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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-EIGHTH SESSION

H. F. No. 1959

02/25/2014 Authored by Davids, Loon, Woodard, Kresha and Mack
The bill was read for the first time and referred to the Committee on Taxes

A bill for an act

relating to taxes; income and franchise; conforming to changes in the Internal Revenue Code; extending the working family credit phase-out for married filers; amending Minnesota Statutes 2012, sections 289A.02, subdivision 7; 289A.08, subdivision 7; 290.01, subdivision 19a, by adding a subdivision; 290.067, subdivision 2a; 290.0671, subdivision 1; 290.0675, subdivision 1; Minnesota Statutes 2013 Supplement, sections 290.01, subdivisions 19, 19b, 31; 290.06, subdivision 2c; 290.091, subdivision 2; 290A.03, subdivision 15.

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

Section 1. Minnesota Statutes 2012, section 289A.02, subdivision 7, is amended to read:

Subd. 7. **Internal Revenue Code.** Unless specifically defined otherwise, "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through April 14, 2011 January 3, 2013.

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

Sec. 2. Minnesota Statutes 2012, section 289A.08, subdivision 7, is amended to read:

Subd. 7. **Composite income tax returns for nonresident partners, shareholders, and beneficiaries.** (a) The commissioner may allow a partnership with nonresident partners to file a composite return and to pay the tax on behalf of nonresident partners who have no other Minnesota source income. This composite return must include the names, addresses, Social Security numbers, income allocation, and tax liability for the nonresident partners electing to be covered by the composite return.

(b) The computation of a partner's tax liability must be determined by multiplying the income allocated to that partner by the highest rate used to determine the tax liability

2.1 for individuals under section 290.06, subdivision 2c. Nonbusiness deductions, standard
2.2 deductions, or personal exemptions are not allowed.

2.3 (c) The partnership must submit a request to use this composite return filing method
2.4 for nonresident partners. The requesting partnership must file a composite return in the
2.5 form prescribed by the commissioner of revenue. The filing of a composite return is
2.6 considered a request to use the composite return filing method.

2.7 (d) The electing partner must not have any Minnesota source income other than the
2.8 income from the partnership and other electing partnerships. If it is determined that the
2.9 electing partner has other Minnesota source income, the inclusion of the income and tax
2.10 liability for that partner under this provision will not constitute a return to satisfy the
2.11 requirements of subdivision 1. The tax paid for the individual as part of the composite return
2.12 is allowed as a payment of the tax by the individual on the date on which the composite
2.13 return payment was made. If the electing nonresident partner has no other Minnesota
2.14 source income, filing of the composite return is a return for purposes of subdivision 1.

2.15 (e) This subdivision does not negate the requirement that an individual pay estimated
2.16 tax if the individual's liability would exceed the requirements set forth in section 289A.25.
2.17 The individual's liability to pay estimated tax is, however, satisfied when the partnership
2.18 pays composite estimated tax in the manner prescribed in section 289A.25.

2.19 (f) If an electing partner's share of the partnership's gross income from Minnesota
2.20 sources is less than the filing requirements for a nonresident under this subdivision, the tax
2.21 liability is zero. However, a statement showing the partner's share of gross income must
2.22 be included as part of the composite return.

2.23 (g) The election provided in this subdivision is only available to a partner who has
2.24 no other Minnesota source income and who is either (1) a full-year nonresident individual
2.25 or (2) a trust or estate that does not claim a deduction under either section 651 or 661 of
2.26 the Internal Revenue Code.

2.27 (h) A corporation defined in section 290.9725 and its nonresident shareholders may
2.28 make an election under this paragraph. The provisions covering the partnership apply to
2.29 the corporation and the provisions applying to the partner apply to the shareholder.

2.30 (i) Estates and trusts distributing current income only and the nonresident individual
2.31 beneficiaries of the estates or trusts may make an election under this paragraph. The
2.32 provisions covering the partnership apply to the estate or trust. The provisions applying to
2.33 the partner apply to the beneficiary.

2.34 (j) For the purposes of this subdivision, "income" means the partner's share of
2.35 federal adjusted gross income from the partnership modified by the additions provided in
2.36 section 290.01, subdivision 19a, clauses (6) to ~~(10)~~ (9), and the subtractions provided in:

3.1 (i) section 290.01, subdivision 19b, clause (8), to the extent the amount is assignable or
3.2 allocable to Minnesota under section 290.17; and (ii) section 290.01, subdivision 19b,
3.3 clause (13). The subtraction allowed under section 290.01, subdivision 19b, clause (8), is
3.4 only allowed on the composite tax computation to the extent the electing partner would
3.5 have been allowed the subtraction.

3.6 **EFFECTIVE DATE.** This section is effective retroactively for taxable years
3.7 beginning after December 31, 2012.

3.8 Sec. 3. Minnesota Statutes 2013 Supplement, section 290.01, subdivision 19, is
3.9 amended to read:

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

3.16 In the case of a regulated investment company or a fund thereof, as defined in section
3.17 851(a) or 851(g) of the Internal Revenue Code, federal taxable income means investment
3.18 company taxable income as defined in section 852(b)(2) of the Internal Revenue Code,
3.19 except that:

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

3.22 (2) the deduction for dividends paid under section 852(b)(2)(D) of the Internal
3.23 Revenue Code must be applied by allowing a deduction for capital gain dividends and
3.24 exempt-interest dividends as defined in sections 852(b)(3)(C) and 852(b)(5) of the Internal
3.25 Revenue Code; and

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

3.29 The net income of a real estate investment trust as defined and limited by section
3.30 856(a), (b), and (c) of the Internal Revenue Code means the real estate investment trust
3.31 taxable income as defined in section 857(b)(2) of the Internal Revenue Code.

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

4.1 The Internal Revenue Code of 1986, as amended through ~~April 14, 2011~~ January 3,
 4.2 2013, shall be in effect for taxable years beginning after December 31, 1996, ~~and before~~
 4.3 ~~January 1, 2012, and for taxable years beginning after December 31, 2012.~~ The Internal
 4.4 Revenue Code of 1986, as amended through January 3, 2013, is in effect for taxable years
 4.5 beginning after ~~December 31, 2011,~~ and before January 1, 2013.

4.6 The provisions of sections 315 and 331 of the American Taxpayer Relief Act of
 4.7 2012, Public Law 112-240, extension of increased expensing limitations and treatment
 4.8 of certain real property as section 179 property and extension and modification of bonus
 4.9 depreciation, are effective at the same time they become effective for federal purposes.

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

4.13 **EFFECTIVE DATE.** This section is effective the day following final enactment,
 4.14 except the changes incorporated by federal changes are effective retroactively at the same
 4.15 time as the changes were effective for federal purposes.

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

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

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

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

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

4.27 (B) the portion of the exempt-interest dividends derived from interest income
 4.28 on obligations of the state of Minnesota or its political or governmental subdivisions,
 4.29 municipalities, governmental agencies or instrumentalities, but only if the portion of the
 4.30 exempt-interest dividends from such Minnesota sources paid to all shareholders represents
 4.31 95 percent or more of the exempt-interest dividends, including any dividends exempt
 4.32 under subitem (A), that are paid by the regulated investment company as defined in section
 4.33 851(a) of the Internal Revenue Code, or the fund of the regulated investment company as
 4.34 defined in section 851(g) of the Internal Revenue Code, making the payment; and

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

5.4 (2) to the extent allowed as a deduction under section 63(d) of the Internal Revenue
5.5 Code, the amount of income, sales and use, motor vehicle sales, or excise taxes paid or
5.6 accrued within the taxable year under this chapter and the amount of taxes based on net
5.7 income paid, sales and use, motor vehicle sales, or excise taxes paid to any other state or
5.8 to any province or territory of Canada, ~~to the extent allowed as a deduction under section~~
5.9 ~~63(d) of the Internal Revenue Code~~, but the addition may not be more than the amount by
5.10 which the ~~itemized deductions as allowed under section 63(d) of the Internal Revenue~~
5.11 ~~Code~~ state itemized deduction exceeds the amount of the standard deduction as defined
5.12 in section 63(c) of the Internal Revenue Code, ~~disregarding the amounts allowed under~~
5.13 ~~sections 63(e)(1)(C) and 63(e)(1)(E) of the Internal Revenue Code~~, minus any addition
5.14 ~~that would have been required under clause (21) if the taxpayer had claimed the standard~~
5.15 ~~deduction. For the purpose of this paragraph, the disallowance of itemized deductions~~
5.16 ~~under section 68 of the Internal Revenue Code of 1986, income, sales and use, motor~~
5.17 ~~vehiele sales, or excise taxes are the last itemized deductions disallowed. For purposes~~
5.18 of this clause, income, sales and use, motor vehicle sales, and excise taxes are the last
5.19 itemized deductions disallowed under clause (13);

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

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

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

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

5.33 (7) 80 percent of the depreciation deduction allowed under section 168(k) of the
5.34 Internal Revenue Code. For purposes of this clause, if the taxpayer has an activity that
5.35 in the taxable year generates a deduction for depreciation under section 168(k) and the
5.36 activity generates a loss for the taxable year that the taxpayer is not allowed to claim for

6.1 the taxable year, "the depreciation allowed under section 168(k)" for the taxable year is
 6.2 limited to excess of the depreciation claimed by the activity under section 168(k) over the
 6.3 amount of the loss from the activity that is not allowed in the taxable year. In succeeding
 6.4 taxable years when the losses not allowed in the taxable year are allowed, the depreciation
 6.5 under section 168(k) is allowed;

6.6 (8) 80 percent of the amount by which the deduction allowed by section 179 of the
 6.7 Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal
 6.8 Revenue Code of 1986, as amended through December 31, 2003;

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

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

6.13 ~~(11) (10) the amount of expenses disallowed under section 290.10, subdivision 2;~~

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

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

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

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

6.24 ~~(16) (11) discharge of indebtedness income resulting from reacquisition of business~~
 6.25 ~~indebtedness and deferred under section 108(i) of the Internal Revenue Code;~~

6.26 ~~(17) the amount of unemployment compensation exempt from tax under section~~
 6.27 ~~85(e) of the Internal Revenue Code;~~

6.28 ~~(18) (12) changes to federal taxable income attributable to a net operating loss that~~
 6.29 ~~the taxpayer elected to carry back for more than two years for federal purposes but for~~
 6.30 ~~which the losses can be carried back for only two years under section 290.095, subdivision~~
 6.31 ~~11, paragraph (c);~~

6.32 ~~(19) (13) to the extent included in the computation of federal taxable income in~~
 6.33 ~~taxable years beginning after December 31, 2010, the amount of disallowed itemized~~
 6.34 ~~deductions, but the amount of disallowed itemized deductions plus the addition required~~
 6.35 ~~under clause (2) may not be more than the amount by which the itemized deductions as~~
 6.36 ~~allowed under section 63(d) of the Internal Revenue Code exceeds the amount of the~~

7.1 standard deduction as defined in section 63(c) of the Internal Revenue Code, ~~disregarding~~
7.2 ~~the amounts allowed under sections 63(e)(1)(C) and 63(e)(1)(E) of the Internal Revenue~~
7.3 ~~Code, and reduced by any addition that would have been required under clause (21) if the~~
7.4 ~~taxpayer had claimed the standard deduction:~~

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

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

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

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

7.13 (A) such dollar amount, multiplied by

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

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

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

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

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

7.25 ~~(20)~~ (14) to the extent included in federal taxable income in taxable years beginning
7.26 after December 31, 2010, the amount of disallowed personal exemptions for taxpayers
7.27 with federal adjusted gross income over the threshold amount:

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

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

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

8.1 (A) \$150,000 in the case of a joint return or a surviving spouse;
 8.2 (B) \$125,000 in the case of a head of a household;
 8.3 (C) \$100,000 in the case of an individual who is not married and who is not a
 8.4 surviving spouse or head of a household; and

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

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

8.7 (A) such dollar amount, multiplied by

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

8.11 ~~(21) to the extent deducted in the computation of federal taxable income, for taxable~~
 8.12 ~~years beginning after December 31, 2010, and before January 1, 2013, the difference~~
 8.13 ~~between the standard deduction allowed under section 63(e) of the Internal Revenue Code~~
 8.14 ~~and the standard deduction allowed for 2011 and 2012 under the Internal Revenue Code~~
 8.15 ~~as amended through December 1, 2010.~~

8.16 **EFFECTIVE DATE.** This section is effective retroactively for taxable years
 8.17 beginning after December 31, 2012.

8.18 Sec. 5. Minnesota Statutes 2013 Supplement, section 290.01, subdivision 19b, is
 8.19 amended to read:

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

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

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

8.28 (3) the amount paid to others, less the amount used to claim the credit allowed under
 8.29 section 290.0674, not to exceed \$1,625 for each qualifying child in grades kindergarten
 8.30 to 6 and \$2,500 for each qualifying child in grades 7 to 12, for tuition, textbooks, and
 8.31 transportation of each qualifying child in attending an elementary or secondary school
 8.32 situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a
 8.33 resident of this state may legally fulfill the state's compulsory attendance laws, which
 8.34 is not operated for profit, and which adheres to the provisions of the Civil Rights Act
 8.35 of 1964 and chapter 363A. For the purposes of this clause, "tuition" includes fees or

9.1 tuition as defined in section 290.0674, subdivision 1, clause (1). As used in this clause,
9.2 "textbooks" includes books and other instructional materials and equipment purchased
9.3 or leased for use in elementary and secondary schools in teaching only those subjects
9.4 legally and commonly taught in public elementary and secondary schools in this state.
9.5 Equipment expenses qualifying for deduction includes expenses as defined and limited in
9.6 section 290.0674, subdivision 1, clause (3). "Textbooks" does not include instructional
9.7 books and materials used in the teaching of religious tenets, doctrines, or worship, the
9.8 purpose of which is to instill such tenets, doctrines, or worship, nor does it include books
9.9 or materials for, or transportation to, extracurricular activities including sporting events,
9.10 musical or dramatic events, speech activities, driver's education, or similar programs. No
9.11 deduction is permitted for any expense the taxpayer incurred in using the taxpayer's or
9.12 the qualifying child's vehicle to provide such transportation for a qualifying child. For
9.13 purposes of the subtraction provided by this clause, "qualifying child" has the meaning
9.14 given in section 32(c)(3) of the Internal Revenue Code;

9.15 (4) income as provided under section 290.0802;

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

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

9.24 (7) for individuals who are allowed a federal foreign tax credit for taxes that do not
9.25 qualify for a credit under section 290.06, subdivision 22, an amount equal to the carryover
9.26 of subnational foreign taxes for the taxable year, but not to exceed the total subnational
9.27 foreign taxes reported in claiming the foreign tax credit. For purposes of this clause,
9.28 "federal foreign tax credit" means the credit allowed under section 27 of the Internal
9.29 Revenue Code, and "carryover of subnational foreign taxes" equals the carryover allowed
9.30 under section 904(c) of the Internal Revenue Code minus national level foreign taxes to
9.31 the extent they exceed the federal foreign tax credit;

9.32 (8) in each of the five tax years immediately following the tax year in which an
9.33 addition is required under subdivision 19a, clause (7), or 19c, clause (12), in the case of a
9.34 shareholder of a corporation that is an S corporation, an amount equal to one-fifth of the
9.35 delayed depreciation. For purposes of this clause, "delayed depreciation" means the amount
9.36 of the addition made by the taxpayer under subdivision 19a, clause (7), or subdivision 19c,

10.1 clause (12), in the case of a shareholder of an S corporation, minus the positive value of
10.2 any net operating loss under section 172 of the Internal Revenue Code generated for the
10.3 tax year of the addition. The resulting delayed depreciation cannot be less than zero;

