SENATE

UNOFFICIAL ENGROSSMENT

STATE OF MINNESOTA
EIGHTY-EIGHTH SESSION

H.F. No. 1777

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DATE	D-PG	OFFICIAL STATUS
03/10/2014	6012	Received from House
	6012	Introduction and first reading
	6012	Motion did not prevail To suspend rules and declare urgency Referred to Taxes
03/20/2014	6415a	Comm report: To pass as amended
	6465	Second reading
	6494	Motion did not prevail To suspend rules and declare urgency
03/21/2014	6506a	Special Order: Amended
	6520	Third reading Passed House concurred and repassed bill Presentment date 03/21/14

A bill for an act

relating to financing and operation of state and local government; making changes to individual income, corporate franchise, property, sales and use, estate, mineral, local, and other taxes and tax-related provisions; changing property tax aids and credits; modifying education aids and levies; making changes to additions and subtractions from federal taxable income; providing for federal conformity; changing tax rates for estates; modifying income tax credits; modifying estate tax provisions; repealing the gift tax; modifying the definition of sale and purchase; modifying sales tax exemptions; modifying tax increment financing rules; modifying the distribution of taconite production taxes; modifying and providing provisions for public finance; report; appropriating money; amending Minnesota Statutes 2012, sections 16A.152, subdivisions 1b, 2, 8; 37.31, subdivision 8; 116J.8737, subdivisions 5, 7, 9, 12; 276A.01, by adding a subdivision; 276A.06, subdivisions 3, 5, 8; 289A.02, subdivision 7; 289A.08, subdivision 7; 289A.18, subdivision 3; 290.01, subdivision 19a, by adding a subdivision; 290.067, subdivisions 1, 2a, by adding a subdivision; 290.0671, subdivisions 1, 7; 290.0675, subdivision 1; 291.03, by adding a subdivision; 297A.68, by adding a subdivision; 298.225, subdivision 1; 298.28, subdivisions 3, 5, 7, 9a, by adding a subdivision; 473.39, by adding a subdivision; Minnesota Statutes 2013 Supplement, sections 116J.8737, subdivisions 1, 2; 126C.10, subdivisions 1, 2e; 126C.13, subdivision 4; 126C.17, subdivision 1; 273.117; 289A.10, subdivision 1; 290.01, subdivisions 19, 19b, 31; 290.06, subdivision 2c; 290.091, subdivision 2; 290A.03, subdivision 15; 291.005, subdivision 1; 291.03, subdivision 1; 297A.61, subdivision 3; 297A.68, subdivision 5; 298.17; 298.28, subdivision 10; Laws 2003, chapter 127, article 12, section 28; Laws 2006, chapter 259, article 10, section 13, subdivision 4; Laws 2008, chapter 366, article 5, section 36, subdivision 3; Laws 2013, chapter 143, article 8, section 26; proposing coding for new law in Minnesota Statutes, chapter 291; repealing Minnesota Statutes 2012, sections 291.03, subdivision 1b; 291.41; 291.42; 291.43; 291.44; 291.45; 291.46; 291.47; Minnesota Statutes 2013 Supplement, sections 291.03, subdivision 1c; 292.16; 292.17; 292.18; 292.19; 292.20; 292.21; 297A.61, subdivision 57.

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

ARTICLE 1

INCOME AND CORPORATE FRANCHISE TAX

Section 1. Minnesota Statutes 2013 Supplement, section 116J.8737, subdivision 1, is amended to read:

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

(b) "Qualified small business" means a business that has been certified by the commissioner under subdivision 2.

(c) "Qualified investor" means an investor who has been certified by the commissioner under subdivision 3.

(d) "Qualified fund" means a pooled angel investment network fund that has been certified by the commissioner under subdivision 4.

(e) "Qualified investment" means a cash investment in a qualified small business of a minimum of:

(1) $10,000 in a calendar year by a qualified investor; or

(2) $30,000 in a calendar year by a qualified fund.

A qualified investment must be made in exchange for common stock, a partnership or membership interest, preferred stock, debt with mandatory conversion to equity, or an equivalent ownership interest as determined by the commissioner.

(f) "Family" means a family member within the meaning of the Internal Revenue Code, section 267(c)(4).

(g) "Pass-through entity" means a corporation that for the applicable taxable year is treated as an S corporation or a general partnership, limited partnership, limited liability partnership, trust, or limited liability company and which for the applicable taxable year is not taxed as a corporation under chapter 290.

(h) "Intern" means a student of an accredited institution of higher education, or a former student who has graduated in the past six months from an accredited institution of higher education, who is employed by a qualified small business in a nonpermanent position for a duration of nine months or less that provides training and experience in the primary business activity of the business.

(i) "Liquidation event" means a conversion of qualified investment for cash, cash and other consideration, or any other form of equity or debt interest.

<u>(j) "Qualified greater Minnesota business" means a qualified small business that is also certified by the commissioner as a qualified greater Minnesota business under subdivision 2, paragraph (h).</u>

(k) "Minority group member" means a United States citizen who is Asian, Pacific Islander, Black, Hispanic, or Native American.

(l) "Minority-owned business" means a business for which one or more minority group members:

(1) own at least 50 percent of the business, or, in the case of a publicly owned business, own at least 51 percent of the stock; and

(2) manage the business and control the daily business operations.

(m) "Women" means persons of the female gender.

(n) "Women-owned business" means a business for which one or more women:

(1) own at least 50 percent of the business, or, in the case of a publicly owned business, own at least 51 percent of the stock; and

(2) manage the business and control the daily business operations.

(o) "Officer" means a person elected or appointed by the board of directors to manage the daily operations of the qualified small business;

(p) "Principal" means a person having authority to act on behalf of the qualified small business.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2014.

Sec. 2. Minnesota Statutes 2013 Supplement, section 116J.8737, subdivision 2, is amended to read:

Subd. 2. **Certification of qualified small businesses.** (a) Businesses may apply to the commissioner for certification as a qualified small business or qualified greater Minnesota small business for a calendar year. The application must be in the form and be made under the procedures specified by the commissioner, accompanied by an application fee of $150. Application fees are deposited in the small business investment tax credit administration account in the special revenue fund. The application for certification for 2010 must be made available on the department's Web site by August 1, 2010. Applications for subsequent years' certification must be made available on the department's Web site by November 1 of the preceding year.

(b) Within 30 days of receiving an application for certification under this subdivision, the commissioner must either certify the business as satisfying the conditions required of a qualified small business~~,~~ or qualified greater Minnesota small business, request additional information from the business, or reject the application for certification. If the commissioner requests additional information from the business, the commissioner must either certify the business or reject the application within 30 days of receiving the additional information. If the commissioner neither certifies the business nor rejects the application within 30 days of receiving the original application or within 30 days of receiving the additional information requested, whichever is later, then the application is deemed rejected, and the commissioner must refund the $150 application fee. A business that applies for certification and is rejected may reapply.

(c) To receive certification as a qualified small business, a business must satisfy all of the following conditions:

(1) the business has its headquarters in Minnesota;

(2) at least 51 percent of the business's employees are employed in Minnesota, and 51 percent of the business's total payroll is paid or incurred in the state;

(3) the business is engaged in, or is committed to engage in, innovation in Minnesota in one of the following as its primary business activity:

(i) using proprietary technology to add value to a product, process, or service in a qualified high-technology field;

(ii) researching or developing a proprietary product, process, or service in a qualified high-technology field; or

(iii) researching, developing, or producing a new proprietary technology for use in the fields of agriculture, tourism, forestry, mining, manufacturing, or transportation;

(4) other than the activities specifically listed in clause (3), the business is not engaged in real estate development, insurance, banking, lending, lobbying, political consulting, information technology consulting, wholesale or retail trade, leisure, hospitality, transportation, construction, ethanol production from corn, or professional services provided by attorneys, accountants, business consultants, physicians, or health care consultants;

(5) the business has fewer than 25 employees;

(6) the business must pay its employees annual wages of at least 175 percent of the federal poverty guideline for the year for a family of four and must pay its interns annual wages of at least 175 percent of the federal minimum wage used for federally covered employers, except that this requirement must be reduced proportionately for employees and interns who work less than full-time, and does not apply to an executive, officer, or member of the board of the business, or to any employee who owns, controls, or holds power to vote more than 20 percent of the outstanding securities of the business;

(7) the business has (i) not been in operation for more than ten years, or (ii) not been in operation for more than 20 years if the business is engaged in the research, development, or production of medical devices or pharmaceuticals for which United

States Food and Drug Administration approval is required for use in the treatment or diagnosis of a disease or condition;

(8) the business has not previously received private equity investments of more than $4,000,000;

(9) the business is not an entity disqualified under section 80A.50, paragraph (b), clause (3); and

(10) the business has not issued securities that are traded on a public exchange.

(d) In applying the limit under paragraph (c), clause (5), the employees in all members of the unitary business, as defined in section 290.17, subdivision 4, must be included.

(e) In order for a qualified investment in a business to be eligible for tax credits:

(1) the business must have applied for and received certification for the calendar year in which the investment was made prior to the date on which the qualified investment was made;

(2) the business must not have issued securities that are traded on a public exchange;

(3) the business must not issue securities that are traded on a public exchange within 180 days after the date on which the qualified investment was made; and

(4) the business must not have a liquidation event within 180 days after the date on which the qualified investment was made.

(f) The commissioner must maintain a list of <u>qualified small</u> businesses <u>and qualified greater Minnesota businesses</u> certified under this subdivision for the calendar year and make the list accessible to the public on the department's Web site.

(g) For purposes of this subdivision, the following terms have the meanings given:

(1) "qualified high-technology field" includes aerospace, agricultural processing, renewable energy, energy efficiency and conservation, environmental engineering, food technology, cellulosic ethanol, information technology, materials science technology, nanotechnology, telecommunications, biotechnology, medical device products, pharmaceuticals, diagnostics, biologicals, chemistry, veterinary science, and similar fields; ~~and~~

(2) "proprietary technology" means the technical innovations that are unique and legally owned or licensed by a business and includes, without limitation, those innovations that are patented, patent pending, a subject of trade secrets, or copyrighted~~.~~<u>; and</u>

<u>(3) "greater Minnesota" means the area of Minnesota located outside of the metropolitan area as defined in section 473.121, subdivision 2.</u>

<u>(h) To receive certification as a qualified greater Minnesota business, a business must satisfy all of the requirements of paragraph (c) and must satisfy the following conditions:</u>

<u>(1) the business has its headquarters in greater Minnesota; and</u>

(2) at least 51 percent of the business's employees are employed in greater Minnesota, and 51 percent of the business's total payroll is paid or incurred in greater Minnesota.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2014.

Sec. 3. Minnesota Statutes 2012, section 116J.8737, subdivision 5, is amended to read:

Subd. 5. **Credit allowed.** (a) (1) A qualified investor or qualified fund is eligible for a credit equal to 25 percent of the qualified investment in a qualified small business. Investments made by a pass-through entity qualify for a credit only if the entity is a qualified fund. The commissioner must not allocate more than ~~$11,000,000~~ $15,000,000 $15,000,000 in credits to qualified investors or qualified funds for taxable years beginning after December 31, ~~2009~~ 2013, and before January 1, ~~2011, and must not allocate more than $12,000,000 in credits per year for taxable years beginning after December 31, 2010, and before January 1, 2015~~2017; and

(2) for taxable years beginning after December 31, 2014, and before January 1, 2017, $7,500,000 must be allocated to credits for qualifying investments in qualified greater Minnesota businesses and minority- or women-owned qualified small businesses in Minnesota. Any portion of a taxable year's credits that is reserved for qualifying investments in greater Minnesota businesses and minority- or women-owned qualified small businesses in Minnesota that is not allocated by September 30 of the taxable year is available for allocation to other credit applications beginning on October 1. Any portion of a taxable year's credits that is not allocated by the commissioner does not cancel and may be carried forward to subsequent taxable years until all credits have been allocated.

(b) The commissioner may not allocate more than a total maximum amount in credits for a taxable year to a qualified investor for the investor's cumulative qualified investments as an individual qualified investor and as an investor in a qualified fund; for married couples filing joint returns the maximum is $250,000, and for all other filers the maximum is $125,000. The commissioner may not allocate more than a total of $1,000,000 in credits over all taxable years for qualified investments in any one qualified small business.

(c) The commissioner may not allocate a credit to a qualified investor either as an individual qualified investor or as an investor in a qualified fund if ~~the investor receives more than 50 percent of the investor's gross annual income from the qualified small business in which the qualified investment is proposed~~, at the time the investment is proposed:

(1) the investor is an officer or principal of the qualified small business; or

(2) the investor, either individually or in combination with one or more members of the investor's family, owns, controls, or holds the power to vote 20 percent or more of the outstanding securities of the qualified small business.

A member of the family of an individual disqualified by this paragraph is not eligible for a credit under this section. For a married couple filing a joint return, the limitations in this paragraph apply collectively to the investor and spouse. For purposes of determining the ownership interest of an investor under this paragraph, the rules under section 267(c) and 267(e) of the Internal Revenue Code apply.

(d) Applications for tax credits for 2010 must be made available on the department's Web site by September 1, 2010, and the department must begin accepting applications by September 1, 2010. Applications for subsequent years must be made available by November 1 of the preceding year.

(e) Qualified investors and qualified funds must apply to the commissioner for tax credits. Tax credits must be allocated to qualified investors or qualified funds in the order that the tax credit request applications are filed with the department. The commissioner must approve or reject tax credit request applications within 15 days of receiving the application. The commissioner must allocate credits to approved applications if credits remain available. The investment specified in the application must be made within 60 days of the allocation of the credits. If the investment is not made within 60 days, the credit allocation is canceled and available for reallocation. A qualified investor or qualified fund that fails to invest as specified in the application, within 60 days of allocation of the credits, must notify the commissioner of the failure to invest within five business days of the expiration of the 60-day investment period. Credit applications that were approved but that did not receive an allocation of credits at the time of approval because the aggregate limit of credits for the year was exhausted remain eligible for allocation of credits if additional credits become available due to cancellations under this paragraph or due to termination of the time period for credits reserved for investment in qualified greater Minnesota businesses and minority- and women-owned small businesses under paragraph (a). Approved credit applications that do not receive credit allocations in the tax year must be resubmitted to be eligible for credit allocations in the following tax year.

