A bill for an act

relating to taxation; conforming certain income, franchise, and property tax refund provisions for tax years 2006 and 2007 to the federal teacher expense deduction, tuition subtraction, and other provisions of the Tax Relief and Health Care Act of 2006, the Heroes Earned Retirement Opportunity Act, and the Pension Protection Plan of 2006; amending Minnesota Statutes 2006, sections 290.01, subdivisions 19, as amended, 31, as amended; 290A.03, subdivision 15, as amended.

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

Section 1. Minnesota Statutes 2006, section 290.01, subdivision 19, as amended by 2007 H.F. No. 8, section 1, if enacted, is amended to read:

Subd. 19. **Net income.** The term "net income" means the federal taxable income, as defined in section 63 of the Internal Revenue Code of 1986, as amended through the date named in this subdivision, incorporating the federal effective dates of changes to the Internal Revenue Code and any elections made by the taxpayer in accordance with the Internal Revenue Code in determining federal taxable income for federal income tax purposes, and with the modifications provided in subdivisions 19a to 19f.

In the case of a regulated investment company or a fund thereof, as defined in section 851(a) or 851(g) of the Internal Revenue Code, federal taxable income means investment company taxable income as defined in section 852(b)(2) of the Internal Revenue Code, except that:

(1) the exclusion of net capital gain provided in section 852(b)(2)(A) of the Internal Revenue Code does not apply;

(2) the deduction for dividends paid under section 852(b)(2)(D) of the Internal Revenue Code must be applied by allowing a deduction for capital gain dividends and

exempt-interest dividends as defined in sections 852(b)(3)(C) and 852(b)(5) of the Internal Revenue Code; and

(3) the deduction for dividends paid must also be applied in the amount of any undistributed capital gains which the regulated investment company elects to have treated as provided in section 852(b)(3)(D) of the Internal Revenue Code.

The net income of a real estate investment trust as defined and limited by section 856(a), (b), and (c) of the Internal Revenue Code means the real estate investment trust taxable income as defined in section 857(b)(2) of the Internal Revenue Code.

The net income of a designated settlement fund as defined in section 468B(d) of the Internal Revenue Code means the gross income as defined in section 468B(b) of the Internal Revenue Code.

The Internal Revenue Code of 1986, as amended through May 18, 2006, shall be in effect for taxable years beginning after December 31, 1996, and before January 1, 2006, and for taxable years beginning after December 31, ~~2006~~ 2007. The Internal Revenue Code of 1986, as amended through December 31, 2006, is in effect for taxable years beginning after December 31, 2005, and before January 1, ~~2007~~ 2008.

Except as otherwise provided, references to the Internal Revenue Code in subdivisions 19 to 19f mean the code in effect for purposes of determining net income for the applicable year.

EFFECTIVE DATE. This section is effective the day after final enactment.

Sec. 2. Minnesota Statutes 2006, section 290.01, subdivision 31, as amended by 2007 H.F. No. 8, section 3, if enacted, is amended to read:

Subd. 31. **Internal Revenue Code.** Unless specifically defined otherwise, for taxable years beginning before January 1, 2006, and after December 31, ~~2006~~ 2007, "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through May 18, 2006; and for taxable years beginning after December 31, 2005, and before January 1, ~~2007~~ 2008, "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through December 31, 2006.

EFFECTIVE DATE. This section is effective the day after final enactment except the changes incorporated by federal changes are effective at the same time as the changes were effective for federal purposes.

Sec. 3. Minnesota Statutes 2006, section 290A.03, subdivision 15, as amended by 2007 H.F. No. 8, section 4, if enacted, is amended to read:

Subd. 15. **Internal Revenue Code.** For taxable years beginning before January 1, 2006, and after December 31, ~~2006~~ 2007, "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through May 18, 2006; and for taxable years beginning after December 31, 2005, and before January 1, ~~2007~~ 2008, "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through December 31, 2006.

EFFECTIVE DATE. This section is effective for property tax refunds based on property taxes payable on or after December 31, 2006, and rent paid on or after December 31, 2005.