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State of Minnesota  
HOUSE OF REPRESENTATIVES

EIGHTY-EIGHTH SESSION

H. F. No. 2870

03/10/2014 Authored by Erhardt

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 2012,  
1.4 section 290.0675, subdivision 1; Minnesota Statutes 2013 Supplement, section  
1.5 290.06, subdivisions 2c, 2d.

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

1.7 Section 1. Minnesota Statutes 2013 Supplement, section 290.06, subdivision 2c,  
1.8 is amended to read:

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

1.13 (1) On the first ~~\$35,480~~ \$36,080 of their taxable net income, 5.35 percent;

1.14 (2) On all of their taxable net income over ~~\$35,480~~ \$36,080, but not over ~~\$140,960~~  
1.15 \$143,350, 7.05 percent;

1.16 (3) On all of their taxable net income over ~~\$140,960~~ but not over \$250,000  
1.17 \$143,350, 7.85 percent; and

1.18 (4) ~~On all over \$250,000, 9.85 percent~~ By applying an additional rate of 2.0 percent  
1.19 to the amount of taxable net income, after excluding active trade or business income,  
1.20 over \$254,240.

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

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

(1) On the first ~~\$24,270~~ \$24,680 of their taxable net income, 5.35 percent;

(2) On all of their taxable net income over ~~\$24,270~~ \$24,680, but not over ~~\$79,730~~ \$81,080, 7.05 percent;

(3) On all of their taxable net income over ~~\$79,730, but not over \$150,000~~ \$81,080, 7.85 percent; and

(4) ~~On all over \$150,000, 9.85 percent~~ By applying an additional rate of 2.0 percent to the amount of taxable net income, after excluding active trade or business income, over \$152,540.

(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 ~~\$29,880~~ \$30,390 of their taxable net income, 5.35 percent;

(2) On all of their taxable net income over ~~\$29,880~~ \$30,390, but not over ~~\$120,070~~ \$122,110, 7.05 percent;

(3) On all of their taxable net income over ~~\$120,070, but not over \$200,000~~ \$122,110, 7.85 percent; and

(4) ~~On all over \$200,000, 9.85 percent~~ By applying an additional rate of 2.0 percent to the amount of taxable net income, after excluding active trade or business income, over \$200,000.

(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 business and not included in net investment income as defined in section 1411(c) of the Internal Revenue Code, but including income from certain active interests in partnerships and S corporations as defined under section 1411(c)(4) of the Internal Revenue Code.

**EFFECTIVE DATE.** This section is effective for taxable years beginning after December 31, 2013.

Sec. 2. Minnesota Statutes 2013 Supplement, section 290.06, subdivision 2d, is amended to read:

Subd. 2d. **Inflation adjustment of brackets.** (a) For taxable years beginning after December 31, 2013, 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~~ 2013, and before January 1, ~~2014~~ 2015. 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" shall be substituted for the word "1992." For ~~2014~~ 2015, the commissioner shall then determine the percent change from the 12 months ending on August 31, ~~2012~~ 2013, to the 12 months ending on August 31, ~~2013~~ 2014, and in each subsequent year, from the 12 months ending on August 31, ~~2012~~ 2013, 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, 2013.

Sec. 3. 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, 2013.