(f) All tax credit request applications filed with the department on the same day must be treated as having been filed contemporaneously. If two or more qualified investors or qualified funds file tax credit request applications on the same day, and the aggregate amount of credit allocation claims exceeds the aggregate limit of credits under this section or the lesser amount of credits that remain unallocated on that day, then the credits must be allocated among the qualified investors or qualified funds who filed on that day on a pro rata basis with respect to the amounts claimed. The pro rata allocation for any one qualified investor or qualified fund is the product obtained by multiplying a fraction, the numerator of which is the amount of the credit allocation claim filed on behalf of a qualified investor and the denominator of which is the total of all credit allocation claims filed on behalf of all applicants on that day, by the amount of credits that remain unallocated on that day for the taxable year.

(g) A qualified investor or qualified fund, or a qualified small business acting on their behalf, must notify the commissioner when an investment for which credits were allocated has been made, and the taxable year in which the investment was made. A qualified fund must also provide the commissioner with a statement indicating the amount invested by each investor in the qualified fund based on each investor's share of the assets of the qualified fund at the time of the qualified investment. After receiving notification that the investment was made, the commissioner must issue credit certificates for the taxable year in which the investment was made to the qualified investor or, for an investment made by a qualified fund, to each qualified investor who is an investor in the fund. The certificate must state that the credit is subject to revocation if the qualified investor or qualified fund does not hold the investment in the qualified small business for at least three years, consisting of the calendar year in which the investment was made and the two following years. The three-year holding period does not apply if:

(1) the investment by the qualified investor or qualified fund becomes worthless before the end of the three-year period;

(2) 80 percent or more of the assets of the qualified small business is sold before the end of the three-year period;

(3) the qualified small business is sold before the end of the three-year period; ~~or~~

(4) the qualified small business's common stock begins trading on a public exchange before the end of the three-year period~~.~~ ; or

(5) the qualified investor dies before the end of the three-year period.

(h) The commissioner must notify the commissioner of revenue of credit certificates issued under this section.

EFFECTIVE DATE. Changes to paragraph (a) are effective for taxable years beginning after December 31, 2013. The remainder of the changes are effective for taxable years beginning after December 31, 2014.

Sec. 4. Minnesota Statutes 2012, section 116J.8737, subdivision 7, is amended to read:

Subd. 7. **Revocation of credits.** (a) If the commissioner determines that a qualified investor or qualified fund did not meet the three-year holding period required in subdivision 5, paragraph (g), any credit allocated and certified to the investor or fund is revoked and must be repaid by the investor.

(b) If the commissioner determines that a business did not meet the employment and payroll requirements in subdivision 2, paragraph (c), clause (2), or paragraph (h), as applicable, in any of the five calendar years following the year in which an investment in the business that qualified for a tax credit under this section was made, the business must repay the following percentage of the credits allowed for qualified investments in the business:

Year following the year in which the investment was made:	Percentage of credit required to be repaid:
First	100%
Second	80%
Third	60%
Fourth	40%
Fifth	20%
Sixth and later	0

(c) The commissioner must notify the commissioner of revenue of every credit revoked and subject to full or partial repayment under this section.

(d) For the repayment of credits allowed under this section and section 290.0692, a qualified small business, qualified investor, or investor in a qualified fund must file an amended return with the commissioner of revenue and pay any amounts required to be repaid within 30 days after becoming subject to repayment under this section.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2014.

Sec. 5. Minnesota Statutes 2012, section 116J.8737, subdivision 9, is amended to read:

Subd. 9. **Report to legislature.** Beginning in 2011, the commissioner must annually report by March 15 to the chairs and ranking minority members of the legislative committees having jurisdiction over taxes and economic development in the senate and the house of representatives, in compliance with sections 3.195 and 3.197, on the tax credits issued under this section. The report must include:

(1) the number and amount of the credits issued;

(2) the recipients of the credits;

(3) for each qualified small business or qualified greater Minnesota business, its location, line of business, and if it received an investment resulting in certification of tax credits;

(4) the total amount of investment in each qualified small business resulting in certification of tax credits;

(5) for each qualified small business that received investments resulting in tax credits, the total amount of additional investment that did not qualify for the tax credit;

(6) the number and amount of credits revoked under subdivision 7;

(7) the number and amount of credits that are no longer subject to the three-year holding period because of the exceptions under subdivision 5, paragraph (g), clauses (1) to (4); and

(8) any other information relevant to evaluating the effect of these credits.

EFFECTIVE DATE. This section is effective for reports required to be filed after December 31, 2014.

Sec. 6. Minnesota Statutes 2012, section 116J.8737, subdivision 12, is amended to read:

Subd. 12. **Sunset.** This section expires for taxable years beginning after December 31, ~~2014~~ 2016, except that reporting requirements under subdivision 6 and revocation of credits under subdivision 7 remain in effect through ~~2016~~ 2018 for qualified investors and qualified funds, and through ~~2018~~ 2020 for qualified small businesses, reporting requirements under subdivision 9 remain in effect through ~~2019~~ 2021, and the appropriation in subdivision 11 remains in effect through ~~2018~~ 2020.

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

Sec. 7. 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~~ December 20, 2013.

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

Sec. 8. 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 for individuals under section 290.06, subdivision 2c. Nonbusiness deductions, standard deductions, or personal exemptions are not allowed.

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

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

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

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

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

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

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

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

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

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

Sec. 9. Minnesota Statutes 2013 Supplement, section 290.01, subdivision 19, is amended to read:

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

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

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

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

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

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

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

The Internal Revenue Code of 1986, as amended through ~~April 14, 2011~~ December 20, 2013, shall be in effect for taxable years beginning after December 31, 1996~~, and before January 1, 2012, and for taxable years beginning after December 31, 2012. The Internal Revenue Code of 1986, as amended through January 3, 2013, is in effect for taxable years beginning after December 31, 2011, and before January 1, 2013~~.

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

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

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

Sec. 10. Minnesota Statutes 2012, section 290.01, subdivision 19a, is amended to read:

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

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

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

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

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

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

(2) the amount of income, sales and use, motor vehicle sales, or excise taxes paid or accrued within the taxable year under this chapter and the amount of taxes based on net income paid, sales and use, motor vehicle sales, or excise taxes paid to any other state or to any province or territory of Canada, to the extent allowed as a deduction under section 63(d) of the Internal Revenue Code, but the addition may not be more than the amount by which the ~~itemized deductions as allowed under section 63(d) of the Internal Revenue Code~~ state itemized deduction exceeds the amount of the standard deduction as defined in section 63(c) of the Internal Revenue Code, ~~disregarding the amounts allowed under sections 63(c)(1)(C) and 63(c)(1)(E) of the Internal Revenue Code,~~ minus any addition that would have been required under clause ~~(21)~~ (17) if the taxpayer had claimed the standard deduction. For the purpose of this ~~paragraph, the disallowance of itemized deductions under section 68 of the Internal Revenue Code of 1986~~ clause, income, sales and use, motor vehicle sales, or excise taxes are the last itemized deductions disallowed under clause (15);

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

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

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

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

(7) 80 percent of the depreciation deduction allowed under section 168(k) of the Internal Revenue Code. For purposes of this clause, if the taxpayer has an activity that in the taxable year generates a deduction for depreciation under section 168(k) and the activity generates a loss for the taxable year that the taxpayer is not allowed to claim for the taxable year, "the depreciation allowed under section 168(k)" for the taxable year is limited to excess of the depreciation claimed by the activity under section 168(k) over the amount of the loss from the activity that is not allowed in the taxable year. In succeeding

taxable years when the losses not allowed in the taxable year are allowed, the depreciation under section 168(k) is allowed;

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

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

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

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

~~(12)~~ (11) for taxable years beginning before January 1, 2010, the amount deducted for qualified tuition and related expenses under section 222 of the Internal Revenue Code, to the extent deducted from gross income;

~~(13)~~ (12) for taxable years beginning before January 1, 2010, the amount deducted for certain expenses of elementary and secondary school teachers under section 62(a)(2)(D) of the Internal Revenue Code, to the extent deducted from gross income;

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

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

~~(16)~~ (13) discharge of indebtedness income resulting from reacquisition of business indebtedness and deferred under section 108(i) of the Internal Revenue Code;

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

~~(18)~~ (14) changes to federal taxable income attributable to a net operating loss that the taxpayer elected to carry back for more than two years for federal purposes but for which the losses can be carried back for only two years under section 290.095, subdivision 11, paragraph (c);

~~(19)~~ (15) to the extent included in the computation of federal taxable income in taxable years beginning after December 31, 2010, the amount of disallowed itemized deductions, but the amount of disallowed itemized deductions plus the addition required under clause (2) may not be more than the amount by which the itemized deductions as allowed under section 63(d) of the Internal Revenue Code exceeds the amount of the standard deduction as defined in section 63(c) of the Internal Revenue Code, ~~disregarding the amounts allowed under sections 63(c)(1)(C) and 63(c)(1)(E) of the Internal Revenue~~

~~Code,~~ and reduced by any addition that would have been required under clause ~~(21)~~ (17) if the taxpayer had claimed the standard deduction:

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

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

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

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

(A) such dollar amount, multiplied by

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

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

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

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

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

~~(20)~~ (16) to the extent included in federal taxable income in taxable years beginning after December 31, 2010, the amount of disallowed personal exemptions for taxpayers with federal adjusted gross income over the threshold amount:

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

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

(iii) the term "threshold amount" means:

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

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

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

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

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

(A) such dollar amount, multiplied by

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

~~(21)~~ (17) to the extent deducted in the computation of federal taxable income, for taxable years beginning after December 31, 2010, and before January 1, ~~2013~~ 2014, the difference between the standard deduction allowed under section 63(c) of the Internal Revenue Code and the standard deduction allowed for 2011 ~~and~~, 2012, and 2013 under the Internal Revenue Code as amended through December 1, 2010.

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

Sec. 11. Minnesota Statutes 2013 Supplement, section 290.01, subdivision 19b, is amended to read:

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

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

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

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

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

(4) income as provided under section 290.0802;

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

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

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

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

any net operating loss under section 172 of the Internal Revenue Code generated for the tax year of the addition. The resulting delayed depreciation cannot be less than zero;

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

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

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

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

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

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

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

(16) to the extent included in federal taxable income, discharge of indebtedness income resulting from reacquisition of business indebtedness included in federal taxable income under section 108(i) of the Internal Revenue Code. This subtraction applies only to the extent that the income was included in net income in a prior year as a result of the addition under section 290.01, subdivision 19a, clause ~~(16)~~ (13);

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

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

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

(20) the amount of the phaseout of personal exemptions under section 151(d) of the Internal Revenue Code.

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

Sec. 12. Minnesota Statutes 2012, section 290.01, is amended by adding a subdivision to read:

Subd. 29a. **State itemized deduction.** "State itemized deduction" means federal itemized deductions, as defined in section 63(d) of the Internal Revenue Code, disregarding any limitation under section 68 of the Internal Revenue Code, and reduced by the amount of the addition required under subdivision 19a, clause (15).

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

Sec. 13. Minnesota Statutes 2013 Supplement, section 290.01, subdivision 31, is amended to read:

Subd. 31. **Internal Revenue Code.** Unless specifically defined otherwise, ~~for taxable years beginning before January 1, 2012, and after December 31, 2012,~~ "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through ~~April 14, 2011; and for taxable years beginning after December 31, 2011, and before January 1, 2013, "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through January 3~~ December 20, 2013. Internal Revenue Code also includes any uncodified provision in federal law that relates to provisions of the Internal Revenue Code that are incorporated into Minnesota law. When used in this chapter, the reference to "subtitle A, chapter 1, subchapter N, part 1, of the Internal Revenue Code" is to the Internal Revenue Code as amended through March 18, 2010.

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

Sec. 14. Minnesota Statutes 2013 Supplement, section 290.06, subdivision 2c, is amended to read:

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

(1) On the first $35,480, 5.35 percent;

(2) On all over $35,480, but not over $140,960, 7.05 percent;

(3) On all over $140,960, but not over $250,000, 7.85 percent;

(4) On all over $250,000, 9.85 percent.

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

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

(1) On the first $24,270, 5.35 percent;

(2) On all over $24,270, but not over $79,730, 7.05 percent;

(3) On all over $79,730, but not over $150,000, 7.85 percent;

(4) On all over $150,000, 9.85 percent.

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

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

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

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

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

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

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

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

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

<u>**EFFECTIVE DATE.** This section is effective retroactively for taxable years beginning after December 31, 2012.</u>

Sec. 15. Minnesota Statutes 2012, section 290.067, subdivision 1, is amended to read:

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

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

(c) If a married couple:

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

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

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

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

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

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

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

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

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

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

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

Sec. 16. Minnesota Statutes 2012, section 290.067, subdivision 2a, is amended to read:

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

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

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

(i) all nontaxable income;

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

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

(iv) cash public assistance and relief;

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

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

(vii) workers' compensation;

(viii) nontaxable strike benefits;

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

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

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

(xii) nontaxable scholarship or fellowship grants;

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

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

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

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

~~(xvii) unemployment compensation.~~

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

(b) "Income" does not include:

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

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

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

(4) relief granted under chapter 290A;

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

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

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

Sec. 17. Minnesota Statutes 2012, section 290.067, is amended by adding a subdivision to read:

Subd. 2c. **Dependent care credit; temporary definition.** For taxable years beginning after December 31, 2012, and before January 1, 2014, for purposes of this section, "section 21 of the Internal Revenue Code" means section 21 of the Internal Revenue Code as amended through June 1, 2001.

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

Sec. 18. Minnesota Statutes 2012, section 290.0671, subdivision 1, is amended to read:

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

(b) For individuals with no qualifying children, the credit equals ~~1.9125~~ 2.10 percent of the first ~~$4,620~~ $6,180 of earned income. The credit is reduced by ~~1.9125~~ 2.01 percent of earned income or adjusted gross income, whichever is greater, in excess of ~~$5,770~~ $8,130, but in no case is the credit less than zero.

(c) For individuals with one qualifying child, the credit equals ~~8.5~~ 9.35 percent of the first ~~$6,920~~ $11,120 of earned income ~~and 8.5 percent of earned income over $12,080 but less than $13,450~~. The credit is reduced by ~~5.73~~ 6.02 percent of earned income or adjusted gross income, whichever is greater, in excess of ~~$15,080~~ $21,190, but in no case is the credit less than zero.

