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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH SESSION

H. F. No. 2774

03/12/2012 Authored by Lenczewski and Simon
The bill was read for the first time and referred to the Committee on Taxes

1.1 A bill for an act
1.2 relating to taxes; individual income and corporate franchise; conforming to
1.3 federal marriage penalty relief and increased section 179 expensing, and
1.4 providing ongoing state marriage penalty relief; amending Minnesota Statutes
1.5 2011 Supplement, sections 290.01, subdivisions 19a, 19b, 19c; 290.0675,
1.6 subdivision 1.

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

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

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

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

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

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

1.20 (B) the portion of the exempt-interest dividends derived from interest income
1.21 on obligations of the state of Minnesota or its political or governmental subdivisions,
1.22 municipalities, governmental agencies or instrumentalities, but only if the portion of the
1.23 exempt-interest dividends from such Minnesota sources paid to all shareholders represents
1.24 95 percent or more of the exempt-interest dividends, including any dividends exempt
1.25 under subitem (A), that are paid by the regulated investment company as defined in section

2.1 851(a) of the Internal Revenue Code, or the fund of the regulated investment company as
2.2 defined in section 851(g) of the Internal Revenue Code, making the payment; and

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

2.6 (2) the amount of income, sales and use, motor vehicle sales, or excise taxes paid or
2.7 accrued within the taxable year under this chapter and the amount of taxes based on net
2.8 income paid, sales and use, motor vehicle sales, or excise taxes paid to any other state
2.9 or to any province or territory of Canada, to the extent allowed as a deduction under
2.10 section 63(d) of the Internal Revenue Code, but the addition may not be more than the
2.11 amount by which the itemized deductions as allowed under section 63(d) of the Internal
2.12 Revenue Code exceeds the amount of the standard deduction as defined in section 63(c) of
2.13 the Internal Revenue Code, disregarding the amounts allowed under sections 63(c)(1)(C)
2.14 and 63(c)(1)(E) of the Internal Revenue Code, minus any addition that would have been
2.15 required under clause (21) if the taxpayer had claimed the standard deduction, and plus
2.16 any subtraction allowed under subdivision 19b, clauses (19) and (20). For the purpose of
2.17 this paragraph, the disallowance of itemized deductions under section 68 of the Internal
2.18 Revenue Code of 1986, income, sales and use, motor vehicle sales, or excise taxes are
2.19 the last itemized deductions disallowed;

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

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

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

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

2.33 (7) 80 percent of the depreciation deduction allowed under section 168(k) of the
2.34 Internal Revenue Code. For purposes of this clause, if the taxpayer has an activity that
2.35 in the taxable year generates a deduction for depreciation under section 168(k) and the
2.36 activity generates a loss for the taxable year that the taxpayer is not allowed to claim for

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

3.6 (8) for taxable years beginning before January 1, 2012, 80 percent of the amount by
3.7 which the deduction allowed by section 179 of the Internal Revenue Code exceeds the
3.8 deduction allowable by section 179 of the Internal Revenue Code of 1986, as amended
3.9 through December 31, 2003;

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

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

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

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

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

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

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

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

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

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

3.34 (19) to the extent included in the computation of federal taxable income in taxable
3.35 years beginning after December 31, 2010, the amount of disallowed itemized deductions,
3.36 but the amount of disallowed itemized deductions plus the addition required under clause

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

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

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

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

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

4.15 (A) such dollar amount, multiplied by

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5.10 (A) such dollar amount, multiplied by

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

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

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

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

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

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

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

5.31 (3) the amount paid to others, less the amount used to claim the credit allowed under
 5.32 section 290.0674, not to exceed \$1,625 for each qualifying child in grades kindergarten
 5.33 to 6 and \$2,500 for each qualifying child in grades 7 to 12, for tuition, textbooks, and
 5.34 transportation of each qualifying child in attending an elementary or secondary school
 5.35 situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a

