the Servicemembers Civil Relief
6.34 Act, Public Law 108-189, section 101(2);

6.35 (15) to the extent included in federal taxable income, the amount of national service
6.36 educational awards received from the National Service Trust under United States Code,

7.1 title 42, sections 12601 to 12604, for service in an approved Americorps National Service
7.2 program;

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

7.8 (17) the amount of the net operating loss allowed under section 290.095, subdivision
7.9 11, paragraph (c);

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

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

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

7.17 (21) to the extent included in federal taxable income, the amount of qualified
7.18 transportation fringe benefits described in section 132(f)(1)(A) and (B) of the Internal
7.19 Revenue Code. The subtraction is limited to the lesser of the amount of qualified
7.20 transportation fringe benefits received in excess of the limitations under section
7.21 132(f)(2)(A) of the Internal Revenue Code for the year or the difference between the
7.22 maximum qualified parking benefits excludable under section 132(f)(2)(B) of the Internal
7.23 Revenue Code minus the amount of transit benefits excludable under section 132(f)(2)(A)
7.24 of the Internal Revenue Code; and

7.25 (22) the amount equal to the contributions made during the tax year to a college
7.26 savings plan account qualifying under section 529 of the Internal Revenue Code, not
7.27 including amounts rolled over from other college savings plan accounts, and not to exceed
7.28 \$10,000 for married couples filing joint returns and \$5,000 for all other filers.

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

7.31 **Sec. 3. REVISOR'S INSTRUCTION.**

7.32 The revisor of statutes shall renumber the provisions of Minnesota Statutes listed in
7.33 Column A to the references listed in Column B. The revisor shall also make necessary
7.34 cross-reference changes in Minnesota Statutes and Minnesota Rules consistent with the
7.35 renumbering in this instruction.

	<u>Column A</u>	<u>Column B</u>
8.2	<u>136G.11, subdivision 11</u>	<u>136G.12, subdivision 11</u>
8.3	<u>136G.11, subdivision 12</u>	<u>136G.12, subdivision 12</u>
8.4	<u>136G.11, subdivision 13</u>	<u>136G.12, subdivision 13</u>