(d) For individuals with two or more qualifying children, the credit equals ~~ten~~ 11 percent of the first ~~$9,720~~ $18,240 of earned income ~~and 20 percent of earned income over $14,860 but less than $16,800~~. The credit is reduced by ~~10.3~~ 10.82 percent of earned income or adjusted gross income, whichever is greater, in excess of ~~$17,890~~ $25,130, but in no case is the credit less than zero.

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

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

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

(g) For tax years beginning after December 31, 2007, and before December 31, 2010, and for tax years beginning after December 31, 2017, the ~~$5,770~~ $8,130 in paragraph (b), the ~~$15,080~~ $21,190 in paragraph (c), and the ~~$17,890~~ $25,130 in paragraph (d), after being adjusted for inflation under subdivision 7, are each increased by $3,000 for married taxpayers filing joint returns. For tax years beginning after December 31, 2008, the commissioner shall annually adjust the $3,000 by the percentage determined pursuant to the provisions of section 1(f) of the Internal Revenue Code, except that in section 1(f)(3)(B), the word "2007" shall be substituted for the word "1992." For 2009, the commissioner shall then determine the percent change from the 12 months ending on August 31, 2007, to the 12 months ending on August 31, 2008, and in each subsequent year, from the 12 months ending on August 31, 2007, to the 12 months ending on August 31 of the year preceding the taxable year. The earned income thresholds as adjusted for inflation must be rounded to the nearest $10. If the amount ends in $5, the amount is rounded up to the nearest $10. The determination of the commissioner under this subdivision is not a rule under the Administrative Procedure Act.

(h) ~~For tax years beginning after December 31, 2010, and before January 1, 2012,~~ (1) For tax years beginning after December 31, 2012, and before January 1, 2014, the $5,770 in paragraph (b), the $15,080 in paragraph (c), and the $17,890 in paragraph (d), after being adjusted for inflation under subdivision 7, are increased by $5,340 for married taxpayers filing joint returns; and (2) for tax years beginning after December 31, 2013, and before January 1, 2018, the ~~$5,770~~ $8,130 in paragraph (b), the ~~$15,080~~ $21,190 in paragraph (c), and the ~~$17,890~~ $25,130 in paragraph (d), after being adjusted for inflation under subdivision 7, are each increased by $5,000 for married taxpayers filing joint returns. For tax years beginning after December 31, 2010, and before January 1, 2012, and for tax years beginning after December 31, 2013, and before January 1, 2018, the commissioner shall annually adjust the $5,000 by the percentage determined pursuant to the provisions of section 1(f) of the Internal Revenue Code, except that in section 1(f)(3)(B), the word "2008" shall be substituted for the word "1992." For 2011, the commissioner shall then determine the percent change from the 12 months ending on August 31, 2008, to the 12 months ending on August 31, 2010, and in each subsequent year, from the 12 months ending on August 31, 2008, to the 12 months ending on August 31 of the year preceding the taxable year. The earned income thresholds as adjusted for inflation must be rounded to the nearest $10. If the amount ends in $5, the amount is rounded up to the nearest $10. The determination of the commissioner under this subdivision is not a rule under the Administrative Procedure Act.

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

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2013, except that the changes in paragraph (h), clause (1), are effective retroactively for taxable years beginning after December 31, 2012, and before January 1, 2014.

Sec. 19. Minnesota Statutes 2012, section 290.0671, subdivision 7, is amended to read:

Subd. 7. **Inflation adjustment.** The earned income amounts used to calculate the credit and the income thresholds at which the maximum credit begins to be reduced in subdivision 1 must be adjusted for inflation. The commissioner shall adjust by the percentage determined pursuant to the provisions of section 1(f) of the Internal Revenue Code, except that in section 1(f)(3)(B) the word ~~"1999"~~ "2013" shall be substituted for the word "1992." For ~~2001~~ 2015, the commissioner shall then determine the percent change from the 12 months ending on August 31, ~~1999~~ 2013, to the 12 months ending on August 31, ~~2000~~ 2014, and in each subsequent year, from the 12 months ending on

August 31, ~~1999~~ 2013, to the 12 months ending on August 31 of the year preceding the taxable year. The earned income thresholds as adjusted for inflation must be rounded to the nearest $10 amount. If the amount ends in $5, the amount is rounded up to the nearest $10 amount. The determination of the commissioner under this subdivision is not a rule under the Administrative Procedure Act.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2014.

Sec. 20. Minnesota Statutes 2012, section 290.0675, subdivision 1, is amended to read:

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

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

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

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

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

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

(d) "Earned income of lesser-earning spouse" means the earned income of the spouse with the lesser amount of earned income as defined in paragraph (b) for the taxable year minus the sum of (i) the amount for one exemption under section 151(d) of the Internal Revenue Code and (ii) one-half the amount of the standard deduction under section 63(c)(2)(A) and (4) of the Internal Revenue Code minus one-half of any addition required under section 290.01, subdivision 19a, clause ~~(21)~~ (17), and one-half of the addition that would have been required under section 290.01, subdivision 19a, clause ~~(21)~~ (17), if the taxpayer had claimed the standard deduction.

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

Sec. 21. Minnesota Statutes 2013 Supplement, section 290.091, subdivision 2, is amended to read:

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

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

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

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

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

(ii) the medical expense deduction;

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

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

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

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

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

(6) the amount of addition required by section 290.01, subdivision 19a, clauses (7) to (9), ~~(12), (13), and (16) to (18)~~ and (11) to (14);

less the sum of the amounts determined under the following:

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

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

(3) 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;

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

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

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.

(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.

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

Sec. 22. Minnesota Statutes 2013 Supplement, section 290A.03, subdivision 15, is amended to read:

Subd. 15. **Internal Revenue Code.** ~~For taxable years beginning before January 1, 2012, and after December 31, 2012,~~ "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through ~~April 14, 2011; and for taxable years beginning after December 31, 2011, and before January 1, 2013, "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through January 3~~ December 20, 2013.

EFFECTIVE DATE. This section is effective retroactively for property tax refunds based on property taxes payable after December 31, 2013, and rent paid after December 31, 2012.

Sec. 23. **INDIVIDUAL INCOME TAX COLLECTION ACTION PROHIBITED.**

Notwithstanding any law to the contrary, the commissioner shall not increase the amount due or decrease the refund for an individual income tax return for the taxable year beginning after December 31, 2012, and before January 1, 2014, to the extent the amount due was understated or the refund was overstated because the taxpayer calculated the tax or refund based on the Internal Revenue Code, as amended through April 14, 2011, rather than based on the Internal Revenue Code, as amended through December 20, 2013, as provided in this act.

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

ARTICLE 2

SALES AND USE TAXES

Section 1. Minnesota Statutes 2013 Supplement, section 297A.61, subdivision 3, is amended to read:

Subd. 3. **Sale and purchase.** (a) "Sale" and "purchase" include, but are not limited to, each of the transactions listed in this subdivision. In applying the provisions of this chapter, the terms "tangible personal property" and "retail sale" include the taxable services listed in paragraph (g), clause (6), items (i) to (vi) and (viii), and the provision of these taxable services, unless specifically provided otherwise. Services performed by an employee for an employer are not taxable. Services performed by a partnership or association for another partnership or association are not taxable if one of the entities owns or controls more than 80 percent of the voting power of the equity interest in the other entity. Services performed between members of an affiliated group of corporations are not taxable. For purposes of the preceding sentence, "affiliated group of corporations" means those entities that would be classified as members of an affiliated group as defined under United States Code, title 26, section 1504, disregarding the exclusions in section 1504(b).

(b) Sale and purchase include:

(1) any transfer of title or possession, or both, of tangible personal property, whether absolutely or conditionally, for a consideration in money or by exchange or barter; and

(2) the leasing of or the granting of a license to use or consume, for a consideration in money or by exchange or barter, tangible personal property, other than a manufactured home used for residential purposes for a continuous period of 30 days or more.

(c) Sale and purchase include the production, fabrication, printing, or processing of tangible personal property for a consideration for consumers who furnish either directly or indirectly the materials used in the production, fabrication, printing, or processing.

(d) Sale and purchase include the preparing for a consideration of food. Notwithstanding section 297A.67, subdivision 2, taxable food includes, but is not limited to, the following:

(1) prepared food sold by the retailer;

(2) soft drinks;

(3) candy;

(4) dietary supplements; and

(5) all food sold through vending machines.

(e) A sale and a purchase includes the furnishing for a consideration of electricity, gas, water, or steam for use or consumption within this state.

(f) A sale and a purchase includes the transfer for a consideration of prewritten computer software whether delivered electronically, by load and leave, or otherwise.

(g) A sale and a purchase includes the furnishing for a consideration of the following services:

(1) the privilege of admission to places of amusement, recreational areas, or athletic events, and the making available of amusement devices, tanning facilities, reducing salons, steam baths, Turkish baths, health clubs, and spas or athletic facilities;

(2) lodging and related services by a hotel, rooming house, resort, campground, motel, or trailer camp, including furnishing the guest of the facility with access to telecommunication services, and the granting of any similar license to use real property in a specific facility, other than the renting or leasing of it for a continuous period of 30 days or more under an enforceable written agreement that may not be terminated without prior notice and including accommodations intermediary services provided in connection with other services provided under this clause;

(3) nonresidential parking services, whether on a contractual, hourly, or other periodic basis, except for parking at a meter;

(4) the granting of membership in a club, association, or other organization if:

(i) the club, association, or other organization makes available for the use of its members sports and athletic facilities, without regard to whether a separate charge is assessed for use of the facilities; and

(ii) use of the sports and athletic facility is not made available to the general public on the same basis as it is made available to members.

Granting of membership means both onetime initiation fees and periodic membership dues. Sports and athletic facilities include golf courses; tennis, racquetball, handball, and squash courts; basketball and volleyball facilities; running tracks; exercise equipment; swimming pools; and other similar athletic or sports facilities;

(5) delivery of aggregate materials by a third party, excluding delivery of aggregate material used in road construction; and delivery of concrete block by a third party if the delivery would be subject to the sales tax if provided by the seller of the concrete block. For purposes of this clause, "road construction" means construction of:

(i) public roads;

(ii) cartways; and

(iii) private roads in townships located outside of the seven-county metropolitan area up to the point of the emergency response location sign; and

(6) services as provided in this clause:

(i) laundry and dry cleaning services including cleaning, pressing, repairing, altering, and storing clothes, linen services and supply, cleaning and blocking hats, and carpet, drapery, upholstery, and industrial cleaning. Laundry and dry cleaning services do not include services provided by coin operated facilities operated by the customer;

(ii) motor vehicle washing, waxing, and cleaning services, including services provided by coin operated facilities operated by the customer, and rustproofing, undercoating, and towing of motor vehicles;

(iii) building and residential cleaning, maintenance, and disinfecting services and pest control and exterminating services;

(iv) detective, security, burglar, fire alarm, and armored car services; but not including services performed within the jurisdiction they serve by off-duty licensed peace officers as defined in section 626.84, subdivision 1, or services provided by a nonprofit organization or any organization at the direction of a county for monitoring and electronic surveillance of persons placed on in-home detention pursuant to court order or under the direction of the Minnesota Department of Corrections;

(v) pet grooming services;

(vi) lawn care, fertilizing, mowing, spraying and sprigging services; garden planting and maintenance; tree, bush, and shrub pruning, bracing, spraying, and surgery; indoor plant care; tree, bush, shrub, and stump removal, except when performed as part of a land clearing contract as defined in section 297A.68, subdivision 40; and tree trimming for public utility lines. Services performed under a construction contract for the installation of shrubbery, plants, sod, trees, bushes, and similar items are not taxable;

(vii) massages, except when provided by a licensed health care facility or professional or upon written referral from a licensed health care facility or professional for treatment of illness, injury, or disease; and

(viii) the furnishing of lodging, board, and care services for animals in kennels and other similar arrangements, but excluding veterinary and horse boarding services.

(h) A sale and a purchase includes the furnishing for a consideration of tangible personal property or taxable services by the United States or any of its agencies or instrumentalities, or the state of Minnesota, its agencies, instrumentalities, or political subdivisions.

(i) A sale and a purchase includes the furnishing for a consideration of telecommunications services, ancillary services associated with telecommunication services, and pay television services. Telecommunication services include, but are not limited to, the following services, as defined in section 297A.669: air-to-ground radiotelephone service, mobile telecommunication service, postpaid calling service, prepaid calling service, prepaid wireless calling service, and private communication services. The services in this paragraph are taxed to the extent allowed under federal law.

(j) A sale and a purchase includes the furnishing for a consideration of installation if the installation charges would be subject to the sales tax if the installation were provided by the seller of the item being installed.

(k) A sale and a purchase includes the rental of a vehicle by a motor vehicle dealer to a customer when (1) the vehicle is rented by the customer for a consideration, or (2) the motor vehicle dealer is reimbursed pursuant to a service contract as defined in section 59B.02, subdivision 11.

(l) A sale and a purchase includes furnishing for a consideration of specified digital products or other digital products or granting the right for a consideration to use specified digital products or other digital products on a temporary or permanent basis and regardless of whether the purchaser is required to make continued payments for such right. Wherever the term "tangible personal property" is used in this chapter, other than in subdivisions 10 and 38, the provisions also apply to specified digital products, or other digital products, unless specifically provided otherwise or the context indicates otherwise.

~~(m) A sale and purchase includes the furnishing for consideration of the following services:~~

~~(1) repairing and maintaining electronic and precision equipment, which service can be deducted as a business expense under the Internal Revenue Code. This includes, but is not limited to, repair or maintenance of electronic devices, computers and computer peripherals, monitors, computer terminals, storage devices, and CD-ROM drives; other office equipment such as photocopying machines, printers, and facsimile machines; televisions, stereos, sound systems, video or digital recorders and players; two-way radios and other communications equipment; radar and sonar equipment, scientific instruments, microscopes, and medical equipment;~~

~~(2) repairing and maintaining commercial and industrial machinery and equipment. For purposes of this subdivision, the following items are not commercial or industrial machinery and equipment: (i) motor vehicles; (ii) furniture and fixtures; (iii) ships; (iv) railroad stock; and (v) aircraft; and~~

~~(3) warehousing or storage services for tangible personal property, excluding:~~

~~(i) agricultural products;~~

~~(ii) refrigerated storage;~~

~~(iii) electronic data; and~~

~~(iv) self-storage services and storage of motor vehicles, recreational vehicles, and boats, not eligible to be deducted as a business expense under the Internal Revenue Code.~~

EFFECTIVE DATE. This section is effective for sales and purchases made after March 31, 2014.

Sec. 2. Minnesota Statutes 2013 Supplement, section 297A.68, subdivision 5, is amended to read:

Subd. 5. **Capital equipment.** (a) Capital equipment is exempt.

"Capital equipment" means machinery and equipment purchased or leased, and used in this state by the purchaser or lessee primarily for manufacturing, fabricating, mining, or refining tangible personal property to be sold ultimately at retail if the machinery and equipment are essential to the integrated production process of manufacturing, fabricating, mining, or refining. Capital equipment also includes machinery and equipment used primarily to electronically transmit results retrieved by a customer of an online computerized data retrieval system.

(b) Capital equipment includes, but is not limited to:

(1) machinery and equipment used to operate, control, or regulate the production equipment;

(2) machinery and equipment used for research and development, design, quality control, and testing activities;

(3) environmental control devices that are used to maintain conditions such as temperature, humidity, light, or air pressure when those conditions are essential to and are part of the production process;

(4) materials and supplies used to construct and install machinery or equipment;

(5) repair and replacement parts, including accessories, whether purchased as spare parts, repair parts, or as upgrades or modifications to machinery or equipment;

(6) materials used for foundations that support machinery or equipment;

(7) materials used to construct and install special purpose buildings used in the production process;

(8) ready-mixed concrete equipment in which the ready-mixed concrete is mixed as part of the delivery process regardless if mounted on a chassis, repair parts for ready-mixed concrete trucks, and leases of ready-mixed concrete trucks; and

(9) machinery or equipment used for research, development, design, or production of computer software.

(c) Capital equipment does not include the following:

(1) motor vehicles taxed under chapter 297B;

(2) machinery or equipment used to receive or store raw materials;

(3) building materials, except for materials included in paragraph (b), clauses (6) and (7);

(4) machinery or equipment used for nonproduction purposes, including, but not limited to, the following: plant security, fire prevention, first aid, and hospital stations; support operations or administration; pollution control; and plant cleaning, disposal of scrap and waste, plant communications, space heating, cooling, lighting, or safety;

(5) farm machinery and aquaculture production equipment as defined by section 297A.61, subdivisions 12 and 13;

(6) machinery or equipment purchased and installed by a contractor as part of an improvement to real property;

(7) machinery and equipment used by restaurants in the furnishing, preparing, or serving of prepared foods as defined in section 297A.61, subdivision 31;

(8) machinery and equipment used to furnish the services listed in section 297A.61, subdivision 3, paragraph (g), clause (6), items (i) to (vi) and (viii);

(9) machinery or equipment used in the transportation, transmission, or distribution of petroleum, liquefied gas, natural gas, water, or steam, in, by, or through pipes, lines, tanks, mains, or other means of transporting those products. This clause does not apply to machinery or equipment used to blend petroleum or biodiesel fuel as defined in section 239.77; or

(10) any other item that is not essential to the integrated process of manufacturing, fabricating, mining, or refining.

(d) For purposes of this subdivision:

(1) "Equipment" means independent devices or tools separate from machinery but essential to an integrated production process, including computers and computer software, used in operating, controlling, or regulating machinery and equipment; and any subunit or assembly comprising a component of any machinery or accessory or attachment parts of machinery, such as tools, dies, jigs, patterns, and molds.

(2) "Fabricating" means to make, build, create, produce, or assemble components or property to work in a new or different manner.

(3) "Integrated production process" means a process or series of operations through which tangible personal property is manufactured, fabricated, mined, or refined. For purposes of this clause, (i) manufacturing begins with the removal of raw materials from inventory and ends when the last process prior to loading for shipment has been completed; (ii) fabricating begins with the removal from storage or inventory of the property to be assembled, processed, altered, or modified and ends with the creation or production of the new or changed product; (iii) mining begins with the removal of

overburden from the site of the ores, minerals, stone, peat deposit, or surface materials and ends when the last process before stockpiling is completed; and (iv) refining begins with the removal from inventory or storage of a natural resource and ends with the conversion of the item to its completed form.

(4) "Machinery" means mechanical, electronic, or electrical devices, including computers and computer software, that are purchased or constructed to be used for the activities set forth in paragraph (a), beginning with the removal of raw materials from inventory through completion of the product, including packaging of the product.

(5) "Machinery and equipment used for pollution control" means machinery and equipment used solely to eliminate, prevent, or reduce pollution resulting from an activity described in paragraph (a).

(6) "Manufacturing" means an operation or series of operations where raw materials are changed in form, composition, or condition by machinery and equipment and which results in the production of a new article of tangible personal property. For purposes of this subdivision, "manufacturing" includes the generation of electricity or steam to be sold at retail.

(7) "Mining" means the extraction of minerals, ores, stone, or peat.

(8) "Online data retrieval system" means a system whose cumulation of information is equally available and accessible to all its customers.

(9) "Primarily" means machinery and equipment used 50 percent or more of the time in an activity described in paragraph (a).

(10) "Refining" means the process of converting a natural resource to an intermediate or finished product, including the treatment of water to be sold at retail.

(11) This subdivision does not apply to telecommunications equipment as provided in subdivision ~~35~~ 35a, and does not apply to wire, cable, fiber, poles, or conduit for telecommunications services.

EFFECTIVE DATE. This section is effective for sales and purchases made after March 31, 2014.

Sec. 3. Minnesota Statutes 2012, section 297A.68, is amended by adding a subdivision to read:

Subd. 35a. **Telecommunications or pay television services machinery and equipment.** (a) Telecommunications or pay television services machinery and equipment purchased or leased for use directly by a telecommunications or pay television services provider primarily in the provision of telecommunications or pay television services that are ultimately to be sold at retail are exempt, regardless of whether purchased by the owner, a contractor, or a subcontractor.

(b) For purposes of this subdivision, "telecommunications or pay television machinery and equipment" includes, but is not limited to:

(1) machinery, equipment, and fixtures utilized in receiving, initiating, amplifying, processing, transmitting, retransmitting, recording, switching, or monitoring telecommunications or pay television services, such as computers, transformers, amplifiers, routers, bridges, repeaters, multiplexers, and other items performing comparable functions;

(2) machinery, equipment, and fixtures used in the transportation of telecommunications or pay television services, such as radio transmitters and receivers, satellite equipment, microwave equipment, and other transporting media, but not wire, cable, fiber, poles, or conduit;

(3) ancillary machinery, equipment, and fixtures that regulate, control, protect, or enable the machinery in clauses (1) and (2) to accomplish its intended function, such as auxiliary power supply, test equipment, towers, heating, ventilating, and air conditioning equipment necessary to the operation of the telecommunications or pay television equipment; and software necessary to the operation of the telecommunications or pay television equipment; and

(4) repair and replacement parts, including accessories, whether purchased as spare parts, repair parts, or as upgrades or modifications to qualified machinery or equipment.

EFFECTIVE DATE. This section is effective for sales and purchases made after March 31, 2014.

Sec. 4. Laws 2013, chapter 143, article 8, section 26, the effective date, is amended to read:

EFFECTIVE DATE. This section is effective for sales and purchases made after ~~August 31, 2014~~ June 30, 2015.

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

Sec. 5. **REPEALER.**

Minnesota Statutes 2013 Supplement, section 297A.61, subdivision 57, is repealed.

EFFECTIVE DATE. This section is effective for sales and purchases made after March 31, 2014.

ARTICLE 3

ESTATE AND GIFT TAX

Section 1. Minnesota Statutes 2013 Supplement, section 289A.10, subdivision 1, is amended to read:

Subdivision 1. **Return required.** In the case of a decedent who has an interest in property with a situs in Minnesota, the personal representative must submit a Minnesota estate tax return to the commissioner, on a form prescribed by the commissioner, if:

(1) a federal estate tax return is required to be filed; or

(2) the sum of the federal gross estate and federal adjusted taxable gifts, as defined in section 2001(b) of the Internal Revenue Code, made within three years of the date of the decedent's death exceeds ~~$1,000,000~~ $1,200,000 for estates of decedents dying in 2014; $1,400,000 for estates of decedents dying in 2015; $1,600,000 for estates of decedents dying in 2016; $1,800,000 for estates of decedents dying in 2017; and $2,000,000 for estates of decedents dying in 2018 and thereafter.

The return must contain a computation of the Minnesota estate tax due. The return must be signed by the personal representative.

EFFECTIVE DATE. This section is effective retroactively for estates of decedents dying after December 31, 2013.

Sec. 2. Minnesota Statutes 2012, section 289A.18, subdivision 3, is amended to read:

Subd. 3. **Estate tax returns.** An estate tax return must be filed with the commissioner within nine months after the decedent's death. ~~Except in the case of the estate of a decedent dying after December 31, 2009, and before December 17, 2010, then an estate tax return must be filed with the commissioner within nine months after the decedent's death; within the time provided by section 289A.19, subdivision 4; or before September 20, 2011; whichever is later.~~

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

Sec. 3. Minnesota Statutes 2013 Supplement, section 291.005, subdivision 1, is amended to read:

Subdivision 1. **Scope.** Unless the context otherwise clearly requires, the following terms used in this chapter shall have the following meanings:

(1) "Commissioner" means the commissioner of revenue or any person to whom the commissioner has delegated functions under this chapter.

(2) "Federal gross estate" means the gross estate of a decedent as required to be valued and otherwise determined for federal estate tax purposes under the Internal Revenue Code.

(3) "Internal Revenue Code" means the United States Internal Revenue Code of 1986, as amended through ~~January 3, 2013, but without regard to the provisions of section 2011, paragraph (f), of the Internal Revenue Code~~ March 1, 2014.

~~(4) "Minnesota adjusted taxable estate" means federal adjusted taxable estate as defined by section 2011(b)(3) of the Internal Revenue Code, plus~~

~~(i) the amount of deduction for state death taxes allowed under section 2058 of the Internal Revenue Code;~~

~~(ii) the amount of taxable gifts, as defined in section 292.16, and made by the decedent within three years of the decedent's date of death; less~~

~~(iii)(A) the value of qualified small business property under section 291.03, subdivision 9, and the value of qualified farm property under section 291.03, subdivision 10, or (B) $4,000,000, whichever is less.~~

~~(5)~~ (4) "Minnesota gross estate" means the federal gross estate of a decedent after (a) excluding therefrom any property included ~~therein~~ in the estate which has its situs outside Minnesota, and (b) including ~~therein~~ any property omitted from the federal gross estate which is includable ~~therein~~ in the estate, has its situs in Minnesota, and was not disclosed to federal taxing authorities.

~~(6)~~ (5) "Nonresident decedent" means an individual whose domicile at the time of death was not in Minnesota.

~~(7)~~ (6) "Personal representative" means the executor, administrator or other person appointed by the court to administer and dispose of the property of the decedent. If there is no executor, administrator or other person appointed, qualified, and acting within this state, then any person in actual or constructive possession of any property having a situs in this state which is included in the federal gross estate of the decedent shall be deemed to be a personal representative to the extent of the property and the Minnesota estate tax due with respect to the property.

~~(8)~~ (7) "Resident decedent" means an individual whose domicile at the time of death was in Minnesota.

~~(9)~~ (8) "Situs of property" means, with respect to:

(i) real property, the state or country in which it is located;

(ii) tangible personal property, the state or country in which it was normally kept or located at the time of the decedent's death or for a gift of tangible personal property within three years of death, the state or country in which it was normally kept or located when the gift was executed; and

(iii) intangible personal property, the state or country in which the decedent was domiciled at death or for a gift of intangible personal property within three years of death, the state or country in which the decedent was domiciled when the gift was executed.

For a nonresident decedent with an ownership interest in a pass-through entity with assets that include real or tangible personal property, situs of the real or tangible personal property is determined as if the pass-through entity does not exist and the real or tangible personal property is personally owned by the decedent. If the pass-through entity is owned by a person or persons in addition to the decedent, ownership of the property is attributed to the decedent in proportion to the decedent's capital ownership share of the pass-through entity.

~~(10)~~ (9) "Pass-through entity" includes the following:

(i) an entity electing S corporation status under section 1362 of the Internal Revenue Code;

(ii) an entity taxed as a partnership under subchapter K of the Internal Revenue Code;

(iii) a single-member limited liability company or similar entity, regardless of whether it is taxed as an association or is disregarded for federal income tax purposes under Code of Federal Regulations, title 26, section 301.7701-3; or

(iv) a trust to the extent the property is includible in the decedent's federal gross estate~~.~~; but excludes

(v) an entity whose ownership interest securities are traded on an exchange regulated by the Securities and Exchange Commission as a national securities exchange under section 6 of the Securities Exchange Act, United States Code, title 15, section 78f.

EFFECTIVE DATE. This section is effective retroactively for estates of decedents dying after December 31, 2013.

Sec. 4. **[291.016] MINNESOTA TAXABLE ESTATE.**

Subdivision 1. **General.** For purposes of the tax under this chapter, the Minnesota taxable estate equals the federal taxable estate as provided under section 2051 of the Internal Revenue Code, without regard to whether the estate is subject to the federal estate tax:

(1) increased by the additions under subdivision 2; and

(2) decreased by the subtraction under subdivision 3.

Subd. 2. **Additions.** The following amounts, to the extent deducted in computing the federal taxable estate, must be added in computing the Minnesota taxable estate:

(1) the amount of the deduction for state death taxes allowed under section 2058 of the Internal Revenue Code;

(2) the amount of the deduction for foreign death taxes allowed under section 2053(d) of the Internal Revenue Code; and

(3) the aggregate amount of taxable gifts as defined in section 2503 of the Internal Revenue Code, made by the decedent within three years of the date of death. For purposes of this clause, the amount of the addition equals the value of the gift under section 2512 of the Internal Revenue Code and excludes any value of the gift included in the federal estate.

Subd. 3. **Subtraction.** (a) The value of qualified small business property under section 291.03, subdivision 9, and the value of qualified farm property under section 291.03, subdivision 10, or the result of $5,000,000 minus the amount for the year of death listed in paragraph (b), whichever is less, may be subtracted in computing the Minnesota taxable estate but must not reduce the Minnesota taxable estate to less than zero.

