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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-EIGHTH SESSION

H. F. No. 1493

03/13/2013 Authored by Lenczewski

The bill was read for the first time and referred to the Committee on Taxes

A bill for an act

1.1 relating to taxes; individual income, corporate franchise, occupation; requiring
1.2 additions; modifying subtractions, preferences, rates, and credits; modifying
1.3 calculation of incentive payments; allowing a charitable contributions credit;
1.4 providing clarifying authority for political subdivision imposing and collecting
1.5 local lodging taxes; making conforming changes; repealing certain deductions
1.6 and credits; amending Minnesota Statutes 2012, sections 289A.08, subdivision
1.7 3; 290.01, subdivisions 5, 19a, 19b, 19c, 19d; 290.06, subdivision 2c, by
1.8 adding a subdivision; 290.067, subdivisions 1, 2a; 290.0671, subdivision 1;
1.9 290.0675, subdivision 1; 290.068, subdivisions 3, 6a; 290.0802, subdivisions
1.10 1, 2; 290.091, subdivision 2; 290.0921, subdivision 3; 290.0922, subdivision 1;
1.11 290.095, subdivision 2; 290.17, subdivision 4; 290.191, subdivision 5; 290.21,
1.12 subdivision 4; 290C.02, subdivision 6; 290C.05; 290C.07; 298.01, subdivisions
1.13 3, 4; 469.190, by adding a subdivision; repealing Minnesota Statutes 2012,
1.14 sections 290.01, subdivision 6b; 290.06, subdivisions 22a, 27, 28; 290.0672;
1.15 290.0674; 290.0679; 290.0921, subdivision 7.

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

1.18 Section 1. Minnesota Statutes 2012, section 289A.08, subdivision 3, is amended to read:

1.19 Subd. 3. **Corporations.** (a) A corporation that is subject to the state's jurisdiction to
1.20 tax under section 290.014, subdivision 5, must file a return, ~~except that a foreign operating~~
1.21 ~~corporation as defined in section 290.01, subdivision 6b, is not required to file a return.~~

1.22 (b) Members of a unitary business that are required to file a combined report on one
1.23 return must designate a member of the unitary business to be responsible for tax matters,
1.24 including the filing of returns, the payment of taxes, additions to tax, penalties, interest,
1.25 or any other payment, and for the receipt of refunds of taxes or interest paid in excess of
1.26 taxes lawfully due. The designated member must be a member of the unitary business that
1.27 is filing the single combined report and either:

1.28 (1) a corporation that is subject to the taxes imposed by chapter 290; or

1.29 (2) a corporation that is not subject to the taxes imposed by chapter 290:

2.1 (i) Such corporation consents by filing the return as a designated member under this
 2.2 clause to remit taxes, penalties, interest, or additions to tax due from the members of the
 2.3 unitary business subject to tax, and receive refunds or other payments on behalf of other
 2.4 members of the unitary business. The member designated under this clause is a "taxpayer"
 2.5 for the purposes of this chapter and chapter 270C, and is liable for any liability imposed
 2.6 on the unitary business under this chapter and chapter 290.

2.7 (ii) If the state does not otherwise have the jurisdiction to tax the member designated
 2.8 under this clause, consenting to be the designated member does not create the jurisdiction
 2.9 to impose tax on the designated member, other than as described in item (i).

2.10 (iii) The member designated under this clause must apply for a business tax account
 2.11 identification number.

2.12 (c) The commissioner shall adopt rules for the filing of one return on behalf of the
 2.13 members of an affiliated group of corporations that are required to file a combined report.
 2.14 All members of an affiliated group that are required to file a combined report must file one
 2.15 return on behalf of the members of the group under rules adopted by the commissioner.

2.16 (d) If a corporation claims on a return that it has paid tax in excess of the amount of
 2.17 taxes lawfully due, that corporation must include on that return information necessary for
 2.18 payment of the tax in excess of the amount lawfully due by electronic means.

2.19 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 2.20 December 31, 2012.

2.21 Sec. 2. Minnesota Statutes 2012, section 290.01, subdivision 5, is amended to read:

2.22 Subd. 5. **Domestic corporation.** The term "domestic" when applied to a corporation
 2.23 means a corporation:

2.24 (1) created or organized in the United States, or under the laws of the United States or
 2.25 of any state, the District of Columbia, or any political subdivision of any of the foregoing
 2.26 but not including the Commonwealth of Puerto Rico, or any possession of the United States;

2.27 (2) which qualifies as a DISC, as defined in section 992(a) of the Internal Revenue
 2.28 Code; ~~or~~

2.29 (3) which qualifies as a FSC, as defined in section 922 of the Internal Revenue Code;

2.30 (4) which is an affiliated corporation that is eligible to be included in a federal
 2.31 consolidated return under sections 1501 to 1505 of the Internal Revenue Code, if the
 2.32 corporation's property, payroll, and sales factors in the United States average:

2.33 (i) 20 percent or more; or

2.34 (ii) under 20 percent, if the corporation does not meet the requirements of section
 2.35 861(c) of the Internal Revenue Code; or

3.1 (5) a corporation that is incorporated in or does business in a country that does not
 3.2 impose an income tax, or that imposes an income tax at a rate lower than 90 percent of
 3.3 the United States income tax rate on the income tax base of the corporation in the United
 3.4 States, if:

3.5 (i) 50 percent or more of the sales, purchases, or payments of income or expenses,
 3.6 exclusive of payments for intangible property, of the corporation are made directly or
 3.7 indirectly to one or more members of a group of corporations that are included on the
 3.8 combined report under section 290.17; and

3.9 (ii) the corporation does not conduct significant economic activity.

3.10 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 3.11 December 31, 2012.

3.12 Sec. 3. Minnesota Statutes 2012, section 290.01, subdivision 19a, is amended to read:

3.13 Subd. 19a. **Additions to federal taxable income.** For individuals, estates, and
 3.14 trusts, there shall be added to federal taxable income:

3.15 (1)(i) interest income on obligations of any state ~~other than Minnesota~~ or a political
 3.16 or governmental subdivision, municipality, or governmental agency or instrumentality
 3.17 of any state ~~other than Minnesota~~ exempt from federal income taxes under the Internal
 3.18 Revenue Code or any other federal statute, but excluding interest on such an obligation
 3.19 issued and sold before July 1, 2013, by the state of Minnesota or a political or governmental
 3.20 subdivision, municipality, or governmental agency or instrumentality of Minnesota; and

3.21 (ii) exempt-interest dividends as defined in section 852(b)(5) of the Internal Revenue
 3.22 Code, except:

3.23 (A) the portion of the exempt-interest dividends exempt from state taxation under
 3.24 the laws of the United States; and

3.25 (B) the portion of the exempt-interest dividends derived from interest income
 3.26 on obligations of the state of Minnesota or its political or governmental subdivisions,
 3.27 municipalities, governmental agencies or instrumentalities, but only if the portion of the
 3.28 exempt-interest dividends from such Minnesota sources paid to all shareholders represents
 3.29 95 percent or more of the exempt-interest dividends, including any dividends exempt
 3.30 under subitem (A), that are paid by the regulated investment company as defined in section
 3.31 851(a) of the Internal Revenue Code, or the fund of the regulated investment company as
 3.32 defined in section 851(g) of the Internal Revenue Code, making the payment and only to
 3.33 the extent the interest is paid on obligations issued and sold before July 1, 2013; and

4.1 (iii) for the purposes of items (i) and (ii), interest on obligations of an Indian tribal
 4.2 government described in section 7871(c) of the Internal Revenue Code shall be treated as
 4.3 interest income on obligations of the state in which the tribe is located;

4.4 (2) to the extent allowed as a deduction under section 63(d) of the Internal Revenue
 4.5 Code the amount of:

4.6 (i) income, sales and use, motor vehicle sales, or excise taxes paid or accrued within
 4.7 the taxable year under this chapter and the amount of;

4.8 (ii) taxes based on net income paid, sales and use, motor vehicle sales, or excise
 4.9 taxes paid to any other state or to any province or territory of Canada, to the extent allowed
 4.10 as a deduction under section 63(d) of the Internal Revenue Code;

4.11 (iii) real property taxes paid on a home other than the principal residence, as that
 4.12 term is used in section 121 of the Internal Revenue Code, of the taxpayer or spouse;

4.13 (iv) personal property taxes paid or accrued within the taxable year other than taxes
 4.14 on a principal residence, as that term is used in section 121 of the Internal Revenue Code;

4.15 (v) qualified residence interest, as defined in section 163(h)(3) of the Internal
 4.16 Revenue Code, paid on a loan that is not acquisition indebtedness, as defined in section
 4.17 163(h)(3)(B) of the Internal Revenue Code, with respect to the principal residence, as that
 4.18 term is used in section 121 of the Internal Revenue Code, of the taxpayer or spouse at
 4.19 the time the interest accrued; and

4.20 (vi) charitable contributions, as defined in section 170(c) of the Internal Revenue
 4.21 Code, to the extent allowed as a deduction under section 170(a) of the Internal Revenue
 4.22 Code;

4.23 but the sum of the addition under items (i) to (vi) may not be more than the amount by
 4.24 which the itemized deductions as allowed under section 63(d) of the Internal Revenue
 4.25 Code exceeds the amount of the standard deduction as defined in section 63(c) of the
 4.26 Internal Revenue Code, ~~disregarding the amounts allowed under sections 63(e)(1)(C) and~~
 4.27 ~~63(e)(1)(E) of the Internal Revenue Code,~~ minus any addition that would have been
 4.28 required under clause ~~(21)~~ (16) if the taxpayer had claimed the standard deduction. ~~For~~
 4.29 ~~the purpose of this paragraph, the disallowance of itemized deductions under section 68~~
 4.30 ~~of the Internal Revenue Code of 1986, income, sales and use, motor vehicle sales, or~~
 4.31 ~~excise taxes are the last itemized deductions disallowed~~ For purposes of this paragraph,
 4.32 income, sales and use, real property, and personal property taxes, nonacquisition qualified
 4.33 residence interest, and charitable contributions are the last itemized deductions disallowed
 4.34 under clause (14);

4.35 (3) the capital gain amount of a lump-sum distribution to which the special tax under
 4.36 section 1122(h)(3)(B)(ii) of the Tax Reform Act of 1986, Public Law 99-514, applies;

5.1 (4) the amount of income taxes paid or accrued within the taxable year under this
5.2 chapter and taxes based on net income paid to any other state or any province or territory
5.3 of Canada, to the extent allowed as a deduction in determining federal adjusted gross
5.4 income. For the purpose of this paragraph, income taxes do not include the taxes imposed
5.5 by sections 290.0922, subdivision 1, paragraph (b), 290.9727, 290.9728, and 290.9729;

5.6 (5) the amount of expense, interest, or taxes disallowed pursuant to section 290.10
5.7 other than expenses or interest used in computing net interest income for the subtraction
5.8 allowed under subdivision 19b, clause (1);

5.9 (6) the amount of a partner's pro rata share of net income which does not flow
5.10 through to the partner because the partnership elected to pay the tax on the income under
5.11 section 6242(a)(2) of the Internal Revenue Code;

5.12 (7) 80 percent of the depreciation deduction allowed under section 168(k) of the
5.13 Internal Revenue Code. For purposes of this clause, if the taxpayer has an activity that
5.14 in the taxable year generates a deduction for depreciation under section 168(k) and the
5.15 activity generates a loss for the taxable year that the taxpayer is not allowed to claim for
5.16 the taxable year, "the depreciation allowed under section 168(k)" for the taxable year is
5.17 limited to excess of the depreciation claimed by the activity under section 168(k) over the
5.18 amount of the loss from the activity that is not allowed in the taxable year. In succeeding
5.19 taxable years when the losses not allowed in the taxable year are allowed, the depreciation
5.20 under section 168(k) is allowed;

5.21 (8) 80 percent of the amount by which the deduction allowed by section 179 of the
5.22 Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal
5.23 Revenue Code of 1986, as amended through December 31, 2003;

5.24 (9) to the extent deducted in computing federal taxable income, the amount of the
5.25 deduction allowable under section 199 of the Internal Revenue Code;

5.26 ~~(10) for taxable years beginning before January 1, 2013, the exclusion allowed under~~
5.27 ~~section 139A of the Internal Revenue Code for federal subsidies for prescription drug plans;~~

5.28 ~~(11) the amount of expenses disallowed under section 290.10, subdivision 2;~~

5.29 ~~(12) for taxable years beginning before January 1, 2010, the amount deducted for~~
5.30 ~~qualified tuition and related expenses under section 222 of the Internal Revenue Code, to~~
5.31 ~~the extent deducted from gross income;~~

5.32 ~~(13) for taxable years beginning before January 1, 2010, the amount deducted for~~
5.33 ~~certain expenses of elementary and secondary school teachers under section 62(a)(2)(D)~~
5.34 ~~of the Internal Revenue Code, to the extent deducted from gross income;~~

5.35 ~~(14) the additional standard deduction for property taxes payable that is allowable~~
5.36 ~~under section 63(c)(1)(C) of the Internal Revenue Code;~~

6.1 ~~(15) the additional standard deduction for qualified motor vehicle sales taxes~~
6.2 ~~allowable under section 63(e)(1)(E) of the Internal Revenue Code;~~

6.3 ~~(16) (11) discharge of indebtedness income resulting from reacquisition of business~~
6.4 ~~indebtedness and deferred under section 108(i) of the Internal Revenue Code;~~

6.5 ~~(17) (12) the amount of unemployment compensation exempt from tax under section~~
6.6 ~~85(c) of the Internal Revenue Code;~~

6.7 ~~(18) (13) changes to federal taxable income attributable to a net operating loss that~~
6.8 ~~the taxpayer elected to carry back for more than two years for federal purposes but for~~
6.9 ~~which the losses can be carried back for only two years under section 290.095, subdivision~~
6.10 ~~11, paragraph (c);~~

6.11 ~~(19) (14) to the extent included in the computation of federal taxable income in~~
6.12 ~~taxable years beginning after December 31, 2010, the amount of disallowed itemized~~
6.13 ~~deductions, but the amount of disallowed itemized deductions plus the addition required~~
6.14 ~~under clause (2) may not be more than the amount by which the itemized deductions as~~
6.15 ~~allowed under section 63(d) of the Internal Revenue Code exceeds the amount of the~~
6.16 ~~standard deduction as defined in section 63(c) of the Internal Revenue Code, disregarding~~
6.17 ~~the amounts allowed under sections 63(e)(1)(C) and 63(e)(1)(E) of the Internal Revenue~~
6.18 ~~Code, and reduced by any addition that would have been required under clause (21) (16) if~~
6.19 ~~the taxpayer had claimed the standard deduction:~~

6.20 (i) the amount of disallowed itemized deductions is equal to the lesser of:

6.21 (A) three percent of the excess of the taxpayer's federal adjusted gross income
6.22 over the applicable amount; or

6.23 (B) 80 percent of the amount of the itemized deductions otherwise allowable to the
6.24 taxpayer under the Internal Revenue Code for the taxable year;

6.25 (ii) the term "applicable amount" means \$100,000, or \$50,000 in the case of a
6.26 married individual filing a separate return. Each dollar amount shall be increased by
6.27 an amount equal to:

6.28 (A) such dollar amount, multiplied by

6.29 (B) the cost-of-living adjustment determined under section 1(f)(3) of the Internal
6.30 Revenue Code for the calendar year in which the taxable year begins, by substituting
6.31 "calendar year 1990" for "calendar year 1992" in subparagraph (B) thereof;

6.32 (iii) the term "itemized deductions" does not include:

6.33 (A) the deduction for medical expenses under section 213 of the Internal Revenue
6.34 Code;

6.35 (B) any deduction for investment interest as defined in section 163(d) of the Internal
6.36 Revenue Code; and

7.1 (C) the deduction under section 165(a) of the Internal Revenue Code for casualty or
 7.2 theft losses described in paragraph (2) or (3) of section 165(c) of the Internal Revenue
 7.3 Code or for losses described in section 165(d) of the Internal Revenue Code;

7.4 ~~(20)~~ (15) to the extent included in federal taxable income in taxable years beginning
 7.5 after December 31, 2010, the amount of disallowed personal exemptions for taxpayers
 7.6 with federal adjusted gross income over the threshold amount:

7.7 (i) the disallowed personal exemption amount is equal to the dollar amount of the
 7.8 personal exemptions claimed by the taxpayer in the computation of federal taxable income
 7.9 multiplied by the applicable percentage;

7.10 (ii) "applicable percentage" means two percentage points for each \$2,500 (or
 7.11 fraction thereof) by which the taxpayer's federal adjusted gross income for the taxable
 7.12 year exceeds the threshold amount. In the case of a married individual filing a separate
 7.13 return, the preceding sentence shall be applied by substituting "\$1,250" for "\$2,500." In
 7.14 no event shall the applicable percentage exceed 100 percent;

7.15 (iii) the term "threshold amount" means:

7.16 (A) \$150,000 in the case of a joint return or a surviving spouse;

7.17 (B) \$125,000 in the case of a head of a household;

7.18 (C) \$100,000 in the case of an individual who is not married and who is not a
 7.19 surviving spouse or head of a household; and

7.20 (D) \$75,000 in the case of a married individual filing a separate return; and

7.21 (iv) the thresholds shall be increased by an amount equal to:

7.22 (A) such dollar amount, multiplied by

7.23 (B) the cost-of-living adjustment determined under section 1(f)(3) of the Internal
 7.24 Revenue Code for the calendar year in which the taxable year begins, by substituting
 7.25 "calendar year 1990" for "calendar year 1992" in subparagraph (B) thereof; and

7.26 ~~(21)~~ (16) to the extent deducted in the computation of federal taxable income,
 7.27 for taxable years beginning after December 31, 2010, and before January 1, 2013, the
 7.28 difference between the standard deduction allowed under section 63(c) of the Internal
 7.29 Revenue Code and the standard deduction allowed for 2011 and 2012 under the Internal
 7.30 Revenue Code as amended through December 1, 2010.

7.31 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 7.32 December 31, 2012.

7.33 Sec. 4. Minnesota Statutes 2012, section 290.01, subdivision 19b, is amended to read:

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

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

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

8.7 ~~(3) the amount paid to others, less the amount used to claim the credit allowed under~~
8.8 ~~section 290.0674, not to exceed \$1,625 for each qualifying child in grades kindergarten~~
8.9 ~~to 6 and \$2,500 for each qualifying child in grades 7 to 12, for tuition, textbooks, and~~
8.10 ~~transportation of each qualifying child in attending an elementary or secondary school~~
8.11 ~~situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a~~
8.12 ~~resident of this state may legally fulfill the state's compulsory attendance laws, which~~
8.13 ~~is not operated for profit, and which adheres to the provisions of the Civil Rights Act~~
8.14 ~~of 1964 and chapter 363A. For the purposes of this clause, "tuition" includes fees or~~
8.15 ~~tuition as defined in section 290.0674, subdivision 1, clause (1). As used in this clause,~~
8.16 ~~"textbooks" includes books and other instructional materials and equipment purchased~~
8.17 ~~or leased for use in elementary and secondary schools in teaching only those subjects~~
8.18 ~~legally and commonly taught in public elementary and secondary schools in this state.~~
8.19 ~~Equipment expenses qualifying for deduction includes expenses as defined and limited in~~
8.20 ~~section 290.0674, subdivision 1, clause (3). "Textbooks" does not include instructional~~
8.21 ~~books and materials used in the teaching of religious tenets, doctrines, or worship, the~~
8.22 ~~purpose of which is to instill such tenets, doctrines, or worship, nor does it include books~~
8.23 ~~or materials for, or transportation to, extracurricular activities including sporting events,~~
8.24 ~~musical or dramatic events, speech activities, driver's education, or similar programs. No~~
8.25 ~~deduction is permitted for any expense the taxpayer incurred in using the taxpayer's or~~
8.26 ~~the qualifying child's vehicle to provide such transportation for a qualifying child. For~~
8.27 ~~purposes of the subtraction provided by this clause, "qualifying child" has the meaning~~
8.28 ~~given in section 32(e)(3) of the Internal Revenue Code;~~

8.29 (4) income as provided under section 290.0802;

8.30 ~~(5) (4)~~ to the extent included in federal adjusted gross income, income realized on
8.31 disposition of property exempt from tax under section 290.491;

8.32 ~~(6) to the extent not deducted or not deductible pursuant to section 408(d)(8)(E)~~
8.33 ~~of the Internal Revenue Code in determining federal taxable income by an individual~~
8.34 ~~who does not itemize deductions for federal income tax purposes for the taxable year, an~~
8.35 ~~amount equal to 50 percent of the excess of charitable contributions over \$500 allowable~~

9.1 as a deduction for the taxable year under section 170(a) of the Internal Revenue Code,
 9.2 under the provisions of Public Law 109-1 and Public Law 111-126;

9.3 ~~(7)~~ for individuals who are allowed a federal foreign tax credit for taxes that do not
 9.4 qualify for a credit under section 290.06, subdivision 22, an amount equal to the carryover
 9.5 of subnational foreign taxes for the taxable year, but not to exceed the total subnational
 9.6 foreign taxes reported in claiming the foreign tax credit. For purposes of this clause,
 9.7 "federal foreign tax credit" means the credit allowed under section 27 of the Internal
 9.8 Revenue Code, and "carryover of subnational foreign taxes" equals the carryover allowed
 9.9 under section 904(e) of the Internal Revenue Code minus national level foreign taxes to
 9.10 the extent they exceed the federal foreign tax credit;

9.11 ~~(8)~~ (5) in each of the five tax years immediately following the tax year in which an
 9.12 addition is required under subdivision 19a, clause (7), or 19c, clause ~~(15)~~ (13), in the case
 9.13 of a shareholder of a corporation that is an S corporation, an amount equal to one-fifth of the
 9.14 delayed depreciation. For purposes of this clause, "delayed depreciation" means the amount
 9.15 of the addition made by the taxpayer under subdivision 19a, clause (7), or subdivision 19c,
 9.16 clause ~~(15)~~ (13), in the case of a shareholder of an S corporation, minus the positive value
 9.17 of any net operating loss under section 172 of the Internal Revenue Code generated for the
 9.18 tax year of the addition. The resulting delayed depreciation cannot be less than zero;

9.19 ~~(9)~~ (6) job opportunity building zone income as provided under section 469.316;

9.20 ~~(10)~~ (7) to the extent included in federal taxable income, the amount of compensation
 9.21 paid to members of the Minnesota National Guard or other reserve components of the
 9.22 United States military for active service, excluding compensation for services performed
 9.23 under the Active Guard Reserve (AGR) program. For purposes of this clause, "active
 9.24 service" means (i) state active service as defined in section 190.05, subdivision 5a, clause
 9.25 (1); or (ii) federally funded state active service as defined in section 190.05, subdivision
 9.26 5b, but "active service" excludes service performed in accordance with section 190.08,
 9.27 subdivision 3;

9.28 ~~(11)~~ (8) to the extent included in federal taxable income, the amount of compensation
 9.29 paid to Minnesota residents who are members of the armed forces of the United States
 9.30 or United Nations for active duty performed under United States Code, title 10; or the
 9.31 authority of the United Nations;

9.32 ~~(12)~~ (9) an amount, not to exceed \$10,000, equal to qualified expenses related to a
 9.33 qualified donor's donation, while living, of one or more of the qualified donor's organs
 9.34 to another person for human organ transplantation. For purposes of this clause, "organ"
 9.35 means all or part of an individual's liver, pancreas, kidney, intestine, lung, or bone marrow;
 9.36 "human organ transplantation" means the medical procedure by which transfer of a human

10.1 organ is made from the body of one person to the body of another person; "qualified
 10.2 expenses" means unreimbursed expenses for both the individual and the qualified donor
 10.3 for (i) travel, (ii) lodging, and (iii) lost wages net of sick pay, except that such expenses
 10.4 may be subtracted under this clause only once; and "qualified donor" means the individual
 10.5 or the individual's dependent, as defined in section 152 of the Internal Revenue Code. An
 10.6 individual may claim the subtraction in this clause for each instance of organ donation for
 10.7 transplantation during the taxable year in which the qualified expenses occur;

10.8 ~~(13)~~ (10) in each of the five tax years immediately following the tax year in which an
 10.9 addition is required under subdivision 19a, clause (8), or 19c, clause ~~(16)~~ (14), in the case
 10.10 of a shareholder of a corporation that is an S corporation, an amount equal to one-fifth of
 10.11 the addition made by the taxpayer under subdivision 19a, clause (8), or 19c, clause ~~(16)~~
 10.12 (14), in the case of a shareholder of a corporation that is an S corporation, minus the
 10.13 positive value of any net operating loss under section 172 of the Internal Revenue Code
 10.14 generated for the tax year of the addition. If the net operating loss exceeds the addition for
 10.15 the tax year, a subtraction is not allowed under this clause;

10.16 ~~(14)~~ (11) to the extent included in the federal taxable income of a nonresident of
 10.17 Minnesota, compensation paid to a service member as defined in United States Code, title
 10.18 10, section 101(a)(5), for military service as defined in the Servicemembers Civil Relief
 10.19 Act, Public Law 108-189, section 101(2);

10.20 ~~(15) to the extent included in federal taxable income, the amount of national service~~
 10.21 ~~educational awards received from the National Service Trust under United States Code,~~
 10.22 ~~title 42, sections 12601 to 12604, for service in an approved Americorps National Service~~
 10.23 ~~program;~~

10.24 ~~(16)~~ (12) to the extent included in federal taxable income, discharge of indebtedness
 10.25 income resulting from reacquisition of business indebtedness included in federal taxable
 10.26 income under section 108(i) of the Internal Revenue Code. This subtraction applies only
 10.27 to the extent that the income was included in net income in a prior year as a result of the
 10.28 addition under section 290.01, subdivision 19a, clause ~~(16)~~ (11); and

10.29 ~~(17)~~ (13) the amount of the net operating loss allowed under section 290.095,
 10.30 subdivision 11, paragraph (c).

10.31 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 10.32 December 31, 2012.

10.33 Sec. 5. Minnesota Statutes 2012, section 290.01, subdivision 19c, is amended to read:

10.34 Subd. 19c. **Corporations; additions to federal taxable income.** For corporations,
 10.35 there shall be added to federal taxable income:

11.1 (1) the amount of any deduction taken for federal income tax purposes for income,
11.2 excise, or franchise taxes based on net income or related minimum taxes, including but not
11.3 limited to the tax imposed under section 290.0922, paid by the corporation to Minnesota,
11.4 another state, a political subdivision of another state, the District of Columbia, or any
11.5 foreign country or possession of the United States;

11.6 (2) interest not subject to federal tax upon obligations of: the United States, its
11.7 possessions, its agencies, or its instrumentalities; the state of Minnesota or any other
11.8 state, any of its political or governmental subdivisions, any of its municipalities, or any
11.9 of its governmental agencies or instrumentalities; the District of Columbia; or Indian
11.10 tribal governments;

11.11 (3) exempt-interest dividends received as defined in section 852(b)(5) of the Internal
11.12 Revenue Code;

11.13 (4) the amount of any net operating loss deduction taken for federal income tax
11.14 purposes under section 172 or 832(c)(10) of the Internal Revenue Code or operations loss
11.15 deduction under section 810 of the Internal Revenue Code;

11.16 (5) the amount of any special deductions taken for federal income tax purposes
11.17 under sections 241 to 247 and 965 of the Internal Revenue Code;

11.18 (6) losses from the business of mining, as defined in section 290.05, subdivision 1,
11.19 clause (a), that are not subject to Minnesota income tax;

11.20 (7) the amount of any capital losses deducted for federal income tax purposes under
11.21 sections 1211 and 1212 of the Internal Revenue Code;

11.22 ~~(8) the exempt foreign trade income of a foreign sales corporation under sections~~
11.23 ~~921(a) and 291 of the Internal Revenue Code;~~

11.24 ~~(9) the amount of percentage depletion deducted under sections 611 through 614 and~~
11.25 ~~291 of the Internal Revenue Code;~~

11.26 ~~(10)~~ (9) for certified pollution control facilities placed in service in a taxable year
11.27 beginning before December 31, 1986, and for which amortization deductions were elected
11.28 under section 169 of the Internal Revenue Code of 1954, as amended through December
11.29 31, 1985, the amount of the amortization deduction allowed in computing federal taxable
11.30 income for those facilities;

11.31 ~~(11) the amount of any deemed dividend from a foreign operating corporation~~
11.32 ~~determined pursuant to section 290.17, subdivision 4, paragraph (g). The deemed dividend~~
11.33 ~~shall be reduced by the amount of the addition to income required by clauses (20), (21),~~
11.34 ~~(22), and (23);~~

12.1 ~~(12)~~ (10) the amount of a partner's pro rata share of net income which does not flow
 12.2 through to the partner because the partnership elected to pay the tax on the income under
 12.3 section 6242(a)(2) of the Internal Revenue Code;

12.4 ~~(13)~~ (11) the amount of net income excluded under section 114 of the Internal
 12.5 Revenue Code;

12.6 ~~(14)~~ (12) any increase in subpart F income, as defined in section 952(a) of the
 12.7 Internal Revenue Code, for the taxable year when subpart F income is calculated without
 12.8 regard to the provisions of Division C, title III, section 303(b) of Public Law 110-343;

12.9 ~~(15)~~ (13) 80 percent of the depreciation deduction allowed under section
 12.10 168(k)(1)(A) and (k)(4)(A) of the Internal Revenue Code. For purposes of this clause, if
 12.11 the taxpayer has an activity that in the taxable year generates a deduction for depreciation
 12.12 under section 168(k)(1)(A) and (k)(4)(A) and the activity generates a loss for the taxable
 12.13 year that the taxpayer is not allowed to claim for the taxable year, "the depreciation
 12.14 allowed under section 168(k)(1)(A) and (k)(4)(A)" for the taxable year is limited to excess
 12.15 of the depreciation claimed by the activity under section 168(k)(1)(A) and (k)(4)(A)
 12.16 over the amount of the loss from the activity that is not allowed in the taxable year. In
 12.17 succeeding taxable years when the losses not allowed in the taxable year are allowed, the
 12.18 depreciation under section 168(k)(1)(A) and (k)(4)(A) is allowed;

12.19 ~~(16)~~ (14) 80 percent of the amount by which the deduction allowed by section 179 of
 12.20 the Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal
 12.21 Revenue Code of 1986, as amended through December 31, 2003;

12.22 ~~(17)~~ (15) to the extent deducted in computing federal taxable income, the amount of
 12.23 the deduction allowable under section 199 of the Internal Revenue Code;

12.24 ~~(18)~~ for taxable years beginning before January 1, 2013, the exclusion allowed under
 12.25 section 139A of the Internal Revenue Code for federal subsidies for prescription drug plans;

12.26 ~~(19)~~ (16) the amount of expenses disallowed under section 290.10, subdivision 2; and

12.27 ~~(20)~~ an amount equal to the interest and intangible expenses, losses, and costs paid,
 12.28 accrued, or incurred by any member of the taxpayer's unitary group to or for the benefit
 12.29 of a corporation that is a member of the taxpayer's unitary business group that qualifies
 12.30 as a foreign operating corporation. For purposes of this clause, intangible expenses and
 12.31 costs include:

12.32 ~~(i)~~ expenses, losses, and costs for, or related to, the direct or indirect acquisition,
 12.33 use, maintenance or management, ownership, sale, exchange, or any other disposition of
 12.34 intangible property;

12.35 ~~(ii)~~ losses incurred, directly or indirectly, from factoring transactions or discounting
 12.36 transactions;

- 13.1 ~~(iii) royalty, patent, technical, and copyright fees;~~
 13.2 ~~(iv) licensing fees; and~~
 13.3 ~~(v) other similar expenses and costs.~~

13.4 ~~For purposes of this clause, "intangible property" includes stocks, bonds, patents, patent~~
 13.5 ~~applications, trade names, trademarks, service marks, copyrights, mask works, trade~~
 13.6 ~~secrets, and similar types of intangible assets.~~

13.7 ~~This clause does not apply to any item of interest or intangible expenses or costs paid,~~
 13.8 ~~accrued, or incurred, directly or indirectly, to a foreign operating corporation with respect~~
 13.9 ~~to such item of income to the extent that the income to the foreign operating corporation~~
 13.10 ~~is income from sources without the United States as defined in subtitle A, chapter 1,~~
 13.11 ~~subchapter N, part 1, of the Internal Revenue Code;~~

13.12 ~~(21) except as already included in the taxpayer's taxable income pursuant to clause~~
 13.13 ~~(20), any interest income and income generated from intangible property received or~~
 13.14 ~~accrued by a foreign operating corporation that is a member of the taxpayer's unitary~~
 13.15 ~~group. For purposes of this clause, income generated from intangible property includes:~~

- 13.16 ~~(i) income related to the direct or indirect acquisition, use, maintenance or~~
 13.17 ~~management, ownership, sale, exchange, or any other disposition of intangible property;~~
 13.18 ~~(ii) income from factoring transactions or discounting transactions;~~
 13.19 ~~(iii) royalty, patent, technical, and copyright fees;~~
 13.20 ~~(iv) licensing fees; and~~
 13.21 ~~(v) other similar income.~~

13.22 ~~For purposes of this clause, "intangible property" includes stocks, bonds, patents, patent~~
 13.23 ~~applications, trade names, trademarks, service marks, copyrights, mask works, trade~~
 13.24 ~~secrets, and similar types of intangible assets.~~

13.25 ~~This clause does not apply to any item of interest or intangible income received or accrued~~
 13.26 ~~by a foreign operating corporation with respect to such item of income to the extent that~~
 13.27 ~~the income is income from sources without the United States as defined in subtitle A,~~
 13.28 ~~chapter 1, subchapter N, part 1, of the Internal Revenue Code;~~

13.29 ~~(22) the dividends attributable to the income of a foreign operating corporation that~~
 13.30 ~~is a member of the taxpayer's unitary group in an amount that is equal to the dividends~~
 13.31 ~~paid deduction of a real estate investment trust under section 561(a) of the Internal~~
 13.32 ~~Revenue Code for amounts paid or accrued by the real estate investment trust to the~~
 13.33 ~~foreign operating corporation;~~

14.1 ~~(23) the income of a foreign operating corporation that is a member of the taxpayer's~~
 14.2 ~~unitary group in an amount that is equal to gains derived from the sale of real or personal~~
 14.3 ~~property located in the United States;~~

14.4 ~~(24) for taxable years beginning before January 1, 2010, the additional amount~~
 14.5 ~~allowed as a deduction for donation of computer technology and equipment under section~~
 14.6 ~~170(e)(6) of the Internal Revenue Code, to the extent deducted from taxable income; and~~

14.7 ~~(25) (17) discharge of indebtedness income resulting from reacquisition of business~~
 14.8 ~~indebtedness and deferred under section 108(i) of the Internal Revenue Code.~~

14.9 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 14.10 December 31, 2012.

14.11 Sec. 6. Minnesota Statutes 2012, section 290.01, subdivision 19d, is amended to read:

14.12 Subd. 19d. **Corporations; modifications decreasing federal taxable income.** For
 14.13 corporations, there shall be subtracted from federal taxable income after the increases
 14.14 provided in subdivision 19c:

14.15 (1) the amount of foreign dividend gross-up added to gross income for federal
 14.16 income tax purposes under section 78 of the Internal Revenue Code;

14.17 (2) the amount of salary expense not allowed for federal income tax purposes due to
 14.18 claiming the work opportunity credit under section 51 of the Internal Revenue Code;

14.19 (3) any dividend (not including any distribution in liquidation) paid within the
 14.20 taxable year by a national or state bank to the United States, or to any instrumentality of
 14.21 the United States exempt from federal income taxes, on the preferred stock of the bank
 14.22 owned by the United States or the instrumentality;

14.23 (4) amounts disallowed for intangible drilling costs due to differences between
 14.24 this chapter and the Internal Revenue Code in taxable years beginning before January
 14.25 1, 1987, as follows:

14.26 (i) to the extent the disallowed costs are represented by physical property, an amount
 14.27 equal to the allowance for depreciation under Minnesota Statutes 1986, section 290.09,
 14.28 subdivision 7, subject to the modifications contained in subdivision 19e; and

14.29 (ii) to the extent the disallowed costs are not represented by physical property, an
 14.30 amount equal to the allowance for cost depletion under Minnesota Statutes 1986, section
 14.31 290.09, subdivision 8;

14.32 (5) the deduction for capital losses pursuant to sections 1211 and 1212 of the
 14.33 Internal Revenue Code, except that:

14.34 (i) for capital losses incurred in taxable years beginning after December 31, 1986,
 14.35 capital loss carrybacks shall not be allowed;

15.1 (ii) for capital losses incurred in taxable years beginning after December 31, 1986,
15.2 a capital loss carryover to each of the 15 taxable years succeeding the loss year shall be
15.3 allowed;

15.4 (iii) for capital losses incurred in taxable years beginning before January 1, 1987, a
15.5 capital loss carryback to each of the three taxable years preceding the loss year, subject to
15.6 the provisions of Minnesota Statutes 1986, section 290.16, shall be allowed; and

15.7 (iv) for capital losses incurred in taxable years beginning before January 1, 1987,
15.8 a capital loss carryover to each of the five taxable years succeeding the loss year to the
15.9 extent such loss was not used in a prior taxable year and subject to the provisions of
15.10 Minnesota Statutes 1986, section 290.16, shall be allowed;

15.11 (6) an amount for interest and expenses relating to income not taxable for federal
15.12 income tax purposes, if (i) the income is taxable under this chapter and (ii) the interest and
15.13 expenses were disallowed as deductions under the provisions of section 171(a)(2), 265 or
15.14 291 of the Internal Revenue Code in computing federal taxable income;

15.15 (7) in the case of mines, oil and gas wells, other natural deposits, and timber for
15.16 which percentage depletion was disallowed pursuant to subdivision 19c, clause ~~(9)~~ (8), a
15.17 reasonable allowance for depletion based on actual cost. In the case of leases the deduction
15.18 must be apportioned between the lessor and lessee in accordance with rules prescribed
15.19 by the commissioner. In the case of property held in trust, the allowable deduction must
15.20 be apportioned between the income beneficiaries and the trustee in accordance with the
15.21 pertinent provisions of the trust, or if there is no provision in the instrument, on the basis
15.22 of the trust's income allocable to each;

15.23 (8) for certified pollution control facilities placed in service in a taxable year
15.24 beginning before December 31, 1986, and for which amortization deductions were elected
15.25 under section 169 of the Internal Revenue Code of 1954, as amended through December
15.26 31, 1985, an amount equal to the allowance for depreciation under Minnesota Statutes
15.27 1986, section 290.09, subdivision 7;

15.28 (9) amounts included in federal taxable income that are due to refunds of income,
15.29 excise, or franchise taxes based on net income or related minimum taxes paid by the
15.30 corporation to Minnesota, another state, a political subdivision of another state, the
15.31 District of Columbia, or a foreign country or possession of the United States to the extent
15.32 that the taxes were added to federal taxable income under section 290.01, subdivision 19c,
15.33 clause (1), in a prior taxable year;

15.34 ~~(10) 80 percent of royalties, fees, or other like income accrued or received from a~~
15.35 ~~foreign operating corporation or a foreign corporation which is part of the same unitary~~
15.36 ~~business as the receiving corporation, unless the income resulting from such payments or~~

16.1 accruals is income from sources within the United States as defined in subtitle A, chapter
16.2 1, subchapter N, part 1, of the Internal Revenue Code;

16.3 ~~(11)~~ (10) income or gains from the business of mining as defined in section 290.05,
16.4 subdivision 1, clause (a), that are not subject to Minnesota franchise tax;

16.5 ~~(12)~~ (11) the amount of disability access expenditures in the taxable year which are not
16.6 allowed to be deducted or capitalized under section 44(d)(7) of the Internal Revenue Code;

16.7 ~~(13)~~ (12) the amount of qualified research expenses not allowed for federal income
16.8 tax purposes under section 280C(c) of the Internal Revenue Code, but only to the extent
16.9 that the amount exceeds the amount of the credit allowed under section 290.068;

16.10 ~~(14)~~ (13) the amount of salary expenses not allowed for federal income tax purposes
16.11 due to claiming the Indian employment credit under section 45A(a) of the Internal
16.12 Revenue Code;

16.13 ~~(15)~~ (14) for a corporation whose foreign sales corporation, as defined in section
16.14 922 of the Internal Revenue Code, constituted a foreign operating corporation during any
16.15 taxable year ending before January 1, 1995, and a return was filed by August 15, 1996,
16.16 claiming the deduction under section 290.21, subdivision 4, for income received from
16.17 the foreign operating corporation, an amount equal to 1.23 multiplied by the amount of
16.18 income excluded under section 114 of the Internal Revenue Code, provided the income is
16.19 not income of a foreign operating company;

16.20 ~~(16)~~ (15) any decrease in subpart F income, as defined in section 952(a) of the
16.21 Internal Revenue Code, for the taxable year when subpart F income is calculated without
16.22 regard to the provisions of Division C, title III, section 303(b) of Public Law 110-343;

16.23 ~~(17)~~ (16) in each of the five tax years immediately following the tax year in which an
16.24 addition is required under subdivision 19c, clause ~~(15)~~ (13), an amount equal to one-fifth
16.25 of the delayed depreciation. For purposes of this clause, "delayed depreciation" means the
16.26 amount of the addition made by the taxpayer under subdivision 19c, clause ~~(15)~~ (13). The
16.27 resulting delayed depreciation cannot be less than zero;

16.28 ~~(18)~~ (17) in each of the five tax years immediately following the tax year in which an
16.29 addition is required under subdivision 19c, clause ~~(16)~~ (14), an amount equal to one-fifth
16.30 of the amount of the addition; and

16.31 ~~(19)~~ (18) to the extent included in federal taxable income, discharge of indebtedness
16.32 income resulting from reacquisition of business indebtedness included in federal taxable
16.33 income under section 108(i) of the Internal Revenue Code. This subtraction applies only
16.34 to the extent that the income was included in net income in a prior year as a result of the
16.35 addition under section 290.01, subdivision 19c, clause ~~(25)~~ (17).

17.1 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
17.2 December 31, 2012.

17.3 Sec. 7. Minnesota Statutes 2012, section 290.06, subdivision 2c, is amended to read:

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

17.8 (1) On the first \$25,680, 5.35 percent;

17.9 (2) On all over \$25,680, but not over \$102,030, 7.05 percent;

17.10 (3) On all over \$102,030, 7.85 percent.

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

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

17.16 (1) On the first \$17,570, 5.35 percent;

17.17 (2) On all over \$17,570, but not over \$57,710, 7.05 percent;

17.18 (3) On all over \$57,710, 7.85 percent.

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

17.22 (1) On the first \$21,630, 5.35 percent;

17.23 (2) On all over \$21,630, but not over \$86,910, 7.05 percent;

17.24 (3) On all over \$86,910, 7.85 percent.

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

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

18.1 (1) the numerator is the individual's Minnesota source federal adjusted gross income
 18.2 as defined in section 62 of the Internal Revenue Code and increased by the additions
 18.3 required under section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), (9), ~~(12),~~
 18.4 ~~(13), and (16) to (18)~~ and (11) to (13), and reduced by the Minnesota assignable portion of
 18.5 the subtraction for United States government interest under section 290.01, subdivision
 18.6 19b, clause (1), and the subtractions under section 290.01, subdivision 19b, clauses ~~(8),~~
 18.7 ~~(9), (13), (14), (16), and (17)~~ (5), (6), and (10) to (13), after applying the allocation and
 18.8 assignability provisions of section 290.081, clause (a), or 290.17; and

18.9 (2) the denominator is the individual's federal adjusted gross income as defined in
 18.10 section 62 of the Internal Revenue Code of 1986, increased by the amounts specified in
 18.11 section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), (9), ~~(12), (13), and (16) to~~
 18.12 ~~(18)~~ and (11) to (13), and reduced by the amounts specified in section 290.01, subdivision
 18.13 19b, clauses (1), ~~(8), (9), (13), (14), (16), and (17)~~ (5), (6), and (10) to (13).

18.14 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 18.15 December 31, 2012.

18.16 Sec. 8. Minnesota Statutes 2012, section 290.06, is amended by adding a subdivision
 18.17 to read:

18.18 **Subd. 36. Charitable contributions credit.** (a) A taxpayer, other than a corporation,
 18.19 estate, or trust, is allowed a credit against the tax imposed by this chapter equal to eight
 18.20 percent of the amount by which eligible charitable contributions exceed the greater of:

18.21 (1) two percent of the taxpayer's adjusted gross income for the taxable year; or

18.22 (2) \$400 (\$800 for married joint).

18.23 (b) For purposes of this subdivision, "eligible charitable contributions" means
 18.24 charitable contributions allowable as a deduction for the taxable year under section 170(a)
 18.25 of the Internal Revenue Code, subject to the limitations of section 170(b) of the Internal
 18.26 Revenue Code, and determined without regard to whether or not the taxpayer itemizes
 18.27 deductions.

18.28 (c) For purposes of this subdivision, "adjusted gross income" has the meaning given
 18.29 in section 62 of the Internal Revenue Code.

18.30 (d) For a nonresident or part-year resident, the credit must be allocated based on the
 18.31 percentage calculated under subdivision 2c, paragraph (e).

18.32 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 18.33 December 31, 2012.

19.1 Sec. 9. Minnesota Statutes 2012, section 290.067, subdivision 1, is amended to read:

19.2 Subdivision 1. **Amount of credit.** (a) A taxpayer may take as a credit against the
19.3 tax due from the taxpayer and a spouse, if any, under this chapter an amount equal to the
19.4 dependent care credit for which the taxpayer is eligible pursuant to the provisions of
19.5 section 21 of the Internal Revenue Code subject to the limitations provided in subdivision
19.6 2 except that in determining whether the child qualified as a dependent, income received
19.7 as a Minnesota family investment program grant or allowance to or on behalf of the child
19.8 must not be taken into account in determining whether the child received more than half
19.9 of the child's support from the taxpayer, and the provisions of section 32(b)(1)(D) of
19.10 the Internal Revenue Code do not apply.

19.11 (b) If a child who has not attained the age of six years at the close of the taxable year
19.12 is cared for at a licensed family day care home operated by the child's parent, the taxpayer
19.13 is deemed to have paid employment-related expenses. If the child is 16 months old or
19.14 younger at the close of the taxable year, the amount of expenses deemed to have been paid
19.15 equals the maximum limit for one qualified individual under section 21(c) and (d) of the
19.16 Internal Revenue Code. If the child is older than 16 months of age but has not attained the
19.17 age of six years at the close of the taxable year, the amount of expenses deemed to have
19.18 been paid equals the amount the licensee would charge for the care of a child of the same
19.19 age for the same number of hours of care.

19.20 (c) If a married couple:

19.21 (1) has a child who has not attained the age of one year at the close of the taxable year;

19.22 (2) files a joint tax return for the taxable year; and

19.23 (3) does not participate in a dependent care assistance program as defined in section
19.24 129 of the Internal Revenue Code, in lieu of the actual employment related expenses paid
19.25 for that child under paragraph (a) or the deemed amount under paragraph (b), the lesser of
19.26 (i) the combined earned income of the couple or (ii) the amount of the maximum limit for
19.27 one qualified individual under section 21(c) and (d) of the Internal Revenue Code will
19.28 be deemed to be the employment related expense paid for that child. The earned income
19.29 limitation of section 21(d) of the Internal Revenue Code shall not apply to this deemed
19.30 amount. These deemed amounts apply regardless of whether any employment-related
19.31 expenses have been paid.

19.32 (d) If the taxpayer is not required and does not file a federal individual income tax
19.33 return for the tax year, no credit is allowed for any amount paid to any person unless:

19.34 (1) the name, address, and taxpayer identification number of the person are included
19.35 on the return claiming the credit; or

20.1 (2) if the person is an organization described in section 501(c)(3) of the Internal
 20.2 Revenue Code and exempt from tax under section 501(a) of the Internal Revenue Code,
 20.3 the name and address of the person are included on the return claiming the credit.

20.4 In the case of a failure to provide the information required under the preceding sentence,
 20.5 the preceding sentence does not apply if it is shown that the taxpayer exercised due
 20.6 diligence in attempting to provide the information required.

20.7 In the case of a nonresident, part-year resident, or a person who has earned income
 20.8 not subject to tax under this chapter including earned income excluded pursuant to section
 20.9 290.01, subdivision 19b, clause (9), the credit determined under section 21 of the Internal
 20.10 Revenue Code must be allocated based on the ratio by which the earned income of the
 20.11 claimant and the claimant's spouse from Minnesota sources bears to the total earned
 20.12 income of the claimant and the claimant's spouse.

20.13 For residents of Minnesota, the subtractions for military pay under section 290.01,
 20.14 subdivision 19b, clauses ~~(10) and (11)~~ (7) and (8), are not considered "earned income not
 20.15 subject to tax under this chapter."

20.16 For residents of Minnesota, the exclusion of combat pay under section 112 of the
 20.17 Internal Revenue Code is not considered "earned income not subject to tax under this
 20.18 chapter."

20.19 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 20.20 December 31, 2012.

20.21 Sec. 10. Minnesota Statutes 2012, section 290.067, subdivision 2a, is amended to read:

20.22 Subd. 2a. **Income.** (a) For purposes of this section, "income" means the sum of
 20.23 the following:

20.24 (1) federal adjusted gross income as defined in section 62 of the Internal Revenue
 20.25 Code; and

20.26 (2) the sum of the following amounts to the extent not included in clause (1):

20.27 (i) all nontaxable income;

20.28 (ii) the amount of a passive activity loss that is not disallowed as a result of section
 20.29 469, paragraph (i) or (m) of the Internal Revenue Code and the amount of passive activity
 20.30 loss carryover allowed under section 469(b) of the Internal Revenue Code;

20.31 (iii) an amount equal to the total of any discharge of qualified farm indebtedness
 20.32 of a solvent individual excluded from gross income under section 108(g) of the Internal
 20.33 Revenue Code;

20.34 (iv) cash public assistance and relief;

21.1 (v) any pension or annuity (including railroad retirement benefits, all payments
 21.2 received under the federal Social Security Act, supplemental security income, and veterans
 21.3 benefits), which was not exclusively funded by the claimant or spouse, or which was
 21.4 funded exclusively by the claimant or spouse and which funding payments were excluded
 21.5 from federal adjusted gross income in the years when the payments were made;

21.6 (vi) interest received from the federal or a state government or any instrumentality
 21.7 or political subdivision thereof;

21.8 (vii) workers' compensation;

21.9 (viii) nontaxable strike benefits;

21.10 (ix) the gross amounts of payments received in the nature of disability income or
 21.11 sick pay as a result of accident, sickness, or other disability, whether funded through
 21.12 insurance or otherwise;

21.13 (x) a lump-sum distribution under section 402(e)(3) of the Internal Revenue Code of
 21.14 1986, as amended through December 31, 1995;

21.15 (xi) contributions made by the claimant to an individual retirement account,
 21.16 including a qualified voluntary employee contribution; simplified employee pension plan;
 21.17 self-employed retirement plan; cash or deferred arrangement plan under section 401(k)
 21.18 of the Internal Revenue Code; or deferred compensation plan under section 457 of the
 21.19 Internal Revenue Code;

21.20 (xii) nontaxable scholarship or fellowship grants;

21.21 (xiii) the amount of deduction allowed under section 199 of the Internal Revenue
 21.22 Code;

21.23 (xiv) the amount of deduction allowed under section 220 or 223 of the Internal
 21.24 Revenue Code;

21.25 ~~(xv) the amount of tuition expenses required to be added to income under section~~
 21.26 ~~290.01, subdivision 19a, clause (12);~~

21.27 ~~(xvi)~~ the amount deducted for certain expenses of elementary and secondary school
 21.28 teachers under section 62(a)(2)(D) of the Internal Revenue Code; and

21.29 ~~(xvii)~~ (xvi) unemployment compensation.

21.30 In the case of an individual who files an income tax return on a fiscal year basis, the
 21.31 term "federal adjusted gross income" means federal adjusted gross income reflected in the
 21.32 fiscal year ending in the next calendar year. Federal adjusted gross income may not be
 21.33 reduced by the amount of a net operating loss carryback or carryforward or a capital loss
 21.34 carryback or carryforward allowed for the year.

21.35 (b) "Income" does not include:

21.36 (1) amounts excluded pursuant to the Internal Revenue Code, sections 101(a) and 102;

22.1 (2) amounts of any pension or annuity that were exclusively funded by the claimant
 22.2 or spouse if the funding payments were not excluded from federal adjusted gross income
 22.3 in the years when the payments were made;

22.4 (3) surplus food or other relief in kind supplied by a governmental agency;

22.5 (4) relief granted under chapter 290A;

22.6 (5) child support payments received under a temporary or final decree of dissolution
 22.7 or legal separation; and

22.8 (6) restitution payments received by eligible individuals and excludable interest as
 22.9 defined in section 803 of the Economic Growth and Tax Relief Reconciliation Act of
 22.10 2001, Public Law 107-16.

22.11 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 22.12 December 31, 2012.

22.13 Sec. 11. Minnesota Statutes 2012, section 290.0671, subdivision 1, is amended to read:

22.14 Subdivision 1. **Credit allowed.** (a) An individual is allowed a credit against the tax
 22.15 imposed by this chapter equal to a percentage of earned income. To receive a credit, a
 22.16 taxpayer must be eligible for a credit under section 32 of the Internal Revenue Code.

22.17 (b) For individuals with no qualifying children, the credit equals 1.9125 percent of
 22.18 the first \$4,620 of earned income. The credit is reduced by 1.9125 percent of earned
 22.19 income or adjusted gross income, whichever is greater, in excess of \$5,770, but in no
 22.20 case is the credit less than zero.

22.21 (c) For individuals with one qualifying child, the credit equals 8.5 percent of the first
 22.22 \$6,920 of earned income and 8.5 percent of earned income over \$12,080 but less than
 22.23 \$13,450. The credit is reduced by 5.73 percent of earned income or adjusted gross income,
 22.24 whichever is greater, in excess of \$15,080, but in no case is the credit less than zero.

22.25 (d) For individuals with two or more qualifying children, the credit equals ten percent
 22.26 of the first \$9,720 of earned income and 20 percent of earned income over \$14,860 but less
 22.27 than \$16,800. The credit is reduced by 10.3 percent of earned income or adjusted gross
 22.28 income, whichever is greater, in excess of \$17,890, but in no case is the credit less than zero.

22.29 (e) For a nonresident or part-year resident, the credit must be allocated based on the
 22.30 percentage calculated under section 290.06, subdivision 2c, paragraph (e).

22.31 (f) For a person who was a resident for the entire tax year and has earned income
 22.32 not subject to tax under this chapter, including income excluded under section 290.01,
 22.33 subdivision 19b, clause (9), the credit must be allocated based on the ratio of federal
 22.34 adjusted gross income reduced by the earned income not subject to tax under this chapter
 22.35 over federal adjusted gross income. For purposes of this paragraph, the subtractions for

23.1 military pay under section 290.01, subdivision 19b, clauses ~~(10) and (11)~~ (7) and (8), are
23.2 not considered "earned income not subject to tax under this chapter."

23.3 For the purposes of this paragraph, the exclusion of combat pay under section 112
23.4 of the Internal Revenue Code is not considered "earned income not subject to tax under
23.5 this chapter."

23.6 (g) For tax years beginning after December 31, 2007, and before December 31,
23.7 2010, the \$5,770 in paragraph (b), the \$15,080 in paragraph (c), and the \$17,890 in
23.8 paragraph (d), after being adjusted for inflation under subdivision 7, are each increased by
23.9 \$3,000 for married taxpayers filing joint returns. For tax years beginning after December
23.10 31, 2008, the commissioner shall annually adjust the \$3,000 by the percentage determined
23.11 pursuant to the provisions of section 1(f) of the Internal Revenue Code, except that in
23.12 section 1(f)(3)(B), the word "2007" shall be substituted for the word "1992." For 2009,
23.13 the commissioner shall then determine the percent change from the 12 months ending on
23.14 August 31, 2007, to the 12 months ending on August 31, 2008, and in each subsequent
23.15 year, from the 12 months ending on August 31, 2007, to the 12 months ending on August
23.16 31 of the year preceding the taxable year. The earned income thresholds as adjusted
23.17 for inflation must be rounded to the nearest \$10. If the amount ends in \$5, the amount
23.18 is rounded up to the nearest \$10. The determination of the commissioner under this
23.19 subdivision is not a rule under the Administrative Procedure Act.

23.20 (h) For tax years beginning after December 31, 2010, and before January 1, 2012,
23.21 the \$5,770 in paragraph (b), the \$15,080 in paragraph (c), and the \$17,890 in paragraph
23.22 (d), after being adjusted for inflation under subdivision 7, are each increased by \$5,000 for
23.23 married taxpayers filing joint returns. For tax years beginning after December 31, 2010,
23.24 and before January 1, 2012, the commissioner shall annually adjust the \$5,000 by the
23.25 percentage determined pursuant to the provisions of section 1(f) of the Internal Revenue
23.26 Code, except that in section 1(f)(3)(B), the word "2008" shall be substituted for the word
23.27 "1992." For 2011, the commissioner shall then determine the percent change from the 12
23.28 months ending on August 31, 2008, to the 12 months ending on August 31, 2010. The
23.29 earned income thresholds as adjusted for inflation must be rounded to the nearest \$10. If the
23.30 amount ends in \$5, the amount is rounded up to the nearest \$10. The determination of the
23.31 commissioner under this subdivision is not a rule under the Administrative Procedure Act.

23.32 (i) The commissioner shall construct tables showing the amount of the credit at
23.33 various income levels and make them available to taxpayers. The tables shall follow
23.34 the schedule contained in this subdivision, except that the commissioner may graduate
23.35 the transition between income brackets.

24.1 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 24.2 December 31, 2012.

24.3 Sec. 12. Minnesota Statutes 2012, section 290.0675, subdivision 1, is amended to read:

24.4 Subdivision 1. **Definitions.** (a) For purposes of this section the following terms
 24.5 have the meanings given.

24.6 (b) "Earned income" means the sum of the following, to the extent included in
 24.7 Minnesota taxable income:

24.8 (1) earned income as defined in section 32(c)(2) of the Internal Revenue Code;

24.9 (2) income received from a retirement pension, profit-sharing, stock bonus, or
 24.10 annuity plan; and

24.11 (3) Social Security benefits as defined in section 86(d)(1) of the Internal Revenue
 24.12 Code.