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

10.5 (10) to the extent included in federal taxable income, the amount of compensation
10.6 paid to members of the Minnesota National Guard or other reserve components of the
10.7 United States military for active service, excluding compensation for services performed
10.8 under the Active Guard Reserve (AGR) program. For purposes of this clause, "active
10.9 service" means (i) state active service as defined in section 190.05, subdivision 5a, clause
10.10 (1); or (ii) federally funded state active service as defined in section 190.05, subdivision
10.11 5b, but "active service" excludes service performed in accordance with section 190.08,
10.12 subdivision 3;

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

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

10.29 (13) in each of the five tax years immediately following the tax year in which an
10.30 addition is required under subdivision 19a, clause (8), or 19c, clause (13), in the case of a
10.31 shareholder of a corporation that is an S corporation, an amount equal to one-fifth of the
10.32 addition made by the taxpayer under subdivision 19a, clause (8), or 19c, clause (13), in the
10.33 case of a shareholder of a corporation that is an S corporation, minus the positive value of
10.34 any net operating loss under section 172 of the Internal Revenue Code generated for the
10.35 tax year of the addition. If the net operating loss exceeds the addition for the tax year, a
10.36 subtraction is not allowed under this clause;

11.1 (14) to the extent included in the federal taxable income of a nonresident of
 11.2 Minnesota, compensation paid to a service member as defined in United States Code, title
 11.3 10, section 101(a)(5), for military service as defined in the Servicemembers Civil Relief
 11.4 Act, Public Law 108-189, section 101(2);

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

11.9 (16) to the extent included in federal taxable income, discharge of indebtedness
 11.10 income resulting from reacquisition of business indebtedness included in federal taxable
 11.11 income under section 108(i) of the Internal Revenue Code. This subtraction applies only
 11.12 to the extent that the income was included in net income in a prior year as a result of the
 11.13 addition under section 290.01, subdivision 19a, clause (16);

11.14 (17) the amount of the net operating loss allowed under section 290.095, subdivision
 11.15 11, paragraph (c); ~~and~~

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

11.19 (19) the amount of the limitation on itemized deductions under section 68(b) of
 11.20 the Internal Revenue Code; and

11.21 (20) the amount of the phase-out of personal exemptions under section 151(d) of the
 11.22 Internal Revenue Code.

11.23 **EFFECTIVE DATE.** This section is effective retroactively for taxable years
 11.24 beginning after December 31, 2012.

11.25 Sec. 6. Minnesota Statutes 2012, section 290.01, is amended by adding a subdivision
 11.26 to read:

11.27 Subd. 29a. **State itemized deduction.** The term "state itemized deduction" means
 11.28 federal itemized deductions, as defined in section 63(d) of the Internal Revenue Code,
 11.29 disregarding any limitation under section 68 of the Internal Revenue Code, and reduced
 11.30 by the amount of the addition required under subdivision 19a, clause (13).

11.31 **EFFECTIVE DATE.** This section is effective retroactively for taxable years
 11.32 beginning after December 31, 2012.

12.1 Sec. 7. Minnesota Statutes 2013 Supplement, section 290.01, subdivision 31, is
12.2 amended to read:

12.3 Subd. 31. **Internal Revenue Code.** Unless specifically defined otherwise, ~~for~~
12.4 ~~taxable years beginning before January 1, 2012, and after December 31, 2012,~~ "Internal
12.5 Revenue Code" means the Internal Revenue Code of 1986, as amended through ~~April 14,~~
12.6 ~~2011; and for taxable years beginning after December 31, 2011, and before January 1,~~
12.7 ~~2013,~~ "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended
12.8 through January 3, 2013. Internal Revenue Code also includes any uncodified provision in
12.9 federal law that relates to provisions of the Internal Revenue Code that are incorporated
12.10 into Minnesota law. When used in this chapter, the reference to "subtitle A, chapter 1,
12.11 subchapter N, part 1, of the Internal Revenue Code" is to the Internal Revenue Code as
12.12 amended through March 18, 2010.