(b) $1,200,000 for estates of decedents dying in 2014; $1,400,000 for estates of decedents dying in 2015; $1,600,000 for estates of decedents dying in 2016; $1,800,000 for estates of decedents dying in 2017; and $2,000,000 for estates of decedents dying in 2018 and thereafter.

EFFECTIVE DATE. This section is effective retroactively for estates of decedents dying after December 31, 2013.

Sec. 5. Minnesota Statutes 2013 Supplement, section 291.03, subdivision 1, is amended to read:

Subdivision 1. **Tax amount.** ~~(a) The tax imposed shall be an amount equal to the proportion of the maximum credit for state death taxes computed under section 2011 of the Internal Revenue Code, but using Minnesota adjusted taxable estate instead of federal adjusted taxable estate, as the Minnesota gross estate bears to the value of the federal gross estate. The tax is reduced by:~~

~~(1) the gift tax paid by the decedent under section 292.17 on gifts included in the Minnesota adjusted taxable estate and not subtracted as qualified farm or small business property; and~~

~~(2) any credit allowed under subdivision 1c.~~

~~(b) The tax determined under this subdivision must not be greater than the sum of the following amounts multiplied by a fraction, the numerator of which is the Minnesota gross estate and the denominator of which is the federal gross estate:~~

~~(1) the rates and brackets under section 2001(c) of the Internal Revenue Code multiplied by the sum of:~~

~~(i) the taxable estate, as defined under section 2051 of the Internal Revenue Code; plus~~

~~(ii) adjusted taxable gifts, as defined in section 2001(b) of the Internal Revenue Code; less~~

~~(iii) the lesser of (A) the sum of the value of qualified small business property under subdivision 9, and the value of qualified farm property under subdivision 10, or (B) $4,000,000; less~~

~~(2) the amount of tax allowed under section 2001(b)(2) of the Internal Revenue Code; and less~~

~~(3) the federal credit allowed under section 2010 of the Internal Revenue Code.~~

~~(c) For purposes of this subdivision, "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through December 31, 2000.~~

The tax imposed must be computed by applying to the Minnesota taxable estate the following schedule of rates and then the resulting amount multiplied by a fraction, not greater than one, the numerator of which is the value of the Minnesota gross estate plus the value of gifts under section 291.016, subdivision 2, clause (3), with a Minnesota situs, and the denominator of which is the federal gross estate plus the value of gifts under section 291.016, subdivision 2, clause (3):

(a) For estate of decedents dying in 2014:

Amount of Minnesota Taxable Estate	Rate of Tax
Not over $1,200,000	None
Over $1,200,000 but not over $1,400,000	nine percent of the excess over $1,200,000
Over $1,400,000 but not over $3,600,000	$18,000 plus ten percent of the excess over $1,400,000
Over $3,600,000 but not over $4,100,000	$238,000 plus 10.4 percent of the excess over $3,600,000
Over $4,100,000 but not over $5,100,000	$290,000 plus 11.2 percent of the excess over $4,100,000
Over $5,100,000 but not over $6,100,000	$402,000 plus 12 percent of the excess over $5,100,000
Over $6,100,000 but not over $7,100,000	$522,000 plus 12.8 percent of the excess over $6,100,000
Over $7,100,000 but not over $8,100,000	$650,000 plus 13.6 percent of the excess over $7,100,000
Over $8,100,000 but not over $9,100,000	$786,000 plus 14.4 percent of the excess over $8,100,000
Over $9,100,000 but not over $10,100,000	$930,000 plus 15.2 percent of the excess over $9,100,000
Over $10,100,000	$1,082,000 plus 16 percent of the excess over $10,100,000

(b) For estate of decedents dying in 2015:

Amount of Minnesota Taxable Estate	Rate of Tax
Not over $1,400,000	None

Over $1,400,000 but not over $3,600,000	ten percent of the excess over $1,400,000
Over $3,600,000 but not over $6,100,000	$220,000 plus 12 percent of the excess over $3,600,000
Over $6,100,000 but not over $7,100,000	$520,000 plus 12.8 percent of the excess over $6,100,000
Over $7,100,000 but not over $8,100,000	$648,000 plus 13.6 percent of the excess over $7,100,000
Over $8,100,000 but not over $9,100,000	$784,000 plus 14.4 percent of the excess over $8,100,000
Over $9,100,000 but not over $10,100,000	$928,000 plus 15.2 percent of the excess over $9,100,000
Over $10,100,000	$1,080,000 plus 16 percent of the excess over $10,100,000

(c) For estate of decedents dying in 2016:

Amount of Minnesota Taxable Estate	Rate of Tax
Not over $1,600,000	None
Over $1,600,000 but not over $2,600,000	ten percent of the excess over $1,600,000
Over $2,600,000 but not over $6,100,000	$100,000 plus 12 percent of the excess over $2,600,000
Over $6,100,000 but not over $7,100,000	$520,000 plus 12.8 percent of the excess over $6,100,000
Over $7,100,000 but not over $8,100,000	$648,000 plus 13.6 percent of the excess over $7,100,000
Over $8,100,000 but not over $9,100,000	$784,000 plus 14.4 percent of the excess over $8,100,000
Over $9,100,000 but not over $10,100,000	$928,000 plus 15.2 percent of the excess over $9,100,000
Over $10,100,000	$1,080,000 plus 16 percent of the excess over $10,100,000

(d) For estates of decedents dying in 2017:

Amount of Minnesota Taxable Estate	Rate of Tax
Not over $1,800,000	None
Over $1,800,000 but not over $2,100,000	ten percent of the excess over $1,800,000
Over $2,100,000 but not over $5,100,000	$30,000 plus 12 percent of the excess over $2,100,000
Over $5,100,000 but not over $7,100,000	$390,000 plus 12.8 percent of the excess over $5,100,000
Over $7,100,000 but not over $8,100,000	$646,000 plus 13.6 percent of the excess over $7,100,000
Over $8,100,000 but not over $9,100,000	$782,000 plus 14.4 percent of the excess over $8,100,000
Over $9,100,000 but not over $10,100,000	$926,000 plus 15.2 percent of the excess over $9,100,000
Over $10,100,000	$1,078,000 plus 16 percent of the excess over $10,100,000

(e) For estates of decedents dying in 2018 and thereafter:

Amount of Minnesota Taxable Estate	Rate of Tax
Not over $2,000,000	None
Over $2,000,000 but not over $2,600,000	ten percent of the excess over $2,000,000
Over $2,600,000 but not over $7,100,000	$60,000 plus 13 percent of the excess over $2,600,000
Over $7,100,000 but not over $8,100,000	$645,000 plus 13.6 percent of the excess over $7,100,000
Over $8,100,000 but not over $9,100,000	$781,000 plus 14.4 percent of the excess over $8,100,000
Over $9,100,000 but not over $10,100,000	$925,000 plus 15.2 percent of the excess over $9,100,000
Over $10,100,000	$1,077,000 plus 16 percent of the excess over $10,100,000

EFFECTIVE DATE. This section is effective retroactively for estates of decedents dying after December 31, 2013.

Sec. 6. Minnesota Statutes 2012, section 291.03, is amended by adding a subdivision to read:

Subd. 1d. **Elections.** (a) For the purposes of this section, the value of the Minnesota taxable estate is determined by taking into account the deduction available under section 2056(b) of the Internal Revenue Code. An election under section 2056(b) of the Internal Revenue Code may be made for Minnesota estate tax purposes regardless of whether the election is made for federal estate tax purposes. The value of the gross estate includes the value of any property in which the decedent had a qualifying income interest for life for which an election was made under this subdivision.

(b) Except for an election made under section 2056(b) of the Internal Revenue Code, no federal election is allowable in computing the tax under this chapter unless the estate is required to file a federal estate tax return, the election is made on the federal estate tax return, and the election is allowed under federal law.

EFFECTIVE DATE. This section is effective for estates of decedents dying after December 31, 2013.

Sec. 7. **[291.031] CREDITS.**

(a) The estate of a nonresident decedent that is subject to tax under this chapter on the value of Minnesota situs property held in a pass-through entity is allowed a credit against the tax due under this section equal to the lesser of:

(1) the amount of estate or inheritance tax paid to another state that is attributable to the Minnesota situs property held in the pass-through entity; or

(2) the amount of tax paid under this section attributable to the Minnesota situs property held in the pass-through entity.

(b) The amount of tax attributable to the Minnesota situs property held in the pass-through entity must be determined by the increase in the estate or inheritance tax that results from including the market value of the property in the estate or treating the value as a taxable inheritance to the recipient of the property.

EFFECTIVE DATE. This section is effective retroactively for estates of decedents dying after December 31, 2013.

Sec. 8. **REPEALER.**

(a) Minnesota Statutes 2013 Supplement, sections 292.16; 292.17; 292.18; 292.19; 292.20; and 292.21, are repealed.

(b) Minnesota Statutes 2012, section 291.03, subdivision 1b, and Minnesota Statutes 2013 Supplement, section 291.03, subdivision 1c, are repealed.

(c) Minnesota Statutes 2012, sections 291.41; 291.42; 291.43; 291.44; 291.45; 291.46; and 291.47, are repealed.

EFFECTIVE DATE. Paragraph (a) is effective retroactively for gifts made after June 30, 2013. Paragraph (b) is effective retroactively for estates of decedents dying after December 31, 2013. Paragraph (c) is effective the day following final enactment.

ARTICLE 4

PROPERTY TAX

Section 1. Minnesota Statutes 2013 Supplement, section 126C.10, subdivision 1, is amended to read:

Subdivision 1. **General education revenue.** (a) For fiscal years 2013 and 2014, the general education revenue for each district equals the sum of the district's basic revenue, extended time revenue, gifted and talented revenue, small schools revenue, basic skills revenue, secondary sparsity revenue, elementary sparsity revenue, transportation sparsity revenue, total operating capital revenue, equity revenue, alternative teacher compensation revenue, and transition revenue.

(b) For fiscal year 2015 and later, the general education revenue for each district equals the sum of the district's basic revenue, extended time revenue, gifted and talented revenue, declining enrollment revenue, ~~location equity~~ local optional revenue, small schools revenue, basic skills revenue, secondary sparsity revenue, elementary sparsity revenue, transportation sparsity revenue, total operating capital revenue, equity revenue, pension adjustment revenue, and transition revenue.

EFFECTIVE DATE. This section is effective for revenue in fiscal year 2016 and later.

Sec. 2. Minnesota Statutes 2013 Supplement, section 126C.10, subdivision 2e, is amended to read:

Subd. 2e. **~~Location equity~~ Local optional revenue.** (a) ~~For a school district with any of its area located within the seven-county metropolitan area, location equity~~ Local optional revenue for a school district equals $424 times the adjusted pupil units of the district for that school year.

(b) ~~For all other school districts with more than 2,000 pupils in adjusted average daily membership for the fiscal year ending in the year before the levy is certified, location equity revenue equals $212 times the adjusted pupil units of the district for that year.~~

~~(c)~~ A district's ~~location equity~~ local optional levy equals its ~~location equity~~ local optional revenue times the lesser of one or the ratio of its referendum market value per resident pupil unit to $510,000. The ~~location equity~~ local optional revenue levy must be spread on referendum market value. A district may levy less than the permitted amount.

~~(d)~~ (c) A district's ~~location equity~~ local optional aid equals its ~~location equity~~ local optional revenue less its ~~location equity~~ local optional levy, times the ratio of the actual amount levied to the permitted levy.

~~(e) A school district may elect not to participate in the location equity revenue program by a board vote taken prior to September 1 of the fiscal year before the fiscal year for which the decision not to participate becomes effective. The board resolution must state which fiscal years the district will not participate. A copy of the board resolution to not participate must be submitted to the commissioner.~~

EFFECTIVE DATE. This section is effective for revenue in fiscal year 2016 and later.

Sec. 3. Minnesota Statutes 2013 Supplement, section 126C.13, subdivision 4, is amended to read:

Subd. 4. **General education aid.** (a) For fiscal years 2013 and 2014 only, a district's general education aid is the sum of the following amounts:

(1) general education revenue, excluding equity revenue, total operating capital revenue, alternative teacher compensation revenue, and transition revenue;

(2) operating capital aid under section 126C.10, subdivision 13b;

(3) equity aid under section 126C.10, subdivision 30;

(4) alternative teacher compensation aid under section 126C.10, subdivision 36;

(5) transition aid under section 126C.10, subdivision 33;

(6) shared time aid under section 126C.01, subdivision 7;

(7) referendum aid under section 126C.17, subdivisions 7 and 7a; and

(8) online learning aid according to section 124D.096.

(b) For fiscal year 2015 and later, a district's general education aid equals:

(1) general education revenue, excluding operating capital revenue, equity revenue, ~~location equity~~ local optional revenue, and transition revenue, minus the student achievement levy, multiplied times the ratio of the actual amount of student achievement levy levied to the permitted student achievement levy; plus

(2) equity aid under section 126C.10, subdivision 30; plus

(3) transition aid under section 126C.10, subdivision 33; plus

(4) shared time aid under section 126C.10, subdivision 7; plus

(5) referendum aid under section 126C.17, subdivisions 7 and 7a; plus

(6) online learning aid under section 124D.096; plus

(7) ~~location equity~~ local optional aid according to section 126C.10, subdivision 2d, paragraph (d).

EFFECTIVE DATE. This section is effective for revenue in fiscal year 2016 and later.

Sec. 4. Minnesota Statutes 2013 Supplement, section 126C.17, subdivision 1, is amended to read:

Subdivision 1. **Referendum allowance.** (a) A district's initial referendum allowance ~~for fiscal year 2015~~ equals the result of the following calculations:

(1) multiply the referendum allowance the district would have received for fiscal year 2015 under Minnesota Statutes 2012, section 126C.17, subdivision 1, based on elections held before July 1, 2013, by the resident marginal cost pupil units the district would have counted for fiscal year 2015 under Minnesota Statutes 2012, section 126C.05;

(2) add to the result of clause (1) the adjustment the district would have received under Minnesota Statutes 2012, section 127A.47, subdivision 7, paragraphs (a), (b), and (c), based on elections held before July 1, 2013;

(3) divide the result of clause (2) by the district's adjusted pupil units for fiscal year 2015; ~~and~~

(4) add to the result of clause (3) any additional referendum allowance per adjusted pupil unit authorized by elections held between July 1, 2013, and December 31, 2013;

(5) add to the result in clause (4) any additional referendum allowance resulting from inflation adjustments approved by the voters prior to January 1, 2014;

(6) subtract from the result of clause (5), the sum of a district's actual local optional levy and local optional aid under section 126C.10, subdivision 2e, divided by the adjusted pupil units of the district for that school year; and

~~(4)~~ (7) if the result of clause ~~(3)~~ (6) is less than zero, set the allowance to zero.