6.1 resident of this state may legally fulfill the state's compulsory attendance laws, which
6.2 is not operated for profit, and which adheres to the provisions of the Civil Rights Act
6.3 of 1964 and chapter 363A. For the purposes of this clause, "tuition" includes fees or
6.4 tuition as defined in section 290.0674, subdivision 1, clause (1). As used in this clause,
6.5 "textbooks" includes books and other instructional materials and equipment purchased
6.6 or leased for use in elementary and secondary schools in teaching only those subjects
6.7 legally and commonly taught in public elementary and secondary schools in this state.
6.8 Equipment expenses qualifying for deduction includes expenses as defined and limited in
6.9 section 290.0674, subdivision 1, clause (3). "Textbooks" does not include instructional
6.10 books and materials used in the teaching of religious tenets, doctrines, or worship, the
6.11 purpose of which is to instill such tenets, doctrines, or worship, nor does it include books
6.12 or materials for, or transportation to, extracurricular activities including sporting events,
6.13 musical or dramatic events, speech activities, driver's education, or similar programs. No
6.14 deduction is permitted for any expense the taxpayer incurred in using the taxpayer's or
6.15 the qualifying child's vehicle to provide such transportation for a qualifying child. For
6.16 purposes of the subtraction provided by this clause, "qualifying child" has the meaning
6.17 given in section 32(c)(3) of the Internal Revenue Code;

6.18 (4) income as provided under section 290.0802;

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

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

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

6.35 (8) in each of the five tax years immediately following the tax year in which an
6.36 addition is required under subdivision 19a, clause (7), or 19c, clause (15), in the case

7.1 of a shareholder of a corporation that is an S corporation, an amount equal to one-fifth
7.2 of the delayed depreciation. For purposes of this clause, "delayed depreciation" means
7.3 the amount of the addition made by the taxpayer under subdivision 19a, clause (7), or
7.4 subdivision 19c, clause (15), in the case of a shareholder of an S corporation, minus the
7.5 positive value of any net operating loss under section 172 of the Internal Revenue Code
7.6 generated for the tax year of the addition. The resulting delayed depreciation cannot be
7.7 less than zero;

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

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

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

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

7.33 (13) in each of the five tax years immediately following the tax year in which an
7.34 addition is required under subdivision 19a, clause (8), or 19c, clause (16), in the case of a
7.35 shareholder of a corporation that is an S corporation, an amount equal to one-fifth of the
7.36 addition made by the taxpayer under subdivision 19a, clause (8), or 19c, clause (16), in the

8.1 case of a shareholder of a corporation that is an S corporation, minus the positive value of
8.2 any net operating loss under section 172 of the Internal Revenue Code generated for the
8.3 tax year of the addition. If the net operating loss exceeds the addition for the tax year, a
8.4 subtraction is not allowed under this clause;

8.5 (14) to the extent included in the federal taxable income of a nonresident of
8.6 Minnesota, compensation paid to a service member as defined in United States Code, title
8.7 10, section 101(a)(5), for military service as defined in the Servicemembers Civil Relief
8.8 Act, Public Law 108-189, section 101(2);

8.9 (15) international economic development zone income as provided under section
8.10 469.325;

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

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

8.20 (18) the amount of the net operating loss allowed under section 290.095, subdivision
8.21 11, paragraph (c);

8.22 (19) for taxable years beginning after December 31, 2012, for married couples
8.23 filing joint returns who claimed the standard deduction under section 63(c) of the Internal
8.24 Revenue Code, an amount equal to the difference between (i) twice the standard deduction
8.25 allowed for the taxable year under section 63(c) of the Internal Revenue Code for single
8.26 filers and (ii) the standard deduction allowed for the taxable year under section 63(c) of
8.27 the Internal Revenue Code for married couples filing joint returns; and

8.28 (20) for taxable years beginning after December 31, 2012, for married couples filing
8.29 separate returns who claimed the standard deduction under section 63(c) of the Internal
8.30 Revenue Code, an amount equal to the difference between (i) the standard deduction
8.31 allowed for the taxable year under section 63(c) of the Internal Revenue Code for single
8.32 filers and (ii) the standard deduction allowed for the taxable year under section 63(c) of
8.33 the Internal Revenue Code for married couples filing separate returns.

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

9.1 Sec. 3. Minnesota Statutes 2011 Supplement, section 290.01, subdivision 19c, is
9.2 amended to read:

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

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

9.10 (2) interest not subject to federal tax upon obligations of: the United States, its
9.11 possessions, its agencies, or its instrumentalities; the state of Minnesota or any other
9.12 state, any of its political or governmental subdivisions, any of its municipalities, or any
9.13 of its governmental agencies or instrumentalities; the District of Columbia; or Indian
9.14 tribal governments;

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

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

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

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

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

9.26 (8) the exempt foreign trade income of a foreign sales corporation under sections
9.27 921(a) and 291 of the Internal Revenue Code;

9.28 (9) the amount of percentage depletion deducted under sections 611 through 614 and
9.29 291 of the Internal Revenue Code;

