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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH SESSION

H. F. No. 1843

01/24/2012 Authored by Erickson and Banaian
The bill was read for the first time and referred to the Committee on Taxes
02/01/2012 Returned to Author

1.1 A bill for an act
1.2 relating to taxation; individual income; restructuring the individual income tax;
1.3 eliminating subtractions, applying a single tax rate, modifying the working
1.4 family credit, and repealing the alternative minimum tax and various credits;
1.5 amending Minnesota Statutes 2010, section 290.091, subdivision 6; Minnesota
1.6 Statutes 2011 Supplement, sections 290.01, subdivisions 19a, 19b; 290.06,
1.7 subdivision 2c; 290.0671, subdivision 1; 290.0675, subdivision 1; repealing
1.8 Minnesota Statutes 2010, sections 290.067, subdivisions 1, 2, 2a, 2b, 3, 4;
1.9 290.0672; 290.0674; 290.0675, subdivisions 2, 3, 4; 290.0679; 290.0802;
1.10 290.091, subdivisions 1, 3, 4, 5, 6; Minnesota Statutes 2011 Supplement, sections
1.11 290.0675, subdivision 1; 290.091, subdivision 2.

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

1.13 Section 1. Minnesota Statutes 2011 Supplement, section 290.01, subdivision 19a,
1.14 is amended to read:

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

1.17 (1)(i) interest income on obligations of any state other than Minnesota or a political
1.18 or governmental subdivision, municipality, or governmental agency or instrumentality
1.19 of any state other than Minnesota exempt from federal income taxes under the Internal
1.20 Revenue Code or any other federal statute; and

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

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

1.25 (B) the portion of the exempt-interest dividends derived from interest income
1.26 on obligations of the state of Minnesota or its political or governmental subdivisions,
1.27 municipalities, governmental agencies or instrumentalities, but only if the portion of the

2.1 exempt-interest dividends from such Minnesota sources paid to all shareholders represents
2.2 95 percent or more of the exempt-interest dividends, including any dividends exempt
2.3 under subitem (A), that are paid by the regulated investment company as defined in section
2.4 851(a) of the Internal Revenue Code, or the fund of the regulated investment company as
2.5 defined in section 851(g) of the Internal Revenue Code, making the payment; and

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

2.9 (2) the amount of ~~income, sales and use, motor vehicle sales, or excise taxes paid or~~
2.10 ~~accrued within the taxable year under this chapter and the amount of taxes based on net~~
2.11 ~~income paid, sales and use, motor vehicle sales, or excise taxes paid to any other state~~
2.12 ~~or to any province or territory of Canada~~ itemized deductions, to the extent allowed as
2.13 ~~a deduction~~ deductions under section 63(d) of the Internal Revenue Code, but the addition
2.14 may not be more than the amount by which the itemized deductions as allowed under
2.15 section 63(d) of the Internal Revenue Code exceeds the amount of the standard deduction
2.16 as defined in section 63(c) of the Internal Revenue Code, disregarding the amounts
2.17 allowed under sections 63(c)(1)(C) and 63(c)(1)(E) of the Internal Revenue Code, minus
2.18 any addition that would have been required under clause ~~(21)~~ (20) if the taxpayer had
2.19 claimed the standard deduction. ~~For the purpose of this paragraph, the disallowance of~~
2.20 ~~itemized deductions under section 68 of the Internal Revenue Code of 1986, income, sales~~
2.21 ~~and use, motor vehicle sales, or excise taxes are the last itemized deductions disallowed;~~

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

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

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

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

2.35 (7) 80 percent of the depreciation deduction allowed under section 168(k) of the
2.36 Internal Revenue Code. For purposes of this clause, if the taxpayer has an activity that

3.1 in the taxable year generates a deduction for depreciation under section 168(k) and the
3.2 activity generates a loss for the taxable year that the taxpayer is not allowed to claim for
3.3 the taxable year, "the depreciation allowed under section 168(k)" for the taxable year is
3.4 limited to excess of the depreciation claimed by the activity under section 168(k) over the
3.5 amount of the loss from the activity that is not allowed in the taxable year. In succeeding
3.6 taxable years when the losses not allowed in the taxable year are allowed, the depreciation
3.7 under section 168(k) is allowed;