12.13 **EFFECTIVE DATE.** This section is effective the day following final enactment,
12.14 except the changes incorporated by federal changes are effective retroactively at the same
12.15 time the changes were effective for federal purposes.

12.16 Sec. 8. Minnesota Statutes 2013 Supplement, section 290.06, subdivision 2c, is
12.17 amended to read:

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

- 12.22 (1) On the first \$35,480, 5.35 percent;
- 12.23 (2) On all over \$35,480, but not over \$140,960, 7.05 percent;
- 12.24 (3) On all over \$140,960, but not over \$250,000, 7.85 percent;
- 12.25 (4) On all over \$250,000, 9.85 percent.

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

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

- 12.31 (1) On the first \$24,270, 5.35 percent;
- 12.32 (2) On all over \$24,270, but not over \$79,730, 7.05 percent;
- 12.33 (3) On all over \$79,730, but not over \$150,000, 7.85 percent;
- 12.34 (4) On all over \$150,000, 9.85 percent.

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

13.4 (1) On the first \$29,880, 5.35 percent;

13.5 (2) On all over \$29,880, but not over \$120,070, 7.05 percent;

13.6 (3) On all over \$120,070, but not over \$200,000, 7.85 percent;

13.7 (4) On all over \$200,000, 9.85 percent.

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

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

13.19 (1) the numerator is the individual's Minnesota source federal adjusted gross income
 13.20 as defined in section 62 of the Internal Revenue Code and increased by the additions
 13.21 required under section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), (9), ~~(12)~~,
 13.22 ~~(13)~~, and ~~(16) to (18)~~ (11), and (12), and reduced by the Minnesota assignable portion of
 13.23 the subtraction for United States government interest under section 290.01, subdivision
 13.24 19b, clause (1), and the subtractions under section 290.01, subdivision 19b, clauses (8),
 13.25 (9), (13), (14), (16), and (17), after applying the allocation and assignability provisions of
 13.26 section 290.081, clause (a), or 290.17; and

13.27 (2) the denominator is the individual's federal adjusted gross income as defined in
 13.28 section 62 of the Internal Revenue Code of 1986, increased by the amounts specified in
 13.29 section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), (9), ~~(12)~~, ~~(13)~~, and ~~(16) to~~
 13.30 ~~(18)~~ (11), and (12), and reduced by the amounts specified in section 290.01, subdivision
 13.31 19b, clauses (1), (8), (9), (13), (14), (16), and (17).

13.32 **EFFECTIVE DATE.** This section is effective retroactively for taxable years
 13.33 beginning after December 31, 2012.

13.34 Sec. 9. Minnesota Statutes 2012, section 290.067, subdivision 2a, is amended to read:

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

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

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

14.6 (i) all nontaxable income;

14.7 (ii) the amount of a passive activity loss that is not disallowed as a result of section
14.8 469, paragraph (i) or (m) of the Internal Revenue Code and the amount of passive activity
14.9 loss carryover allowed under section 469(b) of the Internal Revenue Code;

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

14.13 (iv) cash public assistance and relief;

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

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

14.21 (vii) workers' compensation;

14.22 (viii) nontaxable strike benefits;

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

14.26 (x) a lump-sum distribution under section 402(e)(3) of the Internal Revenue Code of
14.27 1986, as amended through December 31, 1995;

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

14.33 (xii) nontaxable scholarship or fellowship grants;

14.34 (xiii) the amount of deduction allowed under section 199 of the Internal Revenue
14.35 Code;

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

15.3 (xv) the amount of deducted for tuition expenses required to be added to income
15.4 under section 290.01, subdivision 19a, clause (12) under section 222 of the Internal
15.5 Revenue Code; and

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

15.8 ~~(xvii) unemployment compensation.~~

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

15.14 (b) "Income" does not include:

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

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

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

15.20 (4) relief granted under chapter 290A;

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

15.23 (6) restitution payments received by eligible individuals and excludable interest as
15.24 defined in section 803 of the Economic Growth and Tax Relief Reconciliation Act of
15.25 2001, Public Law 107-16.

