

SENATE
STATE OF MINNESOTA
NINETY-THIRD SESSION

S.F. No. 3174

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DATE
03/30/2023

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2806 Introduction and first reading
Referred to Taxes

OFFICIAL STATUS

1.1 A bill for an act

1.2 relating to taxation; individual income; establishing a public pension benefit

1.3 subtraction; amending Minnesota Statutes 2022, sections 290.0132, subdivision

1.4 26, by adding a subdivision; 290.091, subdivision 2, as amended.

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

1.6 Section 1. Minnesota Statutes 2022, section 290.0132, subdivision 26, is amended to read:

1.7 Subd. 26. **Social Security benefits.** (a) ~~A portion~~ The amount of taxable Social Security

1.8 benefits received by a taxpayer in the taxable year is allowed as a subtraction. ~~The subtraction~~

1.9 ~~equals the lesser of taxable Social Security benefits or a maximum subtraction subject to~~

1.10 ~~the limits under paragraphs (b), (c), and (d).~~

1.11 ~~(b) For married taxpayers filing a joint return and surviving spouses, the maximum~~

1.12 ~~subtraction equals \$5,150. The maximum subtraction is reduced by 20 percent of provisional~~

1.13 ~~income over \$78,180. In no case is the subtraction less than zero.~~

1.14 ~~(c) For single or head-of-household taxpayers, the maximum subtraction equals \$4,020.~~

1.15 ~~The maximum subtraction is reduced by 20 percent of provisional income over \$61,080.~~

1.16 ~~In no case is the subtraction less than zero.~~

1.17 ~~(d) For married taxpayers filing separate returns, the maximum subtraction equals~~

1.18 ~~one-half the maximum subtraction for joint returns under paragraph (b). The maximum~~

1.19 ~~subtraction is reduced by 20 percent of provisional income over one-half the threshold~~

1.20 ~~amount specified in paragraph (b). In no case is the subtraction less than zero.~~

1.21 ~~(e)~~ (b) For purposes of this subdivision, "provisional income" means modified adjusted

1.22 ~~gross income as defined in section 86(b)(2) of the Internal Revenue Code, plus one-half of~~

the taxable Social Security benefits received during the taxable year, and "Social Security benefits" has the meaning given in section 86(d)(1) of the Internal Revenue Code.

~~(f) The commissioner shall adjust the maximum subtraction and threshold amounts in paragraphs (b) to (d) as provided in section 270C.22. The statutory year is taxable year 2019. The maximum subtraction and threshold amounts as adjusted must be rounded to the nearest \$10 amount. If the amount ends in \$5, the amount is rounded up to the nearest \$10 amount.~~

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2022.

Sec. 2. Minnesota Statutes 2022, section 290.0132, is amended by adding a subdivision to read:

Subd. 34. Public pension income subtraction. (a) The amount of a taxpayer's public pension exclusion is a subtraction.

(b) The amount of a taxpayer's federal exclusion is determined as follows:

(1) for a taxpayer whose provisional income is less than or equal to the base amount, the federal exclusion equals 100 percent of qualified benefits received during the taxable year;

(2) for a taxpayer whose provisional income exceeds the base amount, but is less than or equal to the adjusted base amount, the federal exclusion equals the greater of:

(i) 50 percent of qualified benefits received during the taxable year; or

(ii) the amount of qualified benefits minus 50 percent of the difference between provisional income and the base amount; and

(3) for a taxpayer whose provisional income exceeds the adjusted base amount, the federal exclusion equals the greater of:

(i) qualified benefits minus:

(A) 85 percent of provisional income in excess of the adjusted base amount; plus

(B) 50 percent of the difference between the base amount and the adjusted base amount;

or

(ii) 15 percent of qualified benefits received during the taxable year.

(c) The amount of a taxpayer's state exclusion equals the lesser of:

(1) the amount of qualified benefits in excess of the taxpayer's federal exclusion; or

(2) the maximum exclusion for a taxpayer determined under paragraph (d).

(d) The maximum state exclusion equals \$5,450 for a joint return, half that amount for a married taxpayer filing a separate return, and \$4,260 for all other taxpayers. The maximum subtraction is reduced by 20 percent of provisional income in excess of:

(1) \$82,770 for a joint return;

(2) half the amount in clause (1) for a married taxpayer filing a separate return; and

(3) \$64,670 for all other filers.

(e) For the purposes of this subdivision:

(1) "base amount" has the meaning given in section 86(c)(1) of the Internal Revenue Code and "adjusted base amount" has the meaning given in section 86(c)(2) of the Internal Revenue Code;

(2) "provisional income" has the meaning given in section 290.0132, subdivision 26, paragraph (e);

(3) "public pension exclusion" means the sum of the federal exclusion calculated under paragraph (b) and the state exclusion calculated under paragraphs (c) and (d); and

(4) "qualified benefits" means any amount received:

(i) by a basic member of any pension plan governed by chapter 3A, 352B, 353, 354, or 354A, or the basic member's survivor, provided that the annuity or benefit is based on service for which the member or survivor is not also receiving Social Security benefits;

(ii) from any retirement system administered by the federal government that is based on service for which the recipient or the recipient's survivor is not also receiving Social Security benefits; or

(iii) from a public retirement system of or created by another state or any of its political subdivisions if the income tax laws of the other state permit a similar deduction or exemption or a reciprocal deduction or exemption of a retirement or pension benefit received from a public retirement system of or created by this state or any political subdivision of this state.

(f) The commissioner must adjust the maximum exclusion and phaseout threshold amounts in paragraph (d) as provided in section 270C.22. The statutory year is taxable year 2022. The maximum subtraction and threshold amounts as adjusted must be rounded to the

4.1 nearest \$10 amount. If the amount ends in \$5, the amount is rounded up to the nearest \$10
4.2 amount.

4.3 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December
4.4 31, 2022.

4.5 Sec. 3. Minnesota Statutes 2022, section 290.091, subdivision 2, as amended by Laws
4.6 2023, chapter 1, section 18, is amended to read:

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

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

4.11 (1) the taxpayer's federal alternative minimum taxable income as defined in section
4.12 55(b)(1)(D) of the Internal Revenue Code;

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

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

4.16 (ii) the medical expense deduction;

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

4.18 (iv) the impairment-related work expenses of a person with a disability;

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

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

4.28 (5) to the extent not included in federal alternative minimum taxable income, the amount
4.29 of interest income as provided by section 290.0131, subdivision 2;

4.30 (6) the amount of addition required by section 290.0131, subdivisions 9, 10, and 16;

(7) the deduction allowed under section 199A of the Internal Revenue Code, to the extent not included in the addition required under clause (6); and

(8) to the extent not included in federal alternative minimum taxable income, the amount of foreign-derived intangible income deducted under section 250 of the Internal Revenue Code;

less the sum of the amounts determined under the following:

(i) interest income as defined in section 290.0132, subdivision 2;

(ii) an overpayment of state income tax as provided by section 290.0132, subdivision 3, to the extent included in federal alternative minimum taxable income;

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

(iv) amounts subtracted from federal taxable or adjusted gross income as provided by section 290.0132, subdivisions 7, 9 to 15, 17, 21, 24, 26 to 29, ~~and 31~~, and 34;

(v) the amount of the net operating loss allowed under section 290.095, subdivision 11, paragraph (c); and

(vi) the amount allowable as a Minnesota itemized deduction under section 290.0122, subdivision 7.

In the case of an estate or trust, alternative minimum taxable income must be computed as provided in section 59(c) of the Internal Revenue Code, except alternative minimum taxable income must be increased by the addition in section 290.0131, subdivision 16.

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

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

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

(e) "Tentative minimum tax" equals 6.75 percent of alternative minimum taxable income after subtracting the exemption amount determined under subdivision 3.

6.1

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

6.2

31, 2022.