24.13 (c) "Taxable income" means net income as defined in section 290.01, subdivision 19.

24.14 (d) "Earned income of lesser-earning spouse" means the earned income of the spouse
 24.15 with the lesser amount of earned income as defined in paragraph (b) for the taxable year
 24.16 minus the sum of (i) the amount for one exemption under section 151(d) of the Internal
 24.17 Revenue Code and (ii) one-half the amount of the standard deduction under section
 24.18 63(c)(2)(A) and (4) of the Internal Revenue Code minus one-half of any addition required
 24.19 under section 290.01, subdivision 19a, clause ~~(24)~~ (16), and one-half of the addition that
 24.20 would have been required under section 290.01, subdivision 19a, clause ~~(24)~~ (16), if the
 24.21 taxpayer had claimed the standard deduction.

24.22 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 24.23 December 31, 2012.

24.24 Sec. 13. Minnesota Statutes 2012, section 290.068, subdivision 3, is amended to read:

24.25 Subd. 3. **Limitation; carryover.** (a)(1) The credit for a taxable year beginning
 24.26 before January 1, 2010, and after December 31, 2012, shall not exceed the liability for
 24.27 tax. "Liability for tax" for purposes of this section means the tax imposed under section
 24.28 290.06, subdivision 1, for the taxable year reduced by the sum of the nonrefundable
 24.29 credits allowed under this chapter.

24.30 (2) In the case of a corporation which is a partner in a partnership, the credit allowed
 24.31 for the taxable year shall not exceed the lesser of the amount determined under clause (1)
 24.32 for the taxable year or an amount (separately computed with respect to the corporation's
 24.33 interest in the trade or business or entity) equal to the amount of tax attributable to that

25.1 portion of taxable income which is allocable or apportionable to the corporation's interest
25.2 in the trade or business or entity.

25.3 (b) If the amount of the credit determined under this section for any taxable year
25.4 exceeds the limitation under clause (a), the excess shall be a research credit carryover to
25.5 each of the 15 succeeding taxable years. The entire amount of the excess unused credit for
25.6 the taxable year shall be carried first to the earliest of the taxable years to which the credit
25.7 may be carried and then to each successive year to which the credit may be carried. The
25.8 amount of the unused credit which may be added under this clause shall not exceed the
25.9 taxpayer's liability for tax less the research credit for the taxable year.

25.10 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
25.11 December 31, 2012.

25.12 Sec. 14. Minnesota Statutes 2012, section 290.068, subdivision 6a, is amended to read:

25.13 Subd. 6a. **Credit to be refundable.** If the amount of credit allowed in this section
25.14 for qualified research expenses incurred in taxable years beginning after December 31,
25.15 2009, and before January 1, 2013, exceeds the taxpayer's tax liability under this chapter,
25.16 the commissioner shall refund the excess amount. The credit allowed for qualified research
25.17 expenses incurred in taxable years beginning after December 31, 2009, and before January
25.18 1, 2013, must be used before any research credit earned under subdivision 3.

25.19 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
25.20 December 31, 2012.

25.21 Sec. 15. Minnesota Statutes 2012, section 290.0802, subdivision 1, is amended to read:

25.22 Subdivision 1. **Definitions.** For purposes of this section, the following terms have
25.23 the meanings given.

25.24 (a) "Adjusted gross income" means federal adjusted gross income as used in section
25.25 22(d) of the Internal Revenue Code for the taxable year, plus a lump-sum distribution as
25.26 defined in section 402(e)(3) of the Internal Revenue Code, and less any pension, annuity,
25.27 or disability benefits included in federal gross income but not subject to state taxation
25.28 other than the subtraction allowed under section 290.01, subdivision 19b, clause ~~(4)~~ (3).

25.29 (b) "Disability income" means disability income as defined in section 22(c)(2)(B)(iii)
25.30 of the Internal Revenue Code.

25.31 (c) "Nontaxable retirement and disability benefits" means the amount of pension,
25.32 annuity, or disability benefits that would be included in the reduction under section

26.1 22(c)(3) of the Internal Revenue Code and pension, annuity, or disability benefits included
 26.2 in federal gross income but not subject to state taxation.

26.3 (d) "Qualified individual" means a qualified individual as defined in section 22(b) of
 26.4 the Internal Revenue Code.

26.5 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 26.6 December 31, 2012.

26.7 Sec. 16. Minnesota Statutes 2012, section 290.0802, subdivision 2, is amended to read:

26.8 Subd. 2. **Subtraction.** (a) A qualified individual is allowed a subtraction from federal
 26.9 taxable income of the individual's subtraction base amount. The excess of the subtraction
 26.10 base amount over the taxable net income computed without regard to the subtraction for
 26.11 the elderly or disabled under section 290.01, subdivision 19b, clause ~~(4)~~ (3), may be used
 26.12 to reduce the amount of a lump sum distribution subject to tax under section 290.032.

26.13 (b)(1) The initial subtraction base amount equals

26.14 (i) \$12,000 for a married taxpayer filing a joint return if a spouse is a qualified
 26.15 individual,

26.16 (ii) \$9,600 for a single taxpayer, and

26.17 (iii) \$6,000 for a married taxpayer filing a separate federal return.

26.18 (2) The qualified individual's initial subtraction base amount, then, must be reduced
 26.19 by the sum of nontaxable retirement and disability benefits and one-half of the amount of
 26.20 adjusted gross income in excess of the following thresholds:

26.21 (i) \$18,000 for a married taxpayer filing a joint return if both spouses are qualified
 26.22 individuals,

26.23 (ii) \$14,500 for a single taxpayer or for a married couple filing a joint return if only
 26.24 one spouse is a qualified individual, and

26.25 (iii) \$9,000 for a married taxpayer filing a separate federal return.

26.26 (3) In the case of a qualified individual who is under the age of 65, the maximum
 26.27 amount of the subtraction base may not exceed the taxpayer's disability income.

26.28 (4) The resulting amount is the subtraction base amount.

26.29 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 26.30 December 31, 2012.

26.31 Sec. 17. Minnesota Statutes 2012, section 290.091, subdivision 2, is amended to read:

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

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

27.3 (1) the taxpayer's federal alternative minimum taxable income as defined in section
 27.4 55(b)(2) of the Internal Revenue Code;

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

27.7 ~~(i) the charitable contribution deduction under section 170 of the Internal Revenue~~
 27.8 ~~Code;~~

27.9 ~~(ii) the medical expense deduction;~~

27.10 ~~(iii) (ii) the casualty, theft, and disaster loss deduction; and~~

27.11 ~~(iv) (iii) the impairment-related work expenses of a disabled person;~~

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

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

27.21 (5) to the extent not included in federal alternative minimum taxable income, the
 27.22 amount of interest income as provided by section 290.01, subdivision 19a, clause (1); and

27.23 (6) the amount of addition required by section 290.01, subdivision 19a, clauses (7)
 27.24 to (9), ~~(12), (13), and (16) to (18)~~ (11) to (13);

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

27.26 (1) interest income as defined in section 290.01, subdivision 19b, clause (1);

27.27 (2) an overpayment of state income tax as provided by section 290.01, subdivision
 27.28 19b, clause (2), to the extent included in federal alternative minimum taxable income;

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

27.33 (4) amounts subtracted from federal taxable income as provided by section 290.01,
 27.34 subdivision 19b, clauses ~~(6), (8) to (14), and (16)~~ (5) to (12); and

27.35 (5) the amount of the net operating loss allowed under section 290.095, subdivision
 27.36 11, paragraph (c).

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

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

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

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

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

28.11 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
28.12 December 31, 2012.

28.13 Sec. 18. Minnesota Statutes 2012, section 290.0921, subdivision 3, is amended to read:

28.14 Subd. 3. **Alternative minimum taxable income.** "Alternative minimum taxable
28.15 income" is Minnesota net income as defined in section 290.01, subdivision 19, and
28.16 includes the adjustments and tax preference items in sections 56, 57, 58, and 59(d), (e),
28.17 (f), and (h) of the Internal Revenue Code. If a corporation files a separate company
28.18 Minnesota tax return, the minimum tax must be computed on a separate company basis.
28.19 If a corporation is part of a tax group filing a unitary return, the minimum tax must be
28.20 computed on a unitary basis. The following adjustments must be made.

28.21 (1) For purposes of the depreciation adjustments under section 56(a)(1) and
28.22 56(g)(4)(A) of the Internal Revenue Code, the basis for depreciable property placed in
28.23 service in a taxable year beginning before January 1, 1990, is the adjusted basis for federal
28.24 income tax purposes, including any modification made in a taxable year under section
28.25 290.01, subdivision 19e, or Minnesota Statutes 1986, section 290.09, subdivision 7,
28.26 paragraph (c).

28.27 For taxable years beginning after December 31, 2000, the amount of any remaining
28.28 modification made under section 290.01, subdivision 19e, or Minnesota Statutes 1986,
28.29 section 290.09, subdivision 7, paragraph (c), not previously deducted is a depreciation
28.30 allowance in the first taxable year after December 31, 2000.

28.31 (2) The portion of the depreciation deduction allowed for federal income tax
28.32 purposes under section 168(k) of the Internal Revenue Code that is required as an addition
28.33 under section 290.01, subdivision 19c, clause ~~(15)~~ (13), is disallowed in determining
28.34 alternative minimum taxable income.

29.1 (3) The subtraction for depreciation allowed under section 290.01, subdivision
29.2 19d, clause ~~(17)~~ (16), is allowed as a depreciation deduction in determining alternative
29.3 minimum taxable income.

29.4 (4) The alternative tax net operating loss deduction under sections 56(a)(4) and 56(d)
29.5 of the Internal Revenue Code does not apply.

29.6 (5) The special rule for certain dividends under section 56(g)(4)(C)(ii) of the Internal
29.7 Revenue Code does not apply.

29.8 (6) The special rule for dividends from section 936 companies under section
29.9 56(g)(4)(C)(iii) does not apply.

29.10 (7) The tax preference for depletion under section 57(a)(1) of the Internal Revenue
29.11 Code does not apply.

29.12 (8) The tax preference for intangible drilling costs under section 57(a)(2) of the
29.13 Internal Revenue Code must be calculated without regard to subparagraph (E) and the
29.14 subtraction under section 290.01, subdivision 19d, clause (4).

29.15 (9) The tax preference for tax exempt interest under section 57(a)(5) of the Internal
29.16 Revenue Code does not apply.

29.17 (10) The tax preference for charitable contributions of appreciated property under
29.18 section 57(a)(6) of the Internal Revenue Code does not apply.

29.19 (11) For purposes of calculating the tax preference for accelerated depreciation or
29.20 amortization on certain property placed in service before January 1, 1987, under section
29.21 57(a)(7) of the Internal Revenue Code, the deduction allowable for the taxable year is the
29.22 deduction allowed under section 290.01, subdivision 19e.

29.23 For taxable years beginning after December 31, 2000, the amount of any remaining
29.24 modification made under section 290.01, subdivision 19e, not previously deducted is a
29.25 depreciation or amortization allowance in the first taxable year after December 31, 2004.

29.26 (12) For purposes of calculating the adjustment for adjusted current earnings in
29.27 section 56(g) of the Internal Revenue Code, the term "alternative minimum taxable
29.28 income" as it is used in section 56(g) of the Internal Revenue Code, means alternative
29.29 minimum taxable income as defined in this subdivision, determined without regard to the
29.30 adjustment for adjusted current earnings in section 56(g) of the Internal Revenue Code.

29.31 (13) For purposes of determining the amount of adjusted current earnings under
29.32 section 56(g)(3) of the Internal Revenue Code, no adjustment shall be made under section
29.33 56(g)(4) of the Internal Revenue Code with respect to (i) the amount of foreign dividend
29.34 gross-up subtracted as provided in section 290.01, subdivision 19d, clause (1), or (ii) the
29.35 amount of refunds of income, excise, or franchise taxes subtracted as provided in section

30.1 290.01, subdivision 19d, clause (9), ~~or (iii) the amount of royalties, fees or other like~~
30.2 ~~income subtracted as provided in section 290.01, subdivision 19d, clause (10).~~

30.3 (14) Alternative minimum taxable income excludes the income from operating in a
30.4 job opportunity building zone as provided under section 469.317.

30.5 (15) Alternative minimum taxable income excludes the income from operating in a
30.6 biotechnology and health sciences industry zone as provided under section 469.337.

30.7 Items of tax preference must not be reduced below zero as a result of the
30.8 modifications in this subdivision.

30.9 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
30.10 December 31, 2012.

30.11 Sec. 19. Minnesota Statutes 2012, section 290.0922, subdivision 1, is amended to read:

30.12 Subdivision 1. **Imposition.** (a) In addition to the tax imposed by this chapter without
30.13 regard to this section, the franchise tax imposed on a corporation required to file under
30.14 section 289A.08, subdivision 3, other than a corporation treated as an "S" corporation
30.15 under section 290.9725 for the taxable year includes a tax equal to the following amounts:

30.16 If the sum of the corporation's Minnesota
30.17 property, payrolls, and sales or receipts is: the tax equals:

30.18			500,000	
30.19	less than	\$	<u>930,000</u>	\$ 0
30.20			500,000	100
30.21		\$	<u>930,000</u> to \$ <u>1,869,999</u>	\$ <u>190</u>
30.22			1,000,000	300
30.23		\$	<u>1,870,000</u> to \$ <u>9,339,999</u>	\$ <u>560</u>
30.24			5,000,000	1,000
30.25		\$	<u>9,340,000</u> to \$ <u>18,679,999</u>	\$ <u>1,870</u>
30.26			10,000,000	2,000
30.27		\$	<u>18,680,000</u> to \$ <u>37,359,999</u>	\$ <u>3,740</u>
30.28			20,000,000	5,000
30.29		\$	<u>37,360,000</u> or more	\$ <u>9,340</u>

30.30 (b) A tax is imposed for each taxable year on a corporation required to file a return
30.31 under section 289A.12, subdivision 3, that is treated as an "S" corporation under section
30.32 290.9725 and on a partnership required to file a return under section 289A.12, subdivision
30.33 3, other than a partnership that derives over 80 percent of its income from farming. The
30.34 tax imposed under this paragraph is due on or before the due date of the return for the
30.35 taxpayer due under section 289A.18, subdivision 1. The commissioner shall prescribe
30.36 the return to be used for payment of this tax. The tax under this paragraph is equal to
30.37 the following amounts:

31.1 If the sum of the S corporation's
 31.2 or partnership's Minnesota
 31.3 property, payrolls, and sales or
 31.4 receipts is:

the tax equals:

31.5			500,000	
31.6	less than	\$	<u>930,000</u>	\$ 0
31.7			500,000	100
31.8	\$	<u>930,000</u>	to	\$ <u>1,869,999</u>
31.9			1,000,000	300
31.10	\$	<u>1,870,000</u>	to	\$ <u>9,339,999</u>
31.11			5,000,000	1,000
31.12	\$	<u>9,340,000</u>	to	\$ <u>18,679,999</u>
31.13			10,000,000	2,000
31.14	\$	<u>18,680,000</u>	to	\$ <u>37,359,999</u>
31.15			20,000,000	5,000
31.16	\$	<u>37,360,000</u>	or more	\$ <u>9,340</u>

31.17 (c) The commissioner shall adjust the dollar amounts of both the tax and the property,
 31.18 payrolls, and sales or receipts thresholds in paragraphs (a) and (b) by the percentage
 31.19 determined pursuant to the provisions of section 1(f) of the Internal Revenue Code, except
 31.20 that in section 1(f)(3)(B) the word "2012" must be substituted for the word "1992." For
 31.21 2014, the commissioner shall determine the percentage change from the 12 months ending
 31.22 on August 31, 2012, to the 12 months ending on August 31, 2013, and in each subsequent
 31.23 year, from the 12 months ending on August 31, 2012, to the 12 months ending on August
 31.24 31 of the year preceding the taxable year. The determination of the commissioner pursuant
 31.25 to this subdivision is not a "rule" subject to the Administrative Procedure Act contained in
 31.26 chapter 14. The tax amounts as adjusted must be rounded to the nearest \$10 amount and
 31.27 the threshold amounts must be adjusted to the nearest \$10,000 amount. For tax amounts
 31.28 that end in \$5, the amount is rounded up to the nearest \$10 amount and for threshold
 31.29 amounts that end in \$5,000, the amount is rounded up to the nearest \$10,000.

31.30 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 31.31 December 31, 2012.

31.32 Sec. 20. Minnesota Statutes 2012, section 290.095, subdivision 2, is amended to read:

31.33 Subd. 2. **Defined and limited.** (a) The term "net operating loss" as used in this
 31.34 section shall mean a net operating loss as defined in section 172(c) of the Internal Revenue
 31.35 Code, with the modifications specified in subdivision 4. The deductions provided in
 31.36 section 290.21 and the modification provided in section 290.01, subdivision 19d, clause
 31.37 (10), cannot be used in the determination of a net operating loss.

31.38 (b) The term "net operating loss deduction" as used in this section means the
 31.39 aggregate of the net operating loss carryovers to the taxable year, computed in accordance

32.1 with subdivision 3. The provisions of section 172(b) of the Internal Revenue Code relating
32.2 to the carryback of net operating losses, do not apply.

32.3 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
32.4 December 31, 2012.

32.5 Sec. 21. Minnesota Statutes 2012, section 290.17, subdivision 4, is amended to read:

32.6 Subd. 4. **Unitary business principle.** (a) If a trade or business conducted wholly
32.7 within this state or partly within and partly without this state is part of a unitary business,
32.8 the entire income of the unitary business is subject to apportionment pursuant to section
32.9 290.191. Notwithstanding subdivision 2, paragraph (c), none of the income of a unitary
32.10 business is considered to be derived from any particular source and none may be allocated
32.11 to a particular place except as provided by the applicable apportionment formula. The
32.12 provisions of this subdivision do not apply to business income subject to subdivision 5,
32.13 income of an insurance company, or income of an investment company determined under
32.14 section 290.36.

32.15 (b) The term "unitary business" means business activities or operations which
32.16 result in a flow of value between them. The term may be applied within a single legal
32.17 entity or between multiple entities and without regard to whether each entity is a sole
32.18 proprietorship, a corporation, a partnership or a trust.

32.19 (c) Unity is presumed whenever there is unity of ownership, operation, and use,
32.20 evidenced by centralized management or executive force, centralized purchasing,
32.21 advertising, accounting, or other controlled interaction, but the absence of these
32.22 centralized activities will not necessarily evidence a nonunitary business. Unity is also
32.23 presumed when business activities or operations are of mutual benefit, dependent upon or
32.24 contributory to one another, either individually or as a group.

32.25 (d) Where a business operation conducted in Minnesota is owned by a business
32.26 entity that carries on business activity outside the state different in kind from that
32.27 conducted within this state, and the other business is conducted entirely outside the state, it
32.28 is presumed that the two business operations are unitary in nature, interrelated, connected,
32.29 and interdependent unless it can be shown to the contrary.

32.30 (e) Unity of ownership is not deemed to exist when a corporation is involved unless
32.31 that corporation is a member of a group of two or more business entities and more than 50
32.32 percent of the voting stock of each member of the group is directly or indirectly owned
32.33 by a common owner or by common owners, either corporate or noncorporate, or by one
32.34 or more of the member corporations of the group. For this purpose, the term "voting

33.1 stock" shall include membership interests of mutual insurance holding companies formed
33.2 under section 66A.40.

33.3 (f) The net income and apportionment factors under section 290.191 or 290.20 of
33.4 foreign corporations and other foreign entities which are part of a unitary business shall not
33.5 be included in the net income or the apportionment factors of the unitary business, except
33.6 that foreign corporations or other foreign entities that are included on a federal income tax
33.7 return must be included on the combined report. Income of a foreign partnership or other
33.8 foreign entity treated as a partnership included in federal taxable income, as defined in
33.9 section 63 of the Internal Revenue Code, and the proportionate amount of apportionment
33.10 factors, must be included in the combined report. A foreign corporation or other foreign
33.11 entity which is not included on a combined report and which is required to file a return
33.12 under this chapter shall file on a separate return basis. The net income and apportionment
33.13 factors under section 290.191 or 290.20 of foreign operating corporations shall not be
33.14 included in the net income or the apportionment factors of the unitary business except as
33.15 provided in paragraph (g).

33.16 (g) ~~The adjusted net income of a foreign operating corporation shall be deemed to~~
33.17 ~~be paid as a dividend on the last day of its taxable year to each shareholder thereof, in~~
33.18 ~~proportion to each shareholder's ownership, with which such corporation is engaged in~~
33.19 ~~a unitary business. Such deemed dividend shall be treated as a dividend under section~~
33.20 ~~290.21, subdivision 4.~~

33.21 ~~Dividends actually paid by a foreign operating corporation to a corporate shareholder~~
33.22 ~~which is a member of the same unitary business as the foreign operating corporation shall~~
33.23 ~~be eliminated from the net income of the unitary business in preparing a combined report~~
33.24 ~~for the unitary business. The adjusted net income of a foreign operating corporation~~
33.25 ~~shall be its net income adjusted as follows:~~

33.26 (1) ~~any taxes paid or accrued to a foreign country, the commonwealth of Puerto~~
33.27 ~~Rico, or a United States possession or political subdivision of any of the foregoing shall~~
33.28 ~~be a deduction; and~~

33.29 (2) ~~the subtraction from federal taxable income for payments received from foreign~~
33.30 ~~corporations or foreign operating corporations under section 290.01, subdivision 19d,~~
33.31 ~~clause (10), shall not be allowed.~~

33.32 ~~If a foreign operating corporation incurs a net loss, neither income nor deduction from~~
33.33 ~~that corporation shall be included in determining the net income of the unitary business.~~

33.34 (h) (g) For purposes of determining the net income of a unitary business and the
33.35 factors to be used in the apportionment of net income pursuant to section 290.191 or
33.36 290.20, there must be included only the income and apportionment factors of domestic

34.1 corporations or other domestic entities ~~other than foreign operating corporations~~ that are
 34.2 determined to be part of the unitary business pursuant to this subdivision, notwithstanding
 34.3 that foreign corporations or other foreign entities might be included in the unitary
 34.4 business, except that foreign corporations or other foreign entities that are included on a
 34.5 federal income tax return must be included on the combined report. Income of a foreign
 34.6 partnership or other foreign entity treated as a partnership included in federal taxable
 34.7 income, as defined in section 63 of the Internal Revenue Code, and the proportionate
 34.8 amount of apportionment factors, must be included in the combined report.

34.9 ~~(i) Deductions for expenses, interest, or taxes otherwise allowable under this chapter~~
 34.10 ~~that are connected with or allocable against dividends, deemed dividends described~~
 34.11 ~~in paragraph (g), or royalties, fees, or other like income described in section 290.01,~~
 34.12 ~~subdivision 19d, clause (10), shall not be disallowed.~~

34.13 ~~(j)~~ (h) Each corporation or other entity, except a sole proprietorship, that is part of
 34.14 a unitary business must file combined reports as the commissioner determines. On the
 34.15 reports, all intercompany transactions between entities included pursuant to paragraph ~~(h)~~
 34.16 (g) must be eliminated and the entire net income of the unitary business determined in
 34.17 accordance with this subdivision is apportioned among the entities by using each entity's
 34.18 Minnesota factors for apportionment purposes in the numerators of the apportionment
 34.19 formula and the total factors for apportionment purposes of all entities included pursuant
 34.20 to paragraph ~~(h)~~ (g) in the denominators of the apportionment formula. All sales of the
 34.21 unitary business made within Minnesota pursuant to section 290.191 or 290.20 must be
 34.22 included on the separate combined report of a corporation that is a member of the unitary
 34.23 business and is subject to the jurisdiction of this state to impose tax under this chapter.

34.24 ~~(k)~~ (i) If a corporation has been divested from a unitary business and is included in a
 34.25 combined report for a fractional part of the common accounting period of the combined
 34.26 report:

34.27 (1) its income includable in the combined report is its income incurred for that part
 34.28 of the year determined by proration or separate accounting; and

34.29 (2) its sales, property, and payroll included in the apportionment formula must
 34.30 be prorated or accounted for separately.

34.31 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 34.32 December 31, 2012.

34.33 Sec. 22. Minnesota Statutes 2012, section 290.191, subdivision 5, is amended to read:

34.34 Subd. 5. **Determination of sales factor.** For purposes of this section, the following
 34.35 rules apply in determining the sales factor.

35.1 (a) The sales factor includes all sales, gross earnings, or receipts received in the
35.2 ordinary course of the business, except that the following types of income are not included
35.3 in the sales factor:

35.4 (1) interest;

35.5 (2) dividends;

35.6 (3) sales of capital assets as defined in section 1221 of the Internal Revenue Code;

35.7 (4) sales of property used in the trade or business, except sales of leased property of
35.8 a type which is regularly sold as well as leased; and

35.9 (5) sales of debt instruments as defined in section 1275(a)(1) of the Internal Revenue
35.10 Code or sales of stock; and.

35.11 ~~(6) royalties, fees, or other like income of a type which qualify for a subtraction from
35.12 federal taxable income under section 290.01, subdivision 19d, clause (10).~~

35.13 (b) Sales of tangible personal property are made within this state if the property is
35.14 received by a purchaser at a point within this state, and the taxpayer is taxable in this state,
35.15 regardless of the f.o.b. point, other conditions of the sale, or the ultimate destination
35.16 of the property.

35.17 (c) Tangible personal property delivered to a common or contract carrier or foreign
35.18 vessel for delivery to a purchaser in another state or nation is a sale in that state or nation,
35.19 regardless of f.o.b. point or other conditions of the sale.

35.20 (d) Notwithstanding paragraphs (b) and (c), when intoxicating liquor, wine,
35.21 fermented malt beverages, cigarettes, or tobacco products are sold to a purchaser who is
35.22 licensed by a state or political subdivision to resell this property only within the state of
35.23 ultimate destination, the sale is made in that state.

35.24 (e) Sales made by or through a corporation that is qualified as a domestic
35.25 international sales corporation under section 992 of the Internal Revenue Code are not
35.26 considered to have been made within this state.

35.27 (f) Sales, rents, royalties, and other income in connection with real property is
35.28 attributed to the state in which the property is located.

35.29 (g) Receipts from the lease or rental of tangible personal property, including finance
35.30 leases and true leases, must be attributed to this state if the property is located in this
35.31 state and to other states if the property is not located in this state. Receipts from the
35.32 lease or rental of moving property including, but not limited to, motor vehicles, rolling
35.33 stock, aircraft, vessels, or mobile equipment are included in the numerator of the receipts
35.34 factor to the extent that the property is used in this state. The extent of the use of moving
35.35 property is determined as follows:

35.36 (1) A motor vehicle is used wholly in the state in which it is registered.

36.1 (2) The extent that rolling stock is used in this state is determined by multiplying
36.2 the receipts from the lease or rental of the rolling stock by a fraction, the numerator of
36.3 which is the miles traveled within this state by the leased or rented rolling stock and the
36.4 denominator of which is the total miles traveled by the leased or rented rolling stock.

36.5 (3) The extent that an aircraft is used in this state is determined by multiplying the
36.6 receipts from the lease or rental of the aircraft by a fraction, the numerator of which is
36.7 the number of landings of the aircraft in this state and the denominator of which is the
36.8 total number of landings of the aircraft.

36.9 (4) The extent that a vessel, mobile equipment, or other mobile property is used in
36.10 the state is determined by multiplying the receipts from the lease or rental of the property
36.11 by a fraction, the numerator of which is the number of days during the taxable year the
36.12 property was in this state and the denominator of which is the total days in the taxable year.

36.13 (h) Royalties and other income not described in paragraph (a), clause (6), received
36.14 for the use of or for the privilege of using intangible property, including patents,
36.15 know-how, formulas, designs, processes, patterns, copyrights, trade names, service names,
36.16 franchises, licenses, contracts, customer lists, or similar items, must be attributed to the
36.17 state in which the property is used by the purchaser. If the property is used in more
36.18 than one state, the royalties or other income must be apportioned to this state pro rata
36.19 according to the portion of use in this state. If the portion of use in this state cannot be
36.20 determined, the royalties or other income must be excluded from both the numerator
36.21 and the denominator. Intangible property is used in this state if the purchaser uses the
36.22 intangible property or the rights therein in the regular course of its business operations in
36.23 this state, regardless of the location of the purchaser's customers.

36.24 (i) Sales of intangible property are made within the state in which the property is
36.25 used by the purchaser. If the property is used in more than one state, the sales must be
36.26 apportioned to this state pro rata according to the portion of use in this state. If the
36.27 portion of use in this state cannot be determined, the sale must be excluded from both the
36.28 numerator and the denominator of the sales factor. Intangible property is used in this
36.29 state if the purchaser used the intangible property in the regular course of its business
36.30 operations in this state.

36.31 (j) Receipts from the performance of services must be attributed to the state where
36.32 the services are received. For the purposes of this section, receipts from the performance
36.33 of services provided to a corporation, partnership, or trust may only be attributed to a state
36.34 where it has a fixed place of doing business. If the state where the services are received is
36.35 not readily determinable or is a state where the corporation, partnership, or trust receiving
36.36 the service does not have a fixed place of doing business, the services shall be deemed

37.1 to be received at the location of the office of the customer from which the services were
 37.2 ordered in the regular course of the customer's trade or business. If the ordering office
 37.3 cannot be determined, the services shall be deemed to be received at the office of the
 37.4 customer to which the services are billed.