(b) A district's referendum allowance equals the sum of the district's initial referendum allowance ~~for fiscal year 2015~~, plus any additional referendum allowance per adjusted pupil unit authorized after ~~June 30~~ December 31, 2013, minus ~~(i) the location equity revenue subtraction, and (ii)~~ any allowances expiring in fiscal year 2016 or later, provided that the allowance may not be less than zero. For a district with more than one referendum allowance for fiscal year 2015 under Minnesota Statutes 2012, section 126C.17, the allowance calculated under paragraph (a), clause (3), must be divided into components such that the same percentage of the district's allowance expires at the same time as the old allowances would have expired under Minnesota Statutes 2012, section 126C.17. For a district with more than one allowance for fiscal year 2015 that expires in the same year, the reduction under paragraph (a), clause (6), to offset local optional revenue shall be made first from any allowances that do not have an inflation adjustment approved by the voters.

~~(c) For purposes of this subdivision, a district's location equity revenue subtraction equals $424 for a district receiving location equity revenue under section 126C.10, subdivision 2d, paragraph (a), $212 for a district receiving location equity revenue under section 126C.10, subdivision 2d, paragraph (b), and zero for all other school districts.~~

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2016 and later.

Sec. 5. Minnesota Statutes 2013 Supplement, section 273.117, is amended to read:

273.117 CONSERVATION PROPERTY TAX VALUATION.

The value of real property which is subject to a conservation restriction or easement shall not be reduced by the assessor if:

(a) the restriction or easement is for a conservation purpose ~~as defined in section 84.64, subdivision 2,~~ and is recorded on the property; and

(b) the property is being used in accordance with the terms of the conservation restriction or easement.

This section does not apply to (1) conservation restrictions or easements covering riparian buffers along lakes, rivers, and streams that are used for water quantity or quality control; ~~or~~ (2) easements in a county that has adopted, by referendum, a program to protect farmland and natural areas since 1999; or (3) conservation restrictions or easements entered into prior to May 23, 2013.

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

Sec. 6. **SUPPLEMENTAL COUNTY PROGRAM AID PAYMENTS.**

(a) Before the money appropriated to county need aid is apportioned among the counties, as provided in Minnesota Statutes, section 477A.0124, subdivision 3, for aids payable in 2015 through 2024 only, the total aid paid to Beltrami County shall be increased by $3,000,000. The increased aid shall be used for out-of-home placement costs.

(b) Before the money appropriated to county need aid is apportioned among the counties, as provided in Minnesota Statutes, section 477A.0124, subdivision 3, for aids payable in 2015 only, the total aid paid to Mahnomen County shall be increased by $1,500,000. Of this amount, $750,000 shall be paid from Mahnomen County to the White Earth Band of Ojibwe for transition costs associated with health and human services.

(c) The increased aid under this section shall be paid in the same manner and at the same time as the regular aid payments under Minnesota Statutes, section 477A.0124.

(d) For aids payable in 2015 only, the total aid paid to counties under Minnesota Statutes, section 477A.03, subdivision 2b, paragraph (a), is $105,295,000

(e) For aids payable in 2016 through 2024 only, the total aid paid to counties under Minnesota Statutes, section 477A.03, subdivision 2b, paragraph (a), is $103,795,000.

EFFECTIVE DATE. This section is effective for aids payable in 2015 through 2024.

ARTICLE 5

PUBLIC FINANCE

Section 1. Minnesota Statutes 2012, section 37.31, subdivision 8, is amended to read:

Subd. 8. **Expiration.** The authority to issue bonds, other than bonds to refund outstanding bonds, under this section expires July 1, ~~2015~~ 2025.

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

Sec. 2. Minnesota Statutes 2012, section 473.39, is amended by adding a subdivision to read:

Subd. 1t. **Obligations.** In addition to other authority in this section, the council may issue certificates of indebtedness, bonds, or other obligations under this section in an amount not exceeding $75,300,000 for capital expenditures as prescribed in the council's transit capital improvement program and for related costs, including the costs of issuance and sale of the obligations. Of this authorization, after July 1, 2014, the council may issue certificates of indebtedness, bonds, or other obligations in an amount not exceeding $37,000,000 and after July 1, 2015, the council may issue certificates of indebtedness, bonds, or other obligations in an additional amount not exceeding $38,300,000.

EFFECTIVE DATE; APPLICATION. This section is effective the day following final enactment and applies in the counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington.

Sec. 3. Laws 2003, chapter 127, article 12, section 28, is amended to read:

Sec. 28. **NURSING HOME BONDS AUTHORIZED.**

Itasca County may issue bonds under Minnesota Statutes, sections 376.55 and 376.56, to finance the construction of a 35-bed nursing home facility to replace an existing 35-bed private facility located in the county. The bonds issued under this section ~~must~~ may be payable solely from revenues ~~and~~ or may ~~not~~ be general obligations of the county.

EFFECTIVE DATE; LOCAL APPROVAL. This section is effective the day after compliance by the governing body of Itasca County and its chief clerical officer with Minnesota Statutes, section 645.021, subdivisions 2 and 3.

Sec. 4. Laws 2006, chapter 259, article 10, section 13, subdivision 4, is amended to read:

Subd. 4. **Expiration.** The authority to approve tax increment financing plans to establish a tax increment financing redevelopment district subject to this section expires on December 31, ~~2014~~ 2016.

EFFECTIVE DATE. This section is effective upon approval of the governing body of the city of Detroit Lakes and compliance with Minnesota Statutes, section 645.021, subdivisions 2 and 3.

Sec. 5. Laws 2008, chapter 366, article 5, section 36, subdivision 3, is amended to read:

Subd. 3. **Authorized expenditures.** Tax increment from the district may be expended only to pay principal and interest on bond obligations issued by the city of St. Paul ~~Housing and Redevelopment Authority~~ in ~~1996~~ 2009 for the ~~convention center~~ RiverCentre Arena, including payment of principal and interest on any bonds issued to repay the bonds or loans. All such expenditures are deemed to be activities within the district under Minnesota Statutes, section 469.1763, subdivisions 2, 3, and 4.

EFFECTIVE DATE. This section is effective without local approval under Minnesota Statutes, section 645.023, subdivision 1, paragraph (a).

ARTICLE 6

MISCELLANEOUS

Section 1. Minnesota Statutes 2012, section 16A.152, subdivision 1b, is amended to read:

Subd. 1b. **Budget reserve ~~increase~~ level.** ~~On July 1, 2003,~~ (a) The commissioner of management and budget shall ~~transfer $300,000,000 to the budget reserve account in the general fund. On July 1, 2004, the commissioner of management and budget shall transfer $296,000,000 to the budget reserve account in the general fund. The amounts necessary for this purpose are appropriated from the general fund~~ calculate the budget reserve level by multiplying the current biennium's general fund nondedicated revenues and the most recent budget reserve percentage under subdivision 8.

(b) If, on the basis of a November forecast of general fund revenues and expenditures, the commissioner of management and budget determines that there will be a positive unrestricted general fund balance at the close of the biennium and that the provisions of subdivision 2, clauses (1), (2), (3), and (4), are satisfied, the commissioner shall transfer to the budget reserve account in the general fund the amount necessary to increase the budget reserve to the budget reserve level determined under paragraph (a). The amount of the transfer authorized in this paragraph shall not exceed 33 percent of the positive unrestricted general fund balance determined in the forecast.

EFFECTIVE DATE. This section is effective for forecasts issued following final enactment.

Sec. 2. Minnesota Statutes 2012, section 16A.152, subdivision 2, is amended to read:

Subd. 2. **Additional revenues; priority.** (a) If on the basis of a forecast of general fund revenues and expenditures, the commissioner of management and budget determines that there will be a positive unrestricted budgetary general fund balance at the close of the biennium, the commissioner of management and budget must allocate money to the following accounts and purposes in priority order:

(1) the cash flow account established in subdivision 1 until that account reaches $350,000,000;

(2) the budget reserve account established in subdivision 1a until that account reaches ~~$653,000,000~~ $810,992,000;

(3) the amount necessary to increase the aid payment schedule for school district aids and credits payments in section 127A.45 to not more than 90 percent rounded to the nearest tenth of a percent without exceeding the amount available and with any remaining funds deposited in the budget reserve; and

(4) the amount necessary to restore all or a portion of the net aid reductions under section 127A.441 and to reduce the property tax revenue recognition shift under section 123B.75, subdivision 5, by the same amount~~; and~~.

~~(5) to the state airports fund, the amount necessary to restore the amount transferred from the state airports fund under Laws 2008, chapter 363, article 11, section 3, subdivision 5.~~

(b) The amounts necessary to meet the requirements of this section are appropriated from the general fund within two weeks after the forecast is released or, in the case of transfers under paragraph (a), clauses (3) and (4), as necessary to meet the appropriations schedules otherwise established in statute.

(c) The commissioner of management and budget shall certify the total dollar amount of the reductions under paragraph (a), clauses (3) and (4), to the commissioner of education. The commissioner of education shall increase the aid payment percentage and reduce the property tax shift percentage by these amounts and apply those reductions to the current fiscal year and thereafter.

EFFECTIVE DATE. This section is effective for forecasts issued following final enactment.

Sec. 3. Minnesota Statutes 2012, section 16A.152, subdivision 8, is amended to read:

Subd. 8. **Report on budget reserve percentage.** (a) ~~The commissioner of management and budget must periodically review the formula developed as part of the Budget Trends Study Commission authorized by Laws 2007, chapter 148, article 2, section 81, to estimate the percentage of the preceding biennium's general fund expenditures and transfers recommended as a budget reserve~~ The commissioner of management and budget shall develop and annually review a methodology for evaluating the adequacy of the budget reserve based on the volatility of Minnesota's general fund tax structure. The review must take into consideration relevant statistical and economic literature. After completing the review, the commissioner may revise the methodology if necessary. The commissioner must use the methodology to annually estimate the percentage of the current biennium's general fund nondedicated revenues recommended as a budget reserve.

(b) ~~The commissioner must annually review the variables and coefficients in the formula used to model the base of the general fund taxes and the mix of taxes that provide revenues to the general fund. If the commissioner determines that the variables and coefficients have changed enough to result in a change in the percentage of the preceding biennium's general fund expenditures and transfers recommended as a budget reserve, the commissioner must update the variables and coefficients in the formula to reflect the current base and mix of general fund taxes~~ By January 15 of each year, the commissioner shall report the percentage of the current biennium's general fund nondedicated revenue that is recommended as a budget reserve to the chairs and ranking minority members of the legislative committees with jurisdiction over the Department of Management and Budget. The report must also specify:

(1) whether the commissioner revised the recommendation as a result of significant changes in the mix of general fund taxes or the base of one or more general fund taxes;

(2) whether the commissioner revised the recommendation as a result of a revision to the methodology; and

(3) any additional appropriate information.

~~(c) Every ten years, the commissioner must review the methodology underlying the formula, taking into consideration relevant economic literature from the past ten years, and determine if the formula remains adequate as a tool for estimating the percentage of the preceding biennium's general fund expenditures and transfers recommended as a budget reserve. If the commissioner determines that the methodology underlying the formula is outdated, the commissioner must revise the formula.~~

~~(d) By January 15 of each year, the commissioner must report to the chairs and ranking minority members of the house of representatives Committee on Ways and Means and the senate Committee on Finance, in compliance with sections 3.195 and 3.197, on the percentage of the preceding biennium's general fund expenditures and transfers recommended as a budget reserve. The report must specify:~~

~~(1) if the commissioner updated the variables and coefficients in the formula to reflect significant changes to either the base of one or more general fund taxes or to the mix of taxes that provide revenues to the general fund as provided in paragraph (b);~~

~~(2) if the commissioner revised the formula after determining the methodology was outdated as provided in paragraph (c); and~~

~~(3) if the percentage of the preceding biennium's general fund expenditures and transfers recommended as a budget reserve has changed as a result of an update of or a revision to the formula.~~

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

Sec. 4. Minnesota Statutes 2012, section 276A.01, is amended by adding a subdivision to read:

Subd. 17. **School fund allocation.** (a) "School fund allocation" means an amount up to 25 percent of the areawide levy certified by the Iron Range Resources and Rehabilitation Board to be used for the purposes of the Iron Range school consolidation and cooperatively operated school account under section 298.28, subdivision 7a.

(b) The allocation under paragraph (a) shall only be made after the Iron Range Resources and Rehabilitation Board has certified by June 30 that the Iron Range school consolidation and cooperatively operated account has insufficient funds to make payments as authorized under section 298.28, subdivision 7a.

EFFECTIVE DATE. This section is effective beginning with taxes payable in 2015.

Sec. 5. Minnesota Statutes 2012, section 276A.06, subdivision 3, is amended to read:

Subd. 3. **Apportionment of levy.** The county auditor shall apportion the levy of each governmental unit in the county in the manner prescribed by this subdivision. The auditor shall:

(a) by August 20 of ~~1997~~ 2014 and each subsequent year, determine the areawide portion of the levy for each governmental unit by multiplying the local tax rate of the governmental unit for the preceding levy year times the distribution value set forth in subdivision 2, clause (b), times a fraction, the numerator of which is the difference between the sum of the areawide levies for all governmental units in the area minus the school fund allocation and the denominator is the sum of the areawide levy for all governmental units in the area; and

(b) by September 5 of ~~1997~~ 2014 and each subsequent year, determine the local portion of the current year's levy by subtracting the resulting amount from clause (a) from the governmental unit's current year's levy~~; and~~

~~(c) for determinations made under paragraph (a) in the case of school districts, for taxes payable in 2002, exclude the general education tax rate and the portion of the referendum tax rate attributable to the first $415 per pupil unit from the local tax rate for the preceding levy year~~.

EFFECTIVE DATE. This section is effective beginning with taxes payable in 2015.