3.8 (8) 80 percent of the amount by which the deduction allowed by section 179 of the
3.9 Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal
3.10 Revenue Code of 1986, as amended through December 31, 2003;

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

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

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

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

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

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

3.25 (15) the additional standard deduction for qualified motor vehicle sales taxes
3.26 allowable under section 63(c)(1)(E) of the Internal Revenue Code;

3.27 (16) discharge of indebtedness income resulting from reacquisition of business
3.28 indebtedness and deferred under section 108(i) of the Internal Revenue Code;

3.29 (17) the amount of unemployment compensation exempt from tax under section
3.30 85(c) of the Internal Revenue Code;

3.31 (18) changes to federal taxable income attributable to a net operating loss that the
3.32 taxpayer elected to carry back for more than two years for federal purposes but for which
3.33 the losses can be carried back for only two years under section 290.095, subdivision
3.34 11, paragraph (c);

3.35 ~~(19) to the extent included in the computation of federal taxable income in taxable~~
3.36 ~~years beginning after December 31, 2010, the amount of disallowed itemized deductions,~~

4.1 ~~but the amount of disallowed itemized deductions plus the addition required under clause~~
 4.2 ~~(2) may not be more than the amount by which the itemized deductions as allowed under~~
 4.3 ~~section 63(d) of the Internal Revenue Code exceeds the amount of the standard deduction~~
 4.4 ~~as defined in section 63(e) of the Internal Revenue Code, disregarding the amounts~~
 4.5 ~~allowed under sections 63(e)(1)(C) and 63(e)(1)(E) of the Internal Revenue Code, and~~
 4.6 ~~reduced by any addition that would have been required under clause (21) if the taxpayer~~
 4.7 ~~had claimed the standard deduction:~~

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

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

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

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

4.16 ~~(A) such dollar amount, multiplied by~~

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

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

4.21 ~~(A) the deduction for medical expenses under section 213 of the Internal Revenue~~
 4.22 ~~Code;~~

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

4.25 ~~(C) the deduction under section 165(a) of the Internal Revenue Code for casualty or~~
 4.26 ~~theft losses described in paragraph (2) or (3) of section 165(c) of the Internal Revenue~~
 4.27 ~~Code or for losses described in section 165(d) of the Internal Revenue Code;~~

4.28 ~~(20) (19) to the extent included in federal taxable income in taxable years beginning~~
 4.29 ~~after December 31, 2010, the amount of disallowed personal exemptions for taxpayers~~
 4.30 ~~with federal adjusted gross income over the threshold amount:~~

4.31 ~~(i) the disallowed personal exemption amount is equal to the dollar amount of the~~
 4.32 ~~personal exemptions claimed by the taxpayer in the computation of federal taxable income~~
 4.33 ~~multiplied by the applicable percentage;~~

4.34 ~~(ii) "applicable percentage" means two percentage points for each \$2,500 (or~~
 4.35 ~~fraction thereof) by which the taxpayer's federal adjusted gross income for the taxable~~
 4.36 ~~year exceeds the threshold amount. In the case of a married individual filing a separate~~

5.1 return, the preceding sentence shall be applied by substituting "\$1,250" for "\$2,500." In
 5.2 no event shall the applicable percentage exceed 100 percent;

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

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

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

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

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

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

5.10 (A) such dollar amount, multiplied by

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

5.14 ~~(21)~~ (20) to the extent deducted in the computation of federal taxable income,
 5.15 for taxable years beginning after December 31, 2010, and before January 1, 2013, the
 5.16 difference between the standard deduction allowed under section 63(c) of the Internal
 5.17 Revenue Code and the standard deduction allowed for 2011 and 2012 under the Internal
 5.18 Revenue Code as amended through December 1, 2010~~;~~

5.19 (21) the amount deducted for moving expenses under section 62(a)(15) of the
 5.20 Internal Revenue Code, to the extent deducted from gross income; and

5.21 (22) the amount deducted for interest on education loans under section 62(a)(17) of
 5.22 the Internal Revenue Code, to the extent deducted from gross income.

5.23 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 5.24 December 31, 2011.

5.25 Sec. 2. Minnesota Statutes 2011 Supplement, section 290.01, subdivision 19b, is
 5.26 amended to read:

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

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

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

6.1 ~~(3) the amount paid to others, less the amount used to claim the credit allowed under~~
6.2 ~~section 290.0674, not to exceed \$1,625 for each qualifying child in grades kindergarten~~
6.3 ~~to 6 and \$2,500 for each qualifying child in grades 7 to 12, for tuition, textbooks, and~~
6.4 ~~transportation of each qualifying child in attending an elementary or secondary school~~
6.5 ~~situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a~~
6.6 ~~resident of this state may legally fulfill the state's compulsory attendance laws, which~~
6.7 ~~is not operated for profit, and which adheres to the provisions of the Civil Rights Act~~
6.8 ~~of 1964 and chapter 363A. For the purposes of this clause, "tuition" includes fees or~~
6.9 ~~tuition as defined in section 290.0674, subdivision 1, clause (1). As used in this clause,~~
6.10 ~~"textbooks" includes books and other instructional materials and equipment purchased~~
6.11 ~~or leased for use in elementary and secondary schools in teaching only those subjects~~
6.12 ~~legally and commonly taught in public elementary and secondary schools in this state.~~
6.13 ~~Equipment expenses qualifying for deduction includes expenses as defined and limited in~~
6.14 ~~section 290.0674, subdivision 1, clause (3). "Textbooks" does not include instructional~~
6.15 ~~books and materials used in the teaching of religious tenets, doctrines, or worship, the~~
6.16 ~~purpose of which is to instill such tenets, doctrines, or worship, nor does it include books~~
6.17 ~~or materials for, or transportation to, extracurricular activities including sporting events,~~
6.18 ~~musical or dramatic events, speech activities, driver's education, or similar programs. No~~
6.19 ~~deduction is permitted for any expense the taxpayer incurred in using the taxpayer's or~~
6.20 ~~the qualifying child's vehicle to provide such transportation for a qualifying child. For~~
6.21 ~~purposes of the subtraction provided by this clause, "qualifying child" has the meaning~~
6.22 ~~given in section 32(c)(3) of the Internal Revenue Code;~~

6.23 ~~(4) income as provided under section 290.0802;~~

6.24 ~~(5) (3) to the extent included in federal adjusted gross income, income realized on~~
6.25 ~~disposition of property exempt from tax under section 290.491;~~

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

6.32 ~~(7) for individuals who are allowed a federal foreign tax credit for taxes that do not~~
6.33 ~~qualify for a credit under section 290.06, subdivision 22, an amount equal to the carryover~~
6.34 ~~of subnational foreign taxes for the taxable year, but not to exceed the total subnational~~
6.35 ~~foreign taxes reported in claiming the foreign tax credit. For purposes of this clause,~~
6.36 ~~"federal foreign tax credit" means the credit allowed under section 27 of the Internal~~

7.1 ~~Revenue Code, and "carryover of subnational foreign taxes" equals the carryover allowed~~
 7.2 ~~under section 904(e) of the Internal Revenue Code minus national level foreign taxes to~~
 7.3 ~~the extent they exceed the federal foreign tax credit;~~

7.4 ~~(8) (4) in each of the five tax years immediately following the tax year in which an~~
 7.5 ~~addition is required under subdivision 19a, clause (7), or 19c, clause (15), in the case~~
 7.6 ~~of a shareholder of a corporation that is an S corporation, an amount equal to one-fifth~~
 7.7 ~~of the delayed depreciation. For purposes of this clause, "delayed depreciation" means~~
 7.8 ~~the amount of the addition made by the taxpayer under subdivision 19a, clause (7), or~~
 7.9 ~~subdivision 19c, clause (15), in the case of a shareholder of an S corporation, minus the~~
 7.10 ~~positive value of any net operating loss under section 172 of the Internal Revenue Code~~
 7.11 ~~generated for the tax year of the addition. The resulting delayed depreciation cannot be~~
 7.12 ~~less than zero;~~

7.13 ~~(9) (5) job opportunity building zone income as provided under section 469.316;~~

7.14 ~~(10) to the extent included in federal taxable income, the amount of compensation~~
 7.15 ~~paid to members of the Minnesota National Guard or other reserve components of the~~
 7.16 ~~United States military for active service, excluding compensation for services performed~~
 7.17 ~~under the Active Guard Reserve (AGR) program. For purposes of this clause, "active~~
 7.18 ~~service" means (i) state active service as defined in section 190.05, subdivision 5a, clause~~
 7.19 ~~(1), or (ii) federally funded state active service as defined in section 190.05, subdivision~~
 7.20 ~~5b, but "active service" excludes service performed in accordance with section 190.08,~~
 7.21 ~~subdivision 3;~~

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

7.26 ~~(12) an amount, not to exceed \$10,000, equal to qualified expenses related to a~~
 7.27 ~~qualified donor's donation, while living, of one or more of the qualified donor's organs~~
 7.28 ~~to another person for human organ transplantation. For purposes of this clause, "organ"~~
 7.29 ~~means all or part of an individual's liver, pancreas, kidney, intestine, lung, or bone marrow;~~
 7.30 ~~"human organ transplantation" means the medical procedure by which transfer of a human~~
 7.31 ~~organ is made from the body of one person to the body of another person; "qualified~~
 7.32 ~~expenses" means unreimbursed expenses for both the individual and the qualified donor~~
 7.33 ~~for (i) travel, (ii) lodging, and (iii) lost wages net of sick pay, except that such expenses~~
 7.34 ~~may be subtracted under this clause only once; and "qualified donor" means the individual~~
 7.35 ~~or the individual's dependent, as defined in section 152 of the Internal Revenue Code. An~~

8.1 ~~individual may claim the subtraction in this clause for each instance of organ donation for~~
 8.2 ~~transplantation during the taxable year in which the qualified expenses occur;~~

8.3 ~~(13)~~ (6) in each of the five tax years immediately following the tax year in which an
 8.4 addition is required under subdivision 19a, clause (8), or 19c, clause (16), in the case of a
 8.5 shareholder of a corporation that is an S corporation, an amount equal to one-fifth of the
 8.6 addition made by the taxpayer under subdivision 19a, clause (8), or 19c, clause (16), in the
 8.7 case of a shareholder of a corporation that is an S corporation, minus the positive value of
 8.8 any net operating loss under section 172 of the Internal Revenue Code generated for the
 8.9 tax year of the addition. If the net operating loss exceeds the addition for the tax year, a
 8.10 subtraction is not allowed under this clause;

8.11 ~~(14)~~ (7) to the extent included in the federal taxable income of a nonresident of
 8.12 Minnesota, compensation paid to a service member as defined in United States Code, title
 8.13 10, section 101(a)(5), for military service as defined in the Servicemembers Civil Relief
 8.14 Act, Public Law 108-189, section 101(2);

8.15 ~~(15)~~ (8) international economic development zone income as provided under section
 8.16 469.325;

8.17 ~~(16) to the extent included in federal taxable income, the amount of national service~~
 8.18 ~~educational awards received from the National Service Trust under United States Code,~~
 8.19 ~~title 42, sections 12601 to 12604, for service in an approved Americorps National Service~~
 8.20 ~~program;~~

8.21 ~~(17)~~ (9) to the extent included in federal taxable income, discharge of indebtedness
 8.22 income resulting from reacquisition of business indebtedness included in federal taxable
 8.23 income under section 108(i) of the Internal Revenue Code. This subtraction applies only
 8.24 to the extent that the income was included in net income in a prior year as a result of the
 8.25 addition under section 290.01, subdivision 19a, clause (16); and

8.26 ~~(18)~~ (10) the amount of the net operating loss allowed under section 290.095,
 8.27 subdivision 11, paragraph (c).

8.28 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 8.29 December 31, 2011.

8.30 Sec. 3. Minnesota Statutes 2011 Supplement, section 290.06, subdivision 2c, is
 8.31 amended to read:

8.32 Subd. 2c. **Schedules of rates for individuals, estates, and trusts.** (a) The income
 8.33 taxes imposed by this chapter upon married individuals filing joint returns ~~and~~ surviving
 8.34 spouses as defined in section 2(a) of the Internal Revenue Code, married individuals
 8.35 filing separate returns, estates, trusts, unmarried individuals, and unmarried individuals

9.1 qualifying as a head of household as defined in section 2(b) of the Internal Revenue Code,
 9.2 must be computed by applying to their taxable net income the following schedule of
 9.3 rates: rate of 5.96 percent.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9.32 (1) the numerator is the individual's Minnesota source federal adjusted gross income
 9.33 as defined in section 62 of the Internal Revenue Code and increased by the additions
 9.34 required under section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), (9), (12),
 9.35 (13), and (16) to (18), and reduced by the Minnesota assignable portion of the subtraction
 9.36 for United States government interest under section 290.01, subdivision 19b, clause (1),

10.1 and the subtractions under section 290.01, subdivision 19b, clauses ~~(8), (9), (13), (14)~~ (4)
 10.2 to (10), (15), (17), and (18), after applying the allocation and assignability provisions of
 10.3 section 290.081, clause (a), or 290.17; and

10.4 (2) the denominator is the individual's federal adjusted gross income as defined in
 10.5 section 62 of the Internal Revenue Code of 1986, increased by the amounts specified in
 10.6 section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), (9), (12), (13), and (16) to
 10.7 (18), and reduced by the amounts specified in section 290.01, subdivision 19b, clauses
 10.8 ~~(1), (8), (9), (13), (14), (15), (17), and (18)~~ and (4) to (10).

10.9 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 10.10 December 31, 2010.

10.11 Sec. 4. Minnesota Statutes 2011 Supplement, section 290.0671, subdivision 1, is
 10.12 amended to read:

10.13 Subdivision 1. **Credit allowed.** (a) An individual is allowed a credit against the tax
 10.14 imposed by this chapter equal to ~~a percentage of earned income. To receive a credit, a~~
 10.15 ~~taxpayer must be~~ 25 percent of the credit for which the individual is eligible for a credit
 10.16 under section 32 of the Internal Revenue Code.

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

10.21 ~~(c) For individuals with one qualifying child, the credit equals 8.5 percent of the first~~
 10.22 ~~\$6,920 of earned income and 8.5 percent of earned income over \$12,080 but less than~~
 10.23 ~~\$13,450. The credit is reduced by 5.73 percent of earned income or adjusted gross income,~~
 10.24 ~~whichever is greater, in excess of \$15,080, but in no case is the credit less than zero.~~

10.25 ~~(d) For individuals with two or more qualifying children, the credit equals ten~~
 10.26 ~~percent of the first \$9,720 of earned income and 20 percent of earned income over~~
 10.27 ~~\$14,860 but less than \$16,800. The credit is reduced by 10.3 percent of earned income~~
 10.28 ~~or adjusted gross income, whichever is greater, in excess of \$17,890, but in no case is~~
 10.29 ~~the credit less than zero.~~

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

10.32 ~~(f)~~ (c) For a person who was a resident for the entire tax year and has earned income
 10.33 not subject to tax under this chapter, including income excluded under section 290.01,
 10.34 subdivision 19b, clause ~~(9) or (15)~~ (5) or (8), the credit must be allocated based on the
 10.35 ratio of federal adjusted gross income reduced by the earned income not subject to tax

11.1 under this chapter over federal adjusted gross income. ~~For purposes of this paragraph, the~~
11.2 ~~subtractions for military pay under section 290.01, subdivision 19b, clauses (10) and (11),~~
11.3 ~~are not considered "earned income not subject to tax under this chapter."~~

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

11.7 ~~(g) For tax years beginning after December 31, 2007, and before December 31,~~
11.8 ~~2010, the \$5,770 in paragraph (b), the \$15,080 in paragraph (c), and the \$17,890 in~~
11.9 ~~paragraph (d), after being adjusted for inflation under subdivision 7, are each increased by~~
11.10 ~~\$3,000 for married taxpayers filing joint returns. For tax years beginning after December~~
11.11 ~~31, 2008, the commissioner shall annually adjust the \$3,000 by the percentage determined~~
11.12 ~~pursuant to the provisions of section 1(f) of the Internal Revenue Code, except that in~~
11.13 ~~section 1(f)(3)(B), the word "2007" shall be substituted for the word "1992." For 2009,~~
11.14 ~~the commissioner shall then determine the percent change from the 12 months ending on~~
11.15 ~~August 31, 2007, to the 12 months ending on August 31, 2008, and in each subsequent~~
11.16 ~~year, from the 12 months ending on August 31, 2007, to the 12 months ending on August~~
11.17 ~~31 of the year preceding the taxable year. The earned income thresholds as adjusted~~
11.18 ~~for inflation must be rounded to the nearest \$10. If the amount ends in \$5, the amount~~
11.19 ~~is rounded up to the nearest \$10. The determination of the commissioner under this~~
11.20 ~~subdivision is not a rule under the Administrative Procedure Act.~~

11.21 ~~(h) For tax years beginning after December 31, 2010, and before January 1, 2012,~~
11.22 ~~the \$5,770 in paragraph (b), the \$15,080 in paragraph (c), and the \$17,890 in paragraph~~
11.23 ~~(d), after being adjusted for inflation under subdivision 7, are each increased by \$5,000~~
11.24 ~~for married taxpayers filing joint returns. For tax years beginning after December 31,~~
11.25 ~~2010, and before January 1, 2012, the commissioner shall annually adjust the \$5,000~~
11.26 ~~by the percentage determined pursuant to the provisions of section 1(f) of the Internal~~
11.27 ~~Revenue Code, except that in section 1(f)(3)(B), the word "2008" shall be substituted for~~
11.28 ~~the word "1992." For 2011, the commissioner shall then determine the percent change~~
11.29 ~~from the 12 months ending on August 31, 2008, to the 12 months ending on August~~
11.30 ~~31, 2010. The earned income thresholds as adjusted for inflation must be rounded to~~
11.31 ~~the nearest \$10. If the amount ends in \$5, the amount is rounded up to the nearest \$10.~~
11.32 ~~The determination of the commissioner under this subdivision is not a rule under the~~
11.33 ~~Administrative Procedure Act.~~

11.34 ~~(i) The commissioner shall construct tables showing the amount of the credit at~~
11.35 ~~various income levels and make them available to taxpayers. The tables shall follow~~

12.1 ~~the schedule contained in this subdivision, except that the commissioner may graduate~~
 12.2 ~~the transition between income brackets.~~

12.3 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 12.4 December 31, 2011.

12.5 Sec. 5. Minnesota Statutes 2011 Supplement, section 290.0675, subdivision 1, is
 12.6 amended to read:

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

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

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

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

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

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

12.17 (d) "Earned income of lesser-earning spouse" means the earned income of the spouse
 12.18 with the lesser amount of earned income as defined in paragraph (b) for the taxable year
 12.19 minus the sum of (i) the amount for one exemption under section 151(d) of the Internal
 12.20 Revenue Code and (ii) one-half the amount of the standard deduction under section
 12.21 63(c)(2)(A) and (4) of the Internal Revenue Code minus one-half of any addition required
 12.22 under section 290.01, subdivision 19a, clause ~~(21)~~ (20), and one-half of the addition that
 12.23 would have been required under section 290.01, subdivision 19a, clause ~~(21)~~ (20), if the
 12.24 taxpayer had claimed the standard deduction.