37.5 (k) For the purposes of this subdivision and subdivision 6, paragraph (l), receipts
 37.6 from management, distribution, or administrative services performed by a corporation
 37.7 or trust for a fund of a corporation or trust regulated under United States Code, title 15,
 37.8 sections 80a-1 through 80a-64, must be attributed to the state where the shareholder of
 37.9 the fund resides. Under this paragraph, receipts for services attributed to shareholders are
 37.10 determined on the basis of the ratio of: (1) the average of the outstanding shares in the
 37.11 fund owned by shareholders residing within Minnesota at the beginning and end of each
 37.12 year; and (2) the average of the total number of outstanding shares in the fund at the
 37.13 beginning and end of each year. Residence of the shareholder, in the case of an individual,
 37.14 is determined by the mailing address furnished by the shareholder to the fund. Residence
 37.15 of the shareholder, when the shares are held by an insurance company as a depositor for
 37.16 the insurance company policyholders, is the mailing address of the policyholders. In
 37.17 the case of an insurance company holding the shares as a depositor for the insurance
 37.18 company policyholders, if the mailing address of the policyholders cannot be determined
 37.19 by the taxpayer, the receipts must be excluded from both the numerator and denominator.
 37.20 Residence of other shareholders is the mailing address of the shareholder.

37.21 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 37.22 December 31, 2012.

37.23 Sec. 23. Minnesota Statutes 2012, section 290.21, subdivision 4, is amended to read:

37.24 Subd. 4. **Dividends received from another corporation.** (a)(1) Eighty percent
 37.25 of dividends received by a corporation during the taxable year from another corporation,
 37.26 in which the recipient owns 20 percent or more of the stock, by vote and value, not
 37.27 including stock described in section 1504(a)(4) of the Internal Revenue Code when the
 37.28 corporate stock with respect to which dividends are paid does not constitute the stock in
 37.29 trade of the taxpayer or would not be included in the inventory of the taxpayer, or does not
 37.30 constitute property held by the taxpayer primarily for sale to customers in the ordinary
 37.31 course of the taxpayer's trade or business, or when the trade or business of the taxpayer
 37.32 does not consist principally of the holding of the stocks and the collection of the income
 37.33 and gains therefrom; and

37.34 (2)(i) the remaining 20 percent of dividends if the dividends received are the stock in
 37.35 an affiliated company transferred in an overall plan of reorganization and the dividend

38.1 is eliminated in consolidation under Treasury Department Regulation 1.1502-14(a), as
38.2 amended through December 31, 1989;

38.3 (ii) the remaining 20 percent of dividends if the dividends are received from a
38.4 corporation which is subject to tax under section 290.36 and which is a member of an
38.5 affiliated group of corporations as defined by the Internal Revenue Code and the dividend
38.6 is eliminated in consolidation under Treasury Department Regulation 1.1502-14(a), as
38.7 amended through December 31, 1989, or is deducted under an election under section
38.8 243(b) of the Internal Revenue Code; or

38.9 (iii) the remaining 20 percent of the dividends if the dividends are received from a
38.10 property and casualty insurer as defined under section 60A.60, subdivision 8, which is a
38.11 member of an affiliated group of corporations as defined by the Internal Revenue Code
38.12 and either: (A) the dividend is eliminated in consolidation under Treasury Regulation
38.13 1.1502-14(a), as amended through December 31, 1989; or (B) the dividend is deducted
38.14 under an election under section 243(b) of the Internal Revenue Code.

38.15 (b) Seventy percent of dividends received by a corporation during the taxable year
38.16 from another corporation in which the recipient owns less than 20 percent of the stock,
38.17 by vote or value, not including stock described in section 1504(a)(4) of the Internal
38.18 Revenue Code when the corporate stock with respect to which dividends are paid does not
38.19 constitute the stock in trade of the taxpayer, or does not constitute property held by the
38.20 taxpayer primarily for sale to customers in the ordinary course of the taxpayer's trade or
38.21 business, or when the trade or business of the taxpayer does not consist principally of the
38.22 holding of the stocks and the collection of income and gain therefrom.

38.23 (c) The dividend deduction provided in this subdivision shall be allowed only with
38.24 respect to dividends that are included in a corporation's Minnesota taxable net income
38.25 for the taxable year.

38.26 The dividend deduction provided in this subdivision does not apply to a dividend
38.27 from a corporation which, for the taxable year of the corporation in which the distribution
38.28 is made or for the next preceding taxable year of the corporation, is a corporation exempt
38.29 from tax under section 501 of the Internal Revenue Code.

38.30 The dividend deduction provided in this subdivision does not apply to a dividend
38.31 received from a real estate investment trust, as defined in section 856 of the Internal
38.32 Revenue Code.

38.33 The dividend deduction provided in this subdivision applies to the amount of
38.34 regulated investment company dividends only to the extent determined under section
38.35 854(b) of the Internal Revenue Code.

39.1 The dividend deduction provided in this subdivision shall not be allowed with
 39.2 respect to any dividend for which a deduction is not allowed under the provisions of
 39.3 section 246(c) of the Internal Revenue Code.

39.4 (d) If dividends received by a corporation that does not have nexus with Minnesota
 39.5 under the provisions of Public Law 86-272 are included as income on the return of
 39.6 an affiliated corporation permitted or required to file a combined report under section
 39.7 290.17, subdivision 4, or 290.34, subdivision 2, then for purposes of this subdivision the
 39.8 determination as to whether the trade or business of the corporation consists principally
 39.9 of the holding of stocks and the collection of income and gains therefrom shall be made
 39.10 with reference to the trade or business of the affiliated corporation having a nexus with
 39.11 Minnesota.

39.12 (e) The deduction provided by this subdivision does not apply if the dividends are
 39.13 paid by a FSC as defined in section 922 of the Internal Revenue Code.

39.14 (f) If one or more of the members of the unitary group whose income is included on
 39.15 the combined report received a dividend, the deduction under this subdivision for each
 39.16 member of the unitary business required to file a return under this chapter is the product
 39.17 of: (1) 100 percent of the dividends received by members of the group; (2) the percentage
 39.18 allowed pursuant to paragraph (a) or (b); and (3) the percentage of the taxpayer's business
 39.19 income apportionable to this state for the taxable year under section 290.191 or 290.20.

39.20 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 39.21 December 31, 2012.

39.22 Sec. 24. Minnesota Statutes 2012, section 290C.02, subdivision 6, is amended to read:

39.23 Subd. 6. **Forest land.** "Forest land" means land containing a minimum of 20
 39.24 contiguous acres for which the owner has implemented a forest management plan that was
 39.25 prepared or updated within the past ten years by an approved plan writer. For purposes of
 39.26 this subdivision, acres are considered to be contiguous even if they are separated by a road,
 39.27 waterway, railroad track, or other similar intervening property. At least 50 percent of the
 39.28 contiguous acreage must meet the definition of forest land in section 88.01, subdivision 7.
 39.29 For the purposes of sections 290C.01 to 290C.11, forest land does not include the following:

39.30 (i) land used for residential or agricultural purposes;₂

39.31 (ii) land enrolled in the reinvest in Minnesota program, a state or federal conservation
 39.32 reserve or easement reserve program under sections 103F.501 to 103F.531, the Minnesota
 39.33 agricultural property tax law under section 273.111, or land subject to agricultural land
 39.34 preservation controls or restrictions as defined in section 40A.02 or under the Metropolitan
 39.35 Agricultural Preserves Act under chapter 473H, ~~or~~₂

40.1 (iii) land subject to a conservation easement funded under section 97A.056 or a
40.2 comparable permanent easement conveyed to a governmental or nonprofit entity; or
40.3 (iv) land improved with a structure, pavement, sewer, campsite, or any road, other
40.4 than a township road, used for purposes not prescribed in the forest management plan.

40.5 **EFFECTIVE DATE.** This section is effective for payments made beginning in
40.6 calendar year 2014.

40.7 Sec. 25. Minnesota Statutes 2012, section 290C.05, is amended to read:

40.8 **290C.05 ANNUAL CERTIFICATION.**

40.9 On or before July 1 of each year, beginning with the year after the original claimant
40.10 has received an approved application, the commissioner shall send each claimant enrolled
40.11 under the sustainable forest incentive program a certification form. For purposes of this
40.12 section, the original claimant is the person that filed the first application under section
40.13 290C.04 to enroll the land in the program. The claimant must sign the certification,
40.14 attesting that the requirements and conditions for continued enrollment in the program are
40.15 currently being met, and must return the signed certification form, along with a copy of
40.16 the property tax statement for the property taxes payable on the enrolled property for the
40.17 calendar year and any other information the commissioner deems necessary to determine
40.18 whether the property is qualified under section 290C.02, subdivision 6, or the amount of
40.19 the payment under section 290C.07, paragraph (a), clause (2), to the commissioner by
40.20 August 15 of that same year. If the claimant does not return an annual certification form
40.21 by the due date, the provisions in section 290C.11 apply.

40.22 **EFFECTIVE DATE.** This section is effective for payments made beginning in
40.23 calendar year 2014.

40.24 Sec. 26. Minnesota Statutes 2012, section 290C.07, is amended to read:

40.25 **290C.07 CALCULATION OF INCENTIVE PAYMENT.**

40.26 (a) An approved claimant under the sustainable forest incentive program is eligible
40.27 to receive an annual payment. The payment shall be equal to the lesser of (1) \$7 per acre
40.28 or (2) one-half of the property tax payable for the calendar year for each acre enrolled in
40.29 the sustainable forest incentive program.

40.30 (b) The annual payment for each Social Security number or state or federal business
40.31 tax identification number must not exceed \$100,000.

41.1 **EFFECTIVE DATE.** This section is effective for payments made beginning in
 41.2 calendar year 2014.

41.3 Sec. 27. Minnesota Statutes 2012, section 298.01, subdivision 3, is amended to read:

41.4 Subd. 3. **Occupation tax; other ores.** Every person engaged in the business of
 41.5 mining, refining, or producing ores, metals, or minerals in this state, except iron ore or
 41.6 taconite concentrates, shall pay an occupation tax to the state of Minnesota as provided
 41.7 in this subdivision. For purposes of this subdivision, mining includes the application
 41.8 of hydrometallurgical processes. The tax is determined in the same manner as the tax
 41.9 imposed by section 290.02, except that sections 290.05, subdivision 1, clause (a), 290.17,
 41.10 subdivision 4, and 290.191, subdivision 2, do not apply, and the occupation tax must be
 41.11 computed by applying to taxable income the rate of ~~2.45 percent~~ equal to one-half of
 41.12 the rate that applies under section 290.06, subdivision 1, for the taxable year. A person
 41.13 subject to occupation tax under this section shall apportion its net income on the basis of
 41.14 the percentage obtained by taking the sum of:

41.15 (1) 75 percent of the percentage which the sales made within this state in connection
 41.16 with the trade or business during the tax period are of the total sales wherever made in
 41.17 connection with the trade or business during the tax period;

41.18 (2) 12.5 percent of the percentage which the total tangible property used by the
 41.19 taxpayer in this state in connection with the trade or business during the tax period is of
 41.20 the total tangible property, wherever located, used by the taxpayer in connection with the
 41.21 trade or business during the tax period; and

41.22 (3) 12.5 percent of the percentage which the taxpayer's total payrolls paid or incurred
 41.23 in this state or paid in respect to labor performed in this state in connection with the trade
 41.24 or business during the tax period are of the taxpayer's total payrolls paid or incurred in
 41.25 connection with the trade or business during the tax period.

41.26 The tax is in addition to all other taxes.

41.27 **EFFECTIVE DATE.** This section is effective the day following final enactment.

41.28 Sec. 28. Minnesota Statutes 2012, section 298.01, subdivision 4, is amended to read:

41.29 Subd. 4. **Occupation tax; iron ore; taconite concentrates.** A person engaged in
 41.30 the business of mining or producing of iron ore, taconite concentrates or direct reduced ore
 41.31 in this state shall pay an occupation tax to the state of Minnesota. The tax is determined
 41.32 in the same manner as the tax imposed by section 290.02, except that sections 290.05,
 41.33 subdivision 1, clause (a), 290.17, subdivision 4, and 290.191, subdivision 2, do not apply,
 41.34 and the occupation tax shall be computed by applying to taxable income the rate of ~~2.45~~

42.1 ~~percent~~ equal to one-half of the rate that applies under section 290.06, subdivision 1, for
 42.2 the taxable year. A person subject to occupation tax under this section shall apportion its
 42.3 net income on the basis of the percentage obtained by taking the sum of:

42.4 (1) 75 percent of the percentage which the sales made within this state in connection
 42.5 with the trade or business during the tax period are of the total sales wherever made in
 42.6 connection with the trade or business during the tax period;

42.7 (2) 12.5 percent of the percentage which the total tangible property used by the
 42.8 taxpayer in this state in connection with the trade or business during the tax period is of
 42.9 the total tangible property, wherever located, used by the taxpayer in connection with the
 42.10 trade or business during the tax period; and

42.11 (3) 12.5 percent of the percentage which the taxpayer's total payrolls paid or incurred
 42.12 in this state or paid in respect to labor performed in this state in connection with the trade
 42.13 or business during the tax period are of the taxpayer's total payrolls paid or incurred in
 42.14 connection with the trade or business during the tax period.

42.15 The tax is in addition to all other taxes.

42.16 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 42.17 December 31, 2012.

42.18 Sec. 29. Minnesota Statutes 2012, section 469.190, is amended by adding a subdivision
 42.19 to read:

42.20 Subd. 1a. **Tax base; locally collected taxes.** A tax imposed on the gross receipts
 42.21 from lodging under this section or under a special law applies to the same base as taxes
 42.22 collected by the commissioner of revenue under subdivision 7 and section 270C.171.

42.23 **EFFECTIVE DATE.** This section is effective the day following final enactment.
 42.24 In enacting this section, the legislature confirms its original intent in enacting Minnesota
 42.25 Statutes, section 469.190, its predecessor provisions, and any special laws authorizing
 42.26 political subdivisions to impose lodging taxes, and that those taxes were and are intended
 42.27 to apply to the entire consideration paid to obtain access to transient lodging, including
 42.28 ancillary or related services, such as services provided by accommodation intermediaries
 42.29 as defined in Minnesota Statutes, section 297A.61, and similar services. The provisions of
 42.30 this section must not be interpreted to imply a narrower construction of the tax base under
 42.31 lodging tax provisions of Minnesota law prior to the enactment of this section.

42.32 Sec. 30. **REPEALER.**

43.1 Minnesota Statutes 2012, sections 290.01, subdivision 6b; 290.06, subdivisions 22a,
43.2 27, and 28; 290.0672; 290.0674; 290.0679; and 290.0921, subdivision 7, are repealed.

43.3 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
43.4 December 31, 2012.

290.01 DEFINITIONS.

Subd. 6b. **Foreign operating corporation.** The term "foreign operating corporation," when applied to a corporation, means a domestic corporation with the following characteristics:

- (1) it is part of a unitary business at least one member of which is taxable in this state;
- (2) it is not a foreign sales corporation under section 922 of the Internal Revenue Code, as amended through December 31, 1999, for the taxable year;
- (3) it is not an interest charge domestic international sales corporation under sections 992, 993, 994, and 995 of the Internal Revenue Code;
- (4) either (i) it has in effect a valid election under section 936 of the Internal Revenue Code; or (ii) at least 80 percent of the gross income from all sources of the corporation in the tax year is active foreign business income; and
- (5) for purposes of this subdivision, active foreign business income means gross income that is (i) derived from sources without the United States, as defined in subtitle A, chapter 1, subchapter N, part 1, of the Internal Revenue Code; and (ii) attributable to the active conduct of a trade or business in a foreign country.

290.06 RATES OF TAX; CREDITS.

Subd. 22a. **Nonresident's credit for taxes paid to state of domicile.** (a) Notwithstanding subdivision 22, a nonresident who is subject to tax in this state on the gain on the sale of a partnership interest, which is allocable to this state under section 290.17, subdivision 2, paragraph (c), is allowed a credit for the tax paid to the state of the individual's domicile upon the gain in the taxable year or a subsequent taxable year. This credit is only allowed if the state of domicile does not allow a credit for the tax paid to Minnesota on the gain.

(b) For purposes of this subdivision, the credit equals the tax paid to the state of domicile multiplied by the ratio derived by dividing the amount of gain on the sale of the partnership interest subject to tax in the other state that is also subject to tax in Minnesota by the taxpayer's federal adjusted gross income, as defined in section 62 of the Internal Revenue Code. The credit allowed may not reduce the taxes paid under this chapter to an amount less than the tax that would apply if the gain were excluded from taxable net income.

(c) If a nonresident taxpayer reported the gain to Minnesota and is assessed tax in the state of domicile on that same income after the Minnesota statute of limitations has expired, the taxpayer is allowed a credit for that year, notwithstanding any statute of limitations to the contrary. The claim for the credit must be submitted within one year from the date the taxes were paid to the state of domicile and the taxpayer must submit sufficient proof to show entitlement to a credit.

(d) For the purposes of this subdivision, "another state" includes the District of Columbia, but does not include Puerto Rico or the several territories organized by Congress.

Subd. 27. **Tax paid to another state; corporations.** (a) A credit is allowed against the tax imposed under subdivision 1 for tax paid to another state based on net income. The credit must be claimed in a manner prescribed by the commissioner.

(b) The amount of the credit equals the amount of qualifying tax paid to the other state for the taxable year, multiplied by the taxpayer's apportionment percentage under section 290.191. If the item of income or gain is assigned to Minnesota as nonbusiness income, the entire amount of the qualifying tax is allowed as a credit. The maximum amount of the credit is limited to the tax liability under subdivision 1 for the taxable year and, in no case, may the credit exceed the reduction in the amount of tax under subdivision 1 if the item of income or gain were excluded from net income.

(c) For purposes of this subdivision, "qualifying tax" means the amount of tax paid to another state on an item of income or gain for the taxable year, if:

- (1) the law of another state requires and the taxpayer assigns the entire amount of the income or gain to one other state; and
- (2) the income or gain is included in the measure of the exercise of the corporate franchise that is taxable under subdivision 1.

(d) The amount of tax paid to another state on an item of income or gain is the difference between the tax paid to the state and the amount of tax that would have been paid to the state if the item of income or gain had not been included in the net income of that state.

(e) The taxpayer must report to the commissioner of revenue any change in tax in the other state, the change in qualifying tax, and a copy of the final determination of the tax by the taxing authority of the other state. A taxpayer who claims the credit consents to extend the period of limitation for the commissioner to recompute the credit and reassess the tax due, including a

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refund, for a period of one year following a report by the taxpayer of a final determination of tax by the state in which the entire amount of income or gain is reported, notwithstanding any period of limitations to the contrary, or within any applicable period of limitations, whichever is longer. If a taxpayer fails to report as required by this paragraph, the commissioner may recompute the tax, including a refund, based on the information available to the commissioner. The tax may be recomputed within six years after the report should have been filed, notwithstanding any period of limitations to the contrary.

Subd. 28. **Credit for transit passes.** A taxpayer may take a credit against the tax due under this chapter equal to 30 percent of the expense incurred by the taxpayer to provide transit passes, for use in Minnesota, to employees of the taxpayer. As used in this subdivision, "transit pass" has the meaning given in section 132(f)(5)(A) of the Internal Revenue Code. If the taxpayer purchases the transit passes from the transit system operator, and resells them to the employees, the credit is based on the amount of the difference between the price paid for the passes by the employer and the amount charged to employees.

290.0672 LONG-TERM CARE INSURANCE CREDIT.

Subdivision 1. **Definitions.** (a) For purposes of this section, the following terms have the meanings given.

(b) "Long-term care insurance" means a policy that:

(1) qualifies for a deduction under section 213 of the Internal Revenue Code, disregarding the 7.5 percent income test; or meets the requirements given in section 62A.46; or provides similar coverage issued under the laws of another jurisdiction; and

(2) has a lifetime long-term care benefit limit of not less than \$100,000; and

(3) has been offered in compliance with the inflation protection requirements of section 62S.23.

(c) "Qualified beneficiary" means the taxpayer or the taxpayer's spouse.

(d) "Premiums deducted in determining federal taxable income" means the lesser of (1) long-term care insurance premiums that qualify as deductions under section 213 of the Internal Revenue Code; and (2) the total amount deductible for medical care under section 213 of the Internal Revenue Code.

Subd. 2. **Credit.** A taxpayer is allowed a credit against the tax imposed by this chapter for long-term care insurance policy premiums paid during the tax year. The credit for each policy equals 25 percent of premiums paid to the extent not deducted in determining federal taxable income. A taxpayer may claim a credit for only one policy for each qualified beneficiary. A maximum of \$100 applies to each qualified beneficiary. The maximum total credit allowed per year is \$200 for married couples filing joint returns and \$100 for all other filers. For a nonresident or part-year resident, the credit determined under this section must be allocated based on the percentage calculated under section 290.06, subdivision 2c, paragraph (e).

290.0674 MINNESOTA EDUCATION CREDIT.

Subdivision 1. **Credit allowed.** An individual is allowed a credit against the tax imposed by this chapter in an amount equal to 75 percent of the amount paid for education-related expenses for a qualifying child in kindergarten through grade 12. For purposes of this section, "education-related expenses" means:

(1) fees or tuition for instruction by an instructor under section 120A.22, subdivision 10, clause (1), (2), (3), (4), or (5), or a member of the Minnesota Music Teachers Association, and who is not a lineal ancestor or sibling of the dependent for instruction outside the regular school day or school year, including tutoring, driver's education offered as part of school curriculum, regardless of whether it is taken from a public or private entity or summer camps, in grade or age appropriate curricula that supplement curricula and instruction available during the regular school year, that assists a dependent to improve knowledge of core curriculum areas or to expand knowledge and skills under the required academic standards under section 120B.021, subdivision 1, and the elective standard under section 120B.022, subdivision 1, clause (2), and that do not include the teaching of religious tenets, doctrines, or worship, the purpose of which is to instill such tenets, doctrines, or worship;

(2) expenses for textbooks, including books and other instructional materials and equipment purchased or leased for use in elementary and secondary schools in teaching only those subjects legally and commonly taught in public elementary and secondary schools in this state. "Textbooks" does not include instructional books and materials used in the teaching of religious tenets, doctrines, or worship, the purpose of which is to instill such tenets, doctrines, or worship,

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nor does it include books or materials for extracurricular activities including sporting events, musical or dramatic events, speech activities, driver's education, or similar programs;

(3) a maximum expense of \$200 per family for personal computer hardware, excluding single purpose processors, and educational software that assists a dependent to improve knowledge of core curriculum areas or to expand knowledge and skills under the required academic standards under section 120B.021, subdivision 1, and the elective standard under section 120B.022, subdivision 1, clause (2), purchased for use in the taxpayer's home and not used in a trade or business regardless of whether the computer is required by the dependent's school; and

(4) the amount paid to others for transportation of a qualifying child attending an elementary or secondary school situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a resident of this state may legally fulfill the state's compulsory attendance laws, which is not operated for profit, and which adheres to the provisions of the Civil Rights Act of 1964 and chapter 363A.

For purposes of this section, "qualifying child" has the meaning given in section 32(c)(3) of the Internal Revenue Code.

Subd. 2. **Limitations.** (a) For claimants with income not greater than \$33,500, the maximum credit allowed for a family is \$1,000 multiplied by the number of qualifying children in kindergarten through grade 12 in the family. The maximum credit for families with one qualifying child in kindergarten through grade 12 is reduced by \$1 for each \$4 of household income over \$33,500, and the maximum credit for families with two or more qualifying children in kindergarten through grade 12 is reduced by \$2 for each \$4 of household income over \$33,500, but in no case is the credit less than zero.

For purposes of this section "income" has the meaning given in section 290.067, subdivision 2a. In the case of a married claimant, a credit is not allowed unless a joint income tax return is filed.

(b) For a nonresident or part-year resident, the credit determined under subdivision 1 and the maximum credit amount in paragraph (a) must be allocated using the percentage calculated in section 290.06, subdivision 2c, paragraph (e).

Subd. 3. **Reduction by alternative minimum tax liability.** The amount of the credit allowed must be reduced by the amount of the taxpayer's liability under section 290.091, determined before the credit allowed by this section is subtracted from regular tax liability.

Subd. 4. **Credit to be refundable.** If the amount of credit that the claimant is eligible to receive under this section exceeds the claimant's tax liability under this chapter, the commissioner shall refund the excess to the claimant.

Subd. 5. **Appropriation.** An amount sufficient to pay the refunds required by this section is appropriated to the commissioner from the general fund.

290.0679 ASSIGNMENT OF REFUND.

Subdivision 1. **Definitions.** (a) "Qualifying taxpayer" means a resident who has a child in kindergarten through grade 12 in the current tax year and who met the income requirements under section 290.0674, subdivision 2, for receiving the education credit in the tax year preceding the assignment of the taxpayer's refund.

(b) "Education credit" means the credit allowed under section 290.0674.

(c) "Refund" means an individual income tax refund.

(d) "Financial institution" means a state or federally chartered bank, savings bank, savings association, or credit union.

(e) "Qualifying organization" means a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code.

(f) "Assignee" means a financial institution or qualifying organization that is entitled to receive payment of a refund assigned under this section.

Subd. 2. **Conditions for assignment.** A qualifying taxpayer may assign all or part of an anticipated refund for the current and future taxable years to a financial institution or a qualifying organization. A financial institution or qualifying organization accepting assignment must pay the amount secured by the assignment to a third-party vendor. The commissioner of education shall, upon request from a third-party vendor, certify that the vendor's products and services qualify for the education credit. A denial of a certification is subject to the contested case procedure under chapter 14. A financial institution or qualifying organization that accepts assignments under this section must verify as part of the assignment documentation that the product or service to be provided by the third-party vendor has been certified by the commissioner of education as qualifying for the education credit. The amount assigned for the current and future taxable years

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may not exceed the maximum allowable education credit for the current taxable year. Both the taxpayer and spouse must consent to the assignment of a refund from a joint return.

Subd. 3. **Consent for disclosure.** When the taxpayer applies to the financial institution or the qualifying organization for a loan to be secured by the assignment under subdivision 2, the taxpayer must sign a written consent on a form prescribed by the commissioner. The consent must authorize the commissioner to disclose to the financial institution or qualifying organization the total amount of state taxes owed or revenue recapture claims filed under chapter 270A against the taxpayer, and the total amount of outstanding assignments made by the taxpayer under this section. For a refund from a joint return, the consent must also authorize the disclosure of taxes, revenue recapture claims, and assignments relating to the taxpayer's spouse, and must be signed by the spouse. The financial institution or qualifying organization may request that the taxpayer provide a copy of the taxpayer's previous year's income tax return, if any, and may assist the taxpayer in requesting a copy of the previous year's return from the commissioner.

Subd. 4. **Consumer disclosure.** (a) A third-party vendor that receives payment of the amount secured by an assignment must comply with the requirements of this subdivision.

(b) The third-party vendor must disclose to the taxpayer, in plain language:

(1) the cost of each product or service for which the third-party vendor separately charges the taxpayer;

(2) any fees charged to the taxpayer for tax preparation services; and

(3) for qualifying low-income taxpayers, information on the availability of free tax preparation services.

(c) The third-party vendor must provide to the taxpayer executed copies of any documents signed by the taxpayer.

Subd. 5. **Filing of assignment.** The commissioner shall prescribe the form of and manner for filing an assignment of a refund under this section.

Subd. 6. **Effect of assignment.** The taxpayer may not revoke an assignment after it has been filed. The assignee must notify the commissioner if the loan secured by the assignment has been paid in full, in which case the assignment is canceled. An assignment is in effect until the amount assigned is refunded in full to the assignee, or until the assignee cancels the assignment.

Subd. 7. **Payment of refund.** When a refund assigned under this section is issued by the commissioner, the proceeds of the refund, as defined in subdivision 1, paragraph (c), must be distributed in the following order:

(1) to satisfy any delinquent tax obligations of the taxpayer which are owed to the commissioner;

(2) to claimant agencies to satisfy any revenue recapture claims filed against the taxpayer, in the order of priority of the claims set forth in section 270A.10;

(3) to assignees to satisfy assignments under this section, based on the order in time in which the commissioner received the assignments; and

(4) to the taxpayer.

Subd. 8. **Legal action.** If there is a dispute between the taxpayer and the assignee after the commissioner has remitted the taxpayer's refund to the assignee, the taxpayer's only remedy is to bring an action against the assignee in court to recover the refund. The action must be brought within two years after the commissioner remits the refund to the assignee. The commissioner may not be a party to the proceeding.

Subd. 9. **Assignments private data.** Information regarding assignments under this section is classified as private data on individuals.

290.0921 CORPORATE ALTERNATIVE MINIMUM TAX AFTER 1989.

Subd. 7. **Foreign operating companies.** The income and deductions related to foreign operating companies, as defined in section 290.01, subdivision 6b, that are used to calculate Minnesota alternative minimum taxable income, are limited to the amounts included for purposes of calculating taxable income under section 290.01, subdivision 29.