9.30 (10) for certified pollution control facilities placed in service in a taxable year
9.31 beginning before December 31, 1986, and for which amortization deductions were elected
9.32 under section 169 of the Internal Revenue Code of 1954, as amended through December
9.33 31, 1985, the amount of the amortization deduction allowed in computing federal taxable
9.34 income for those facilities;

9.35 (11) the amount of any deemed dividend from a foreign operating corporation
9.36 determined pursuant to section 290.17, subdivision 4, paragraph (g). The deemed dividend

10.1 shall be reduced by the amount of the addition to income required by clauses (20), (21),
10.2 (22), and (23);

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

10.6 (13) the amount of net income excluded under section 114 of the Internal Revenue
10.7 Code;

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

10.11 (15) 80 percent of the depreciation deduction allowed under section 168(k)(1)(A)
10.12 and (k)(4)(A) of the Internal Revenue Code. For purposes of this clause, if the taxpayer
10.13 has an activity that in the taxable year generates a deduction for depreciation under
10.14 section 168(k)(1)(A) and (k)(4)(A) and the activity generates a loss for the taxable year
10.15 that the taxpayer is not allowed to claim for the taxable year, "the depreciation allowed
10.16 under section 168(k)(1)(A) and (k)(4)(A)" for the taxable year is limited to excess of the
10.17 depreciation claimed by the activity under section 168(k)(1)(A) and (k)(4)(A) over the
10.18 amount of the loss from the activity that is not allowed in the taxable year. In succeeding
10.19 taxable years when the losses not allowed in the taxable year are allowed, the depreciation
10.20 under section 168(k)(1)(A) and (k)(4)(A) is allowed;

10.21 (16) for taxable years beginning before January 1, 2012, 80 percent of the amount by
10.22 which the deduction allowed by section 179 of the Internal Revenue Code exceeds the
10.23 deduction allowable by section 179 of the Internal Revenue Code of 1986, as amended
10.24 through December 31, 2003;

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

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

10.30 (19) the amount of expenses disallowed under section 290.10, subdivision 2;

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

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

11.4 (ii) losses incurred, directly or indirectly, from factoring transactions or discounting
 11.5 transactions;

11.6 (iii) royalty, patent, technical, and copyright fees;

11.7 (iv) licensing fees; and

11.8 (v) other similar expenses and costs.

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

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

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

11.21 (i) income related to the direct or indirect acquisition, use, maintenance or
 11.22 management, ownership, sale, exchange, or any other disposition of intangible property;

11.23 (ii) income from factoring transactions or discounting transactions;

11.24 (iii) royalty, patent, technical, and copyright fees;

11.25 (iv) licensing fees; and

11.26 (v) other similar income.

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

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

11.34 (22) the dividends attributable to the income of a foreign operating corporation that
 11.35 is a member of the taxpayer's unitary group in an amount that is equal to the dividends

12.1 paid deduction of a real estate investment trust under section 561(a) of the Internal
 12.2 Revenue Code for amounts paid or accrued by the real estate investment trust to the
 12.3 foreign operating corporation;

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

12.7 (24) for taxable years beginning before January 1, 2010, the additional amount
 12.8 allowed as a deduction for donation of computer technology and equipment under section
 12.9 170(e)(6) of the Internal Revenue Code, to the extent deducted from taxable income; and

12.10 (25) discharge of indebtedness income resulting from reacquisition of business
 12.11 indebtedness and deferred under section 108(i) of the Internal Revenue Code.

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

12.14 Sec. 4. Minnesota Statutes 2011 Supplement, section 290.0675, subdivision 1, is
 12.15 amended to read:

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

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

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

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

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

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

12.26 (d) "Earned income of lesser-earning spouse" means the earned income of the spouse
 12.27 with the lesser amount of earned income as defined in paragraph (b) for the taxable year
 12.28 minus the sum of (i) the amount for one exemption under section 151(d) of the Internal
 12.29 Revenue Code and (ii) one-half the amount of the standard deduction under section
 12.30 63(c)(2)(A) and (4) of the Internal Revenue Code minus one-half of any addition required
 12.31 under section 290.01, subdivision 19a, clause (21), and one-half of the addition that would
 12.32 have been required under section 290.01, subdivision 19a, clause (21), if the taxpayer
 12.33 had claimed the standard deduction, and plus one-half of any subtraction allowed under
 12.34 section 290.01, subdivision 19b, clause (19).

- 13.1 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
- 13.2 December 31, 2011.