15.26 **EFFECTIVE DATE.** This section is effective retroactively for taxable years
15.27 beginning after December 31, 2012.

15.28 Sec. 10. Minnesota Statutes 2012, section 290.0671, subdivision 1, is amended to read:

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

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

16.1 (c) For individuals with one qualifying child, the credit equals 8.5 percent of the first
16.2 \$6,920 of earned income and 8.5 percent of earned income over \$12,080 but less than
16.3 \$13,450. The credit is reduced by 5.73 percent of earned income or adjusted gross income,
16.4 whichever is greater, in excess of \$15,080, but in no case is the credit less than zero.

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

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

16.11 (f) For a person who was a resident for the entire tax year and has earned income
16.12 not subject to tax under this chapter, including income excluded under section 290.01,
16.13 subdivision 19b, clause (9), the credit must be allocated based on the ratio of federal
16.14 adjusted gross income reduced by the earned income not subject to tax under this chapter
16.15 over federal adjusted gross income. For purposes of this paragraph, the subtractions
16.16 for military pay under section 290.01, subdivision 19b, clauses (10) and (11), are not
16.17 considered "earned income not subject to tax under this chapter."

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

16.21 (g) For tax years beginning after December 31, 2007, and before December 31,
16.22 2010, and for tax years beginning after December 31, 2017, the \$5,770 in paragraph (b),
16.23 the \$15,080 in paragraph (c), and the \$17,890 in paragraph (d), after being adjusted for
16.24 inflation under subdivision 7, are each increased by \$3,000 for married taxpayers filing joint
16.25 returns. For tax years beginning after December 31, 2008, the commissioner shall annually
16.26 adjust the \$3,000 by the percentage determined pursuant to the provisions of section 1(f)
16.27 of the Internal Revenue Code, except that in section 1(f)(3)(B), the word "2007" shall be
16.28 substituted for the word "1992." For 2009, the commissioner shall then determine the
16.29 percent change from the 12 months ending on August 31, 2007, to the 12 months ending on
16.30 August 31, 2008, and in each subsequent year, from the 12 months ending on August 31,
16.31 2007, to the 12 months ending on August 31 of the year preceding the taxable year. The
16.32 earned income thresholds as adjusted for inflation must be rounded to the nearest \$10. If the
16.33 amount ends in \$5, the amount is rounded up to the nearest \$10. The determination of the
16.34 commissioner under this subdivision is not a rule under the Administrative Procedure Act.

16.35 (h) For tax years beginning after December 31, 2010, and before January 1, 2012,
16.36 and for tax years beginning after December 31, 2012, and before January 1, 2018, the

17.1 \$5,770 in paragraph (b), the \$15,080 in paragraph (c), and the \$17,890 in paragraph
 17.2 (d), after being adjusted for inflation under subdivision 7, are each increased by \$5,000
 17.3 for married taxpayers filing joint returns. For tax years beginning after December 31,
 17.4 2010, and before January 1, 2012, and for tax years beginning after December 31, 2012,
 17.5 and before January 1, 2018, the commissioner shall annually adjust the \$5,000 by the
 17.6 percentage determined pursuant to the provisions of section 1(f) of the Internal Revenue
 17.7 Code, except that in section 1(f)(3)(B), the word "2008" shall be substituted for the word
 17.8 "1992." For 2011, the commissioner shall then determine the percent change from the 12
 17.9 months ending on August 31, 2008, to the 12 months ending on August 31, 2010, and in
 17.10 each subsequent year from the 12 months ending on August 31, 2008, to the 12 months
 17.11 ending on August 31 of the year preceding the taxable year. The earned income thresholds
 17.12 as adjusted for inflation must be rounded to the nearest \$10. If the amount ends in \$5, the
 17.13 amount is rounded up to the nearest \$10. The determination of the commissioner under
 17.14 this subdivision is not a rule under the Administrative Procedure Act.

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

17.19 **EFFECTIVE DATE.** This section is effective retroactively for taxable years
 17.20 beginning after December 31, 2012.