12.25 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 12.26 December 31, 2011.

12.27 Sec. 6. Minnesota Statutes 2010, section 290.091, subdivision 6, is amended to read:

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

- 13.1 (1) the regular tax, over
- 13.2 (2) the greater of (i) the tentative alternative minimum tax, or (ii) zero.
- 13.3 (b) The adjusted net minimum tax for a taxable year equals the lesser of the net
- 13.4 minimum tax or the excess (if any) of
- 13.5 (1) the tentative minimum tax, over
- 13.6 (2) 6.4 percent of the sum of
- 13.7 (i) adjusted gross income as defined in section 62 of the Internal Revenue Code,
- 13.8 (ii) interest income as defined in section 290.01, subdivision 19a, clause (1),
- 13.9 (iii) interest on specified private activity bonds, as defined in section 57(a)(5) of the
- 13.10 Internal Revenue Code, to the extent not included under clause (ii),
- 13.11 (iv) depletion as defined in section 57(a)(1), determined without regard to the last
- 13.12 sentence of paragraph (1), of the Internal Revenue Code, less
- 13.13 (v) the deductions allowed in computing alternative minimum taxable income
- 13.14 provided in subdivision 2, paragraph (a), clause (2) of the first series of clauses and clauses
- 13.15 (1), (2), and (3) of the second series of clauses, and
- 13.16 (vi) the exemption amount determined under subdivision 3.

13.17 In the case of an individual who is not a Minnesota resident for the entire year,

13.18 adjusted net minimum tax must be multiplied by the fraction defined in section 290.06,

13.19 subdivision 2c, paragraph (e). In the case of a trust or estate, adjusted net minimum tax

13.20 must be multiplied by the fraction defined under subdivision 4, paragraph (b).

13.21 (c) For tax years beginning after December 31, 2011, and before January 1, 2014, a

13.22 credit is allowed against the tax imposed by this chapter on individuals, trusts, and estates

13.23 equal to the minimum tax credit for the taxable year. The minimum tax credit equals the

13.24 adjusted net minimum tax for taxable years beginning after December 31, 1988, and

13.25 before January 1, 2012, reduced by the minimum tax credits allowed in a prior taxable

13.26 year. The credit may not exceed the tax imposed by this chapter after the allowance of the

13.27 credits in section 290.06, subdivisions 22, 22a, 28, 29, 30, and 31.

13.28 **EFFECTIVE DATE.** This section is effective for taxable years beginning after

13.29 December 31, 2011.

13.30 **Sec. 7. REVISOR'S INSTRUCTION.**

13.31 (a) The revisor of statutes shall identify and correct internal cross-references affected

13.32 by the amendments in sections 1, 2, and 3. The revisor may make changes necessary

13.33 to correct the punctuation, grammar, or structure of the remaining text and preserve its

13.34 meaning.

14.1 (b) The revisor of statutes shall identify and correct internal cross-references to
14.2 sections that are affected by section 8. The revisor may make changes necessary to correct
14.3 the punctuation, grammar, or structure of the remaining text and preserve its meaning.

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

14.5 Sec. 8. **REPEALER.**

14.6 (a) Minnesota Statutes 2010, sections 290.067, subdivisions 1, 2, 2a, 2b, 3, and
14.7 4; 290.0672; 290.0674; 290.0675, subdivisions 2, 3, and 4; 290.0679; 290.0802; and
14.8 290.091, subdivisions 1, 3, 4, and 5, and Minnesota Statutes 2011 Supplement, sections
14.9 290.0675, subdivision 1; and 290.091, subdivision 2, are repealed.

14.10 (b) Minnesota Statutes 2010, section 290.091, subdivision 6, is repealed.

14.11 **EFFECTIVE DATE.** Paragraph (a) is effective for taxable years beginning after
14.12 December 31, 2011, and paragraph (b) is effective for taxable years beginning after
14.13 December 31, 2013.