Sec. 6. Minnesota Statutes 2012, section 276A.06, subdivision 5, is amended to read:

Subd. 5. **Areawide tax rate.** On or before August 25 of 1997 and each subsequent year, the county auditor shall certify to the administrative auditor that portion of the levy of each governmental unit determined pursuant to subdivision 3, clause (a). The administrative auditor shall then determine the areawide tax rate sufficient to yield an amount equal to the sum of the levies from the areawide net tax capacity plus the school fund allocation. On or before September 1, the administrative auditor shall certify the areawide tax rate to each of the county auditors.

EFFECTIVE DATE. This section is effective beginning with taxes payable in 2015.

Sec. 7. Minnesota Statutes 2012, section 276A.06, subdivision 8, is amended to read:

Subd. 8. **Certification of values; payment.** The administrative auditor shall determine for each county the difference between the total levy on distribution value pursuant to subdivision 3, clause (a), including the school fund allocation within the county and the total tax on contribution value pursuant to subdivision 7, within the county. On or before May 16 of each year, the administrative auditor shall certify the differences so determined and the county's portion of the school fund allocation to each county auditor. In addition, the administrative auditor shall certify to those county auditors for whose county the total tax on contribution value exceeds the total levy on distribution value the settlement the county is to make to the other counties of the excess of the total tax on contribution value over the total levy on distribution value in the county. On or before June 15 and November 15 of each year, each county treasurer in a county having a total tax on contribution value in excess of the total levy on distribution value shall pay one-half of the excess to the other counties in accordance with the administrative auditor's certification. On or before June 15 and November 15 of each year, each county treasurer shall pay to the administrative auditor that county's share of the school fund allocation. On or before December 1 of each year, the administrative auditor shall pay the school fund allocation to the Iron Range Resources and Rehabilitation Board for deposit in the Iron Range school consolidation and cooperatively operated account.

EFFECTIVE DATE. This section is effective beginning with taxes payable in 2015.

Sec. 8. Minnesota Statutes 2013 Supplement, section 298.17, is amended to read:

298.17 OCCUPATION TAXES TO BE APPORTIONED.

(a) All occupation taxes paid by persons, copartnerships, companies, joint stock companies, corporations, and associations, however or for whatever purpose organized, engaged in the business of mining or producing iron ore or other ores, when collected shall be apportioned and distributed in accordance with the Constitution of the state of Minnesota, article X, section 3, in the manner following: 90 percent shall be deposited in the state treasury and credited to the general fund of which four-ninths shall be used for the support of elementary and secondary schools; and ten percent of the proceeds of the tax imposed by this section shall be deposited in the state treasury and credited to the general fund for the general support of the university.

(b) Of the money apportioned to the general fund by this section: (1) there is annually appropriated and credited to the mining environmental and regulatory account in the special revenue fund an amount equal to that which would have been generated by a 2-1/2 cent tax imposed by section 298.24 on each taxable ton produced in the preceding calendar year. Money in the mining environmental and regulatory account is appropriated annually to the commissioner of natural resources to fund agency staff to work on environmental issues and provide regulatory services for ferrous and nonferrous mining operations in this state. Payment to the mining environmental and regulatory account shall be made by July 1 annually. The commissioner of natural resources shall execute an interagency agreement with the Pollution Control Agency to assist with the provision of environmental regulatory services such as monitoring and permitting required for ferrous and nonferrous mining operations; ~~and~~ (2) there is annually appropriated and credited to the Iron Range Resources and Rehabilitation Board account in the special revenue fund an amount equal to that which would have been generated by a 1.5 cent tax imposed by section 298.24 on each taxable ton produced in the preceding calendar year, to be expended for the purposes of section 298.22; and (3) there is annually appropriated and credited to the Iron Range Resources and Rehabilitation Board account in the special revenue fund for transfer to the Iron Range school consolidation and cooperatively operated school account under section 298.28, subdivision 7a, an amount equal to that which would have been generated by a six cent tax imposed by section 298.24 on each taxable ton produced in the preceding calendar year. Payment to the Iron Range Resources and Rehabilitation Board account shall be made by May 15 annually.

(c) The money appropriated pursuant to paragraph (b), clause (2), shall be used (i) to provide environmental development grants to local governments located within any county in region 3 as defined in governor's executive order number 60, issued on June 12, 1970, which does not contain a municipality qualifying pursuant to section 273.134, paragraph (b), or (ii) to provide economic development loans or grants to businesses located within any such county, provided that the county board or an advisory group appointed by the county board to provide recommendations on economic development shall make recommendations to the Iron Range Resources and Rehabilitation Board regarding the loans. Payment to the Iron Range Resources and Rehabilitation Board account shall be made by May 15 annually.

(d) Of the money allocated to Koochiching County, one-third must be paid to the Koochiching County Economic Development Commission.

EFFECTIVE DATE. This section is effective beginning with the 2014 production year.

Sec. 9. Minnesota Statutes 2012, section 298.225, subdivision 1, is amended to read:

Subdivision 1. **Guaranteed distribution.** (a) The distribution of the taconite production tax as provided in section 298.28, subdivisions 3 to 5, 6, paragraph (b), 7, and 8, shall equal the lesser of the following amounts:

(1) the amount distributed pursuant to this section and section 298.28, with respect to 1983 production if the production for the year prior to the distribution year is no less than 42,000,000 taxable tons. If the production is less than 42,000,000 taxable tons, the amount of the distributions shall be reduced proportionately at the rate of two percent for each 1,000,000 tons, or part of 1,000,000 tons by which the production is less than 42,000,000 tons; or

(2)(i) for the distributions made pursuant to section 298.28, subdivisions 4, paragraphs (b) and (c), and 6, paragraph (c), 31.2 percent of the amount distributed pursuant to this section and section 298.28, with respect to 1983 production;

(ii) for the distributions made pursuant to section 298.28, subdivision 5, paragraphs (b) and (d), 75 percent of the amount distributed pursuant to this section and section 298.28, with respect to 1983 production provided that the aid guarantee for distributions under section 298.28, subdivision 5, paragraph (b), shall be reduced by five cents per taxable ton for production years 2014 and thereafter.

(b) The distribution of the taconite production tax as provided in section 298.28, subdivision 2, shall equal the following amount:

(1) if the production for the year prior to the distribution year is at least 42,000,000 taxable tons, the amount distributed pursuant to this section and section 298.28 with respect to 1999 production; or

(2) if the production for the year prior to the distribution year is less than 42,000,000 taxable tons, the amount distributed pursuant to this section and section 298.28 with respect to 1999 production, reduced proportionately at the rate of two percent for each 1,000,000 tons or part of 1,000,000 tons by which the production is less than 42,000,000 tons.

EFFECTIVE DATE. This section is effective beginning with the 2015 distribution.

Sec. 10. Minnesota Statutes 2012, section 298.28, subdivision 3, is amended to read:

Subd. 3. **Cities; towns.** (a) 12.5 cents per taxable ton, less any amount distributed under subdivision 8, and paragraph (b), must be allocated to the taconite municipal aid account to be distributed as provided in section 298.282.

(b) An amount must be allocated to towns or cities that is annually certified by the county auditor of a county containing a taconite tax relief area as defined in section 273.134, paragraph (b), within which there is (1) an organized township if, as of January 2, 1982, more than 75 percent of the assessed valuation of the township consists of iron ore or (2) a city if, as of January 2, 1980, more than 75 percent of the assessed valuation of the city consists of iron ore.

(c) The amount allocated under paragraph (b) will be the portion of a township's or city's certified levy equal to the proportion of (1) the difference between 50 percent of January 2, 1982, assessed value in the case of a township and 50 percent of the January 2, 1980, assessed value in the case of a city and its current assessed value to (2) the sum of its current assessed value plus the difference determined in (1), provided that the amount distributed shall not exceed $55 per capita in the case of a township or $75 per capita in the case of a city. For purposes of this limitation, population will be determined according to the 1980 decennial census conducted by the United States Bureau of the Census. If the current assessed value of the township exceeds 50 percent of the township's January 2, 1982, assessed value, or if the current assessed value of the city exceeds 50 percent of the city's January 2, 1980, assessed value, this paragraph shall not apply. For purposes of this paragraph, "assessed value," when used in reference to years other than 1980 or 1982, means the appropriate net tax capacities multiplied by 10.2.

(d) In addition to other distributions under this subdivision, three cents per taxable ton for distributions in 2009 must be allocated for distribution to towns that are entirely located within the taconite tax relief area defined in section 273.134, paragraph (b). For distribution in 2010 through 2014 and for distribution in 2018 and subsequent years, the three-cent amount must be annually increased in the same proportion as the increase in the implicit price deflator as provided in section 298.24, subdivision 1. The amount available under this paragraph will be distributed to eligible towns on a per capita basis, provided that no town may receive more than $50,000 in any year under this paragraph. Any amount of the distribution that exceeds the $50,000 limitation for a town under this paragraph must be redistributed on a per capita basis among the other eligible towns, to whose distributions do not exceed $50,000.

EFFECTIVE DATE. This section is effective beginning for the 2014 distribution.

Sec. 11. Minnesota Statutes 2012, section 298.28, subdivision 5, is amended to read:

Subd. 5. **Counties.** (a) ~~26.05~~ 21.05 cents per taxable ton is allocated to counties to be distributed, based upon certification by the commissioner of revenue, under paragraphs (b) to (d).

(b) ~~15.525~~ 10.525 cents per taxable ton shall be distributed to the county in which the taconite is mined or quarried or in which the concentrate is produced, less any amount which is to be distributed pursuant to paragraph (c). The apportionment formula prescribed in subdivision 2 is the basis for the distribution.

(c) If an electric power plant owned by and providing the primary source of power for a taxpayer mining and concentrating taconite is located in a county other than the county in which the mining and the concentrating processes are conducted, one cent per taxable ton of the tax distributed to the counties pursuant to paragraph (b) and imposed on and collected from such taxpayer shall be paid to the county in which the power plant is located.

(d) 10.525 cents per taxable ton shall be paid to the county from which the taconite was mined, quarried or concentrated to be deposited in the county road and bridge fund. If the mining, quarrying and concentrating, or separate steps in any of those processes are carried on in more than one county, the commissioner shall follow the apportionment formula prescribed in subdivision 2.

EFFECTIVE DATE. This section is effective beginning with the 2015 distribution.

Sec. 12. Minnesota Statutes 2012, section 298.28, subdivision 7, is amended to read:

Subd. 7. **Iron Range Resources and Rehabilitation Board.** For the 1998 distribution, 6.5 cents per taxable ton shall be paid to the Iron Range Resources and Rehabilitation Board for the purposes of section 298.22. That amount shall be increased ~~in~~ for distribution years 1999 through 2014 and for distribution in 2018 and subsequent years in the same proportion as the increase in the implicit price deflator as provided in section 298.24, subdivision 1. The amount distributed pursuant to this subdivision shall be expended within or for the benefit of the taconite assistance area defined in section 273.1341. No part of the fund provided in this subdivision may be used to provide loans for the operation of private business unless the loan is approved by the governor.

EFFECTIVE DATE. This section is effective beginning for the 2014 distribution.

Sec. 13. Minnesota Statutes 2012, section 298.28, is amended by adding a subdivision to read:

Subd. 7a. **Iron Range school consolidation and cooperatively operated school account.** The following amounts must be allocated to the Iron Range Resources and

Rehabilitation Board to be deposited in the Iron Range school consolidation and cooperatively operated school account that is hereby created:

(1) ten cents per taxable ton of the tax imposed under section 298.24;

(2) the amount as determined under section 298.17, paragraph (b), clause (3); and

(3) for distributions in 2015 through 2017, an amount equal to two-thirds of the increased tax proceeds attributable to the increase in the implicit price deflator as provided in section 298.24, subdivision 1.

Expenditures from this account shall be made only to provide disbursements to assist school districts with the payment of bonds that were issued for qualified school projects, or for any other disbursement as approved by the Iron Range Resources and Rehabilitation Board. For purposes of this section, "qualified school projects" means school projects within the taconite assistance area as defined in section 273.1341, that were (1) approved, by referendum, after December 7, 2009; and (2) approved by the commissioner of education pursuant to section 123B.71.

No expenditure under this section shall be made unless approved by seven members of the Iron Range Resources and Rehabilitation Board.

EFFECTIVE DATE. This section is effective for production year 2014 and thereafter.

Sec. 14. Minnesota Statutes 2012, section 298.28, subdivision 9a, is amended to read:

Subd. 9a. **Taconite economic development fund.** (a) ~~30.1~~ 25.1 cents per ton for distributions in 2002 and thereafter must be paid to the taconite economic development fund. No distribution shall be made under this paragraph in 2004 or any subsequent year in which total industry production falls below 30 million tons. Distribution shall only be made to a taconite producer's fund under section 298.227 if the producer timely pays its tax under section 298.24 by the dates provided under section 298.27, or pursuant to the due dates provided by an administrative agreement with the commissioner.

(b) An amount equal to 50 percent of the tax under section 298.24 for concentrate sold in the form of pellet chips and fines not exceeding 5/16 inch in size and not including crushed pellets shall be paid to the taconite economic development fund. The amount paid shall not exceed $700,000 annually for all companies. If the initial amount to be paid to the fund exceeds this amount, each company's payment shall be prorated so the total does not exceed $700,000.

EFFECTIVE DATE. This section is effective beginning with the 2015 distribution.

Sec. 15. Minnesota Statutes 2013 Supplement, section 298.28, subdivision 10, is amended to read:

Subd. 10. **Increase.** (a) Except as provided in paragraph (b), ~~beginning with~~ for distributions in 2000 through 2014 and for distributions in 2018 and subsequent years, the amount determined under subdivision 9 shall be increased in the same proportion as the increase in the implicit price deflator as provided in section 298.24, subdivision 1. Beginning with distributions in ~~2015~~ 2018, the amount determined under subdivision 6, paragraph (a), shall be increased in the same proportion as the increase in the implicit price deflator as provided in section 298.24, subdivision 1.

(b) For distributions in 2005 and subsequent years, an amount equal to the increased tax proceeds attributable to the increase in the implicit price deflator as provided in section 298.24, subdivision 1, for taxes paid in 2005, except for the amount of revenue increases provided in subdivision 4, paragraph (d), is distributed to the grant and loan fund established in section 298.2961, subdivision 4.

(c) For distributions in 2015 through 2017, an amount equal to two-thirds of the increased tax proceeds attributable to the increase in the implicit price deflator as provided in section 298.24, subdivision 1, is distributed to the Iron Range school consolidation and cooperatively operated school account in section 298.28, subdivision 7a, with the remaining one-third to be distributed to the Douglas J. Johnson Economic Protection Trust Fund.

EFFECTIVE DATE. This section is effective beginning for the 2015 distribution.

Sec. 16. **BUDGET RESERVE INCREASE.**

On July 1, 2014, the commissioner of management and budget shall transfer $150,000,000 to the budget reserve in the general fund.

EFFECTIVE DATE. This section is effective July 1, 2014.

Sec. 17. **APPROPRIATION.**

$1,000,000 is appropriated from the general fund to the commissioner of revenue in fiscal year 2014 for the cost of administering this act. This appropriation does not cancel but is available until June 30, 2015. This is a onetime appropriation and does not renew or become part of the base budget.

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

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291.03 RATES.

Subd. 1b. **Qualified terminable interest property.** For estates of decedents dying after December 31, 2009, and before January 1, 2011, if a federal election under section 301(c) of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, Public Law 111-312, is made, the executor may make a qualified terminable interest property election, as defined in section 2056(b)(7) of the Internal Revenue Code, for purposes of computing the tax under this chapter. The election may not reduce the taxable estate under this chapter below $3,500,000. The election must be made on the tax return under this chapter and is irrevocable. All tax under this chapter must be determined using the qualified terminable interest property election made on the Minnesota return. For purposes of applying sections 2044 and 2207A of the Internal Revenue Code when computing the tax under this chapter for the estate of the decedent's surviving spouse, regardless of the date of death of the surviving spouse, amounts for which a qualified terminable interest property election has been made under this section must be treated as though a valid federal qualified terminable interest property election under section 2056(b)(7) of the Internal Revenue Code has been made.

Subd. 1c. **Nonresident decedent tax credit.** (a) The estate of a nonresident decedent that is subject to tax under this chapter on the value of Minnesota situs property held in a pass-through entity is allowed a credit against the tax due under this section equal to the lesser of:

(1) the amount of estate or inheritance tax paid to another state that is attributable to the Minnesota situs property held in the pass-through entity; or

(2) the amount of tax paid under this section attributable to the Minnesota situs property held in the pass-through entity.

(b) The amount of tax attributable to the Minnesota situs property held in the pass-through entity must be determined by the increase in the estate or inheritance tax that results from including the market value of the property in the estate or treating the value as a taxable inheritance to the recipient of the property.

291.41 DEFINITIONS.

Subdivision 1. **Scope.** For the purposes of sections 291.41 to 291.47 the terms defined in this section shall have the meanings ascribed to them.

Subd. 2. **Executor.** "Executor" means an executor of the will or administrator of the estate of the decedent, but does not include an ancillary administrator.

Subd. 3. **Taxing official.** "Taxing official" means the commissioner of revenue of this state and the officer or body designated as such in the statute of a reciprocal state substantially similar to sections 291.41 to 291.47.

Subd. 4. **Death tax.** "Death tax" means any tax levied by a state on account of the transfer or shifting of economic benefits in property at death, or in contemplation thereof, or intended to take effect in possession or enjoyment at or after death, whether denominated an "inheritance tax," "transfer tax," "succession tax," "estate tax," "death duty," "death dues," or otherwise.

Subd. 5. **Interested person.** "Interested person" means any person who may be entitled to receive, or who has received any property or interest which may be required to be considered in computing the death tax of any state involved.

291.42 ELECTION TO INVOKE.

In any case in which this state and one or more other states each claims that it was the domicile of a decedent at the time of death, at any time prior to the commencement of legal action for determination of domicile within this state or within 60 days thereafter, any executor, or the taxing official of any such state, may elect to invoke the provisions of sections 291.41 to 291.47. Such executor or taxing official shall send a notice of such election by certified mail, receipt requested, to the taxing official of each such state and to each executor, ancillary administrator, and interested person. Within 40 days after the receipt of such notice of election any executor may reject such election by sending a notice, by certified mail, receipt requested, to the taxing officials involved and to all other executors and to all interested parties. When an election has been rejected no further proceedings shall be had under sections 291.41 to 291.47. If such election is not rejected within the 40-day period, the dispute as to death taxes shall be determined solely in accordance with the provisions of sections 291.41 to 291.47. No other proceedings to determine or assess such death taxes shall thereafter be instituted in any court of this state or otherwise.

291.43 AGREEMENTS AS TO DEATH TAX.

In any case in which an election is made and not rejected the commissioner of revenue of this state may enter into a written agreement with the other taxing officials involved and with the executors to accept a certain sum in full payment of any death taxes, together with interest and penalties, that may be due this state, provided this agreement fixes the amount to be paid the other states involved in the dispute.

291.44 DETERMINATION OF DOMICILE.

If in any such case it appears that an agreement cannot be reached, as provided in section 291.43, or if one year shall have elapsed from the date of the election without such an agreement having been reached, the domicile of the decedent at the time of death shall be determined solely for death tax purposes as follows:

(1) Where only this state and one other state are involved, the commissioner of revenue and the taxing official of the other state shall each appoint a member of a board of arbitration, and these members shall appoint the third member of the board. If this state and more than one other state are involved, the taxing officials thereof shall agree upon the authorities charged with the duty of administering death tax laws in three states not involved in the dispute and each of these authorities shall appoint a member of the board of arbitration. The board shall select one of its members as chair.

(2) Such board shall hold hearing at such places as are deemed necessary, upon reasonable notice to the executors, ancillary administrators, all other interested persons, and to the taxing officials of the states involved, all of whom are entitled to be heard.

(3) Such board may administer oaths, take testimony, subpoena witnesses and require their attendance, require the production of books, papers, and documents, issue commissions to take testimony. Subpoenas may be issued by any member of the board. Failure to obey a subpoena may be punished by any court of record in the same manner as if the subpoena had been issued by such court.

(4) Whenever practicable such board shall apply the Rules of Evidence then prevailing in the federal courts under the federal Rules of Civil Procedure.

(5) Such board shall determine the domicile of the decedent at the time of death. This determination is final and conclusive and binds this state, and all of its judicial and administrative officials on all questions concerning the domicile of the decedent for death tax purpose.

(6) The reasonable compensation and expenses of the members of the board and its employees shall be agreed upon among such members, the taxing officials involved, and the executors. If an agreement cannot be reached, such compensation and expenses shall be determined by such taxing officials; and, if they cannot agree, by the appropriate court having probate jurisdiction of the state determined to be the domicile. Such amount shall be borne by the estate and shall be deemed an administration expense.

(7) The determination of such board and the record of its proceeding shall be filed with the authority having jurisdiction to assess the death tax in the state determined to be the domicile of the decedent and with the authorities which would have had jurisdiction to assess the death tax in each of the other states involved if the decedent had been found to be domiciled therein.

291.45 ACCEPTANCE OF AGREED SUM IN FULL PAYMENT.

Notwithstanding the commencement of a legal action for determination of domicile within this state or the commencement of an arbitration proceeding, as provided in section 291.44, the commissioner of revenue of this state may in any case enter into a written agreement with the other taxing officials involved and with the executors to accept a certain sum in full payment of any death tax, together with interest and penalties, that may be due this state, provided this agreement fixes the amount to be paid the other states involved in the dispute, at any time before such proceeding is concluded. Upon the filing of this agreement with the authority which would have jurisdiction to assess the death tax of this state, if the decedent died domiciled in this state, an assessment shall be made as provided in such agreement, and this assessment finally and conclusively fixes the amount of death tax due this state. If the aggregate amount payable under such agreement or under an agreement made in accordance with the provisions of section 291.43 to the states involved is less than the minimum credit allowable to the estate against the United States estate tax imposed with respect thereto, the executor forthwith shall also pay to the commissioner of revenue of this state the same percentage of the difference between such aggregate amount of such credit as the amount payable to such commissioner under such agreement bears to such aggregate amount.

291.46 PENALTIES, INTEREST; LIMITATION.

When in any case the board of arbitration determines that a decedent died domiciled in this state, the total amount of interest and penalties for nonpayment of the tax, between the date of the election and the final determination of the board, shall not exceed ten percent of the amount of the taxes per annum.

291.47 APPLICATION.

Sections 291.41 to 291.47 apply only to cases in which each of the states involved in the dispute has in effect therein a law substantially similar to sections 291.41 to 291.47.

292.16 DEFINITIONS.

(a) For purposes of this chapter, the following definitions apply.

(b) The definitions of terms defined in section 291.005 apply.

(c) "Resident" has the meaning given in section 290.01, subdivision 7, paragraph (a).

(d) "Taxable gifts" means:

(1) the transfers by gift which are included in taxable gifts for federal gift tax purposes under the following sections of the Internal Revenue Code:

(i) section 2503;

(ii) sections 2511 to 2514; and

(iii) sections 2516 to 2519; less

(2) the deductions allowed in sections 2522 to 2524 of the Internal Revenue Code.

292.17 GIFT TAX.

Subdivision 1. **Imposition.** (a) A tax is imposed on the transfer of property by gift by any individual resident or nonresident in an amount equal to ten percent of the amount of the taxable gift.

(b) The donor is liable for payment of the tax. If the gift tax is not paid when due, the donee of any gift is personally liable for the tax to the extent of the value of the gift.

Subd. 2. **Lifetime credit.** A credit is allowed against the tax imposed under this section equal to $100,000. This credit applies to the cumulative amount of taxable gifts made by the donor during the donor's lifetime.

Subd. 3. **Out-of-state gifts.** Taxable gifts exclude the transfer of:

(1) real property located outside of this state;

(2) tangible personal property that was normally kept at a location outside of the state on the date the gift was executed; and

(3) intangible personal property made by an individual who is not a resident at the time the gift was executed.

292.18 RETURNS.

(a) Any individual who makes a taxable gift during the taxable year shall file a gift tax return in the form and manner prescribed by the commissioner.

(b) If the donor dies before filing the return, the executor of the donor's will or the administrator of the donor's estate shall file the return. If the donor becomes legally incompetent before filing the return, the guardian or conservator shall file the return.

(c) The return must include:

(1) each gift made during the calendar year which is to be included in computing the taxable gifts;

(2) the deductions claimed and allowable under section 292.16, paragraph (d), clause (2);

(3) a description of the gift, and the donee's name, address, and Social Security number;

(4) the fair market value of gifts not made in money; and

(5) any other information the commissioner requires to administer the gift tax.

292.19 FILING REQUIREMENTS.

Gift tax returns must be filed by the April 15 following the close of the calendar year, except if a gift is made during the calendar year in which the donor dies, the return for the donor must be filed by the last date, including extensions, for filing the gift tax return for federal gift tax purposes for the donor.

292.20 APPRAISAL OF PROPERTY; DECLARATION BY DONOR.

The commissioner may require the donor or the donee to show the property subject to the tax under section 292.17 to the commissioner upon demand and may employ a suitable person to appraise the property. The donor shall submit a declaration, in a form prescribed by the commissioner and including any certification required by the commissioner, that the property shown by the donor on the gift tax return includes all of the property transferred by gift for the calendar year and not deductible under section 292.16, paragraph (d), clause (2).

292.21 ADMINISTRATIVE PROVISIONS.

Subdivision 1. **Payment of tax; penalty for late payment.** The tax imposed under section 292.17 is due and payable to the commissioner by the April 15 following the close of the calendar year during which the gift was made. The return required under section 292.19 must be included with the payment. If a taxable gift is made during the calendar year in which the donor dies, the due date is the last date, including extensions, for filing the gift tax return for federal gift tax purposes for the donor. If any person fails to pay the tax due within the time specified under this section, a penalty applies equal to ten percent of the amount due and unpaid or $100, whichever is greater. The unpaid tax and penalty bear interest at the rate under section 270C.40 from the due date of the return.

Subd. 2. **Extensions.** The commissioner may, for good cause, extend the time for filing a gift tax return, if a written request is filed with a tentative return accompanied by a payment of the tax, which is estimated in the tentative return, on or before the last day for filing the return. Any person to whom an extension is granted must pay, in addition to the tax, interest at the rate under section 270C.40 from the date on which the tax would have been due without the extension.

Subd. 3. **Changes in federal gift tax.** If the amount of a taxpayer's taxable gifts for federal gift tax purposes, as reported on the taxpayer's federal gift tax return for any calendar year, is changed or corrected by the Internal Revenue Service or other officer of the United States or other competent authority, the taxpayer shall report the change or correction in federal taxable gifts within 180 days after the final determination of the change or correction, and concede the accuracy of the determination or provide a letter detailing how the federal determination is incorrect or does not change the Minnesota gift tax. Any taxpayer filing an amended federal gift tax return shall also file within 180 days an amended return under this chapter and shall include any information the commissioner requires. The time for filing the report or amended return may be extended by the commissioner upon due cause shown. Notwithstanding any limitation of time in this chapter, if, upon examination, the commissioner finds that the taxpayer is liable for the payment of an additional tax, the commissioner shall, within a reasonable time from the receipt of the report or amended return, notify the taxpayer of the amount of additional tax, together with interest computed at the rate under section 270C.40 from the date when the original tax was due and payable. Within 30 days of the mailing of the notice, the taxpayer shall pay the commissioner the amount of the additional tax and interest. If, upon examination of the report or amended return and related information, the commissioner finds that the taxpayer has overpaid the tax due the state, the commissioner shall refund the overpayment to the taxpayer.

Subd. 4. **Application of federal rules.** In administering the tax under this chapter, the commissioner shall apply the provisions of sections 2701 to 2704 of the Internal Revenue Code. The words "secretary or his delegate," as used in those sections of the Internal Revenue Code, mean the commissioner.

297A.61 DEFINITIONS.

Subd. 57. **Self-storage service.** "Self-storage service" means a storage service that provides secure areas, such as rooms, units, compartments, or containers, whether accessible from outside or from within a building, that are designated for the use of a purchaser, where the purchaser retains the care, custody, and control of the purchaser's property, including self-storage units, mini-storage units, and areas by any other name to which the purchaser retains either unlimited free access or free access within reasonable business hours or upon reasonable notice to the service provider to add or remove property, but does not mean the rental of an entire building, such as a warehouse. Self-storage service does not include general warehousing and storage services where the warehouse typically handles, stores, and retrieves a purchaser's property using the warehouse's staff and equipment, and does not allow the purchaser free access to the storage space and does not include bailments.