17.21 Sec. 11. Minnesota Statutes 2012, section 290.0675, subdivision 1, is amended to read:

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

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

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

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

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

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

17.32 (d) "Earned income of lesser-earning spouse" means the earned income of the
 17.33 spouse with the lesser amount of earned income as defined in paragraph (b) for the taxable
 17.34 year minus the sum of (i) the amount for one exemption under section 151(d) of the
 17.35 Internal Revenue Code and (ii) one-half the amount of the standard deduction under

18.1 section 63(c)(2)(A) and (4) of the Internal Revenue Code ~~minus one-half of any addition~~
 18.2 ~~required under section 290.01, subdivision 19a, clause (21), and one-half of the addition~~
 18.3 ~~that would have been required under section 290.01, subdivision 19a, clause (21), if the~~
 18.4 ~~taxpayer had claimed the standard deduction.~~

18.5 **EFFECTIVE DATE.** This section is effective retroactively for taxable years
 18.6 beginning after December 31, 2012.

18.7 Sec. 12. Minnesota Statutes 2013 Supplement, section 290.091, subdivision 2, is
 18.8 amended to read:

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

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

18.13 (1) the taxpayer's federal alternative minimum taxable income as defined in section
 18.14 55(b)(2) of the Internal Revenue Code;

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

18.17 (i) the charitable contribution deduction under section 170 of the Internal Revenue
 18.18 Code;

18.19 (ii) the medical expense deduction;

18.20 (iii) the casualty, theft, and disaster loss deduction; and

18.21 (iv) the impairment-related work expenses of a disabled person;

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

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

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

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

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

- 19.1 (1) interest income as defined in section 290.01, subdivision 19b, clause (1);
- 19.2 (2) an overpayment of state income tax as provided by section 290.01, subdivision
- 19.3 19b, clause (2), to the extent included in federal alternative minimum taxable income;
- 19.4 (3) the amount of investment interest paid or accrued within the taxable year on
- 19.5 indebtedness to the extent that the amount does not exceed net investment income, as
- 19.6 defined in section 163(d)(4) of the Internal Revenue Code. Interest does not include
- 19.7 amounts deducted in computing federal adjusted gross income;
- 19.8 (4) amounts subtracted from federal taxable income as provided by section 290.01,
- 19.9 subdivision 19b, clauses (6), (8) to (14), and (16); and
- 19.10 (5) the amount of the net operating loss allowed under section 290.095, subdivision
- 19.11 11, paragraph (c).

19.12 In the case of an estate or trust, alternative minimum taxable income must be

19.13 computed as provided in section 59(c) of the Internal Revenue Code.

19.14 (b) "Investment interest" means investment interest as defined in section 163(d)(3)

19.15 of the Internal Revenue Code.

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

19.17 (d) "Regular tax" means the tax that would be imposed under this chapter (without

19.18 regard to this section and section 290.032), reduced by the sum of the nonrefundable

19.19 credits allowed under this chapter.

19.20 (e) "Tentative minimum tax" equals 6.75 percent of alternative minimum taxable

19.21 income after subtracting the exemption amount determined under subdivision 3.

19.22 **EFFECTIVE DATE.** This section is effective retroactively for taxable years

19.23 beginning after December 31, 2012.

19.24 Sec. 13. Minnesota Statutes 2013 Supplement, section 290A.03, subdivision 15,

19.25 is amended to read:

19.26 Subd. 15. **Internal Revenue Code.** ~~For taxable years beginning before January 1,~~

19.27 ~~2012, and after December 31, 2012,~~ "Internal Revenue Code" means the Internal Revenue

19.28 Code of 1986, as amended through April 14, 2011; ~~and for taxable years beginning after~~

19.29 ~~December 31, 2011, and before January 1, 2013,~~ "Internal Revenue Code" means the

19.30 ~~Internal Revenue Code of 1986, as amended through January 3, 2013.~~

19.31 **EFFECTIVE DATE.** This section is effective retroactively for property tax refunds

19.32 based on property taxes payable after December 31, 2013, and rent paid after December

19.33 31, 2012.