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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-NINTH SESSION

H. F. No. 422

01/29/2015 Authored by Fabian, Garofalo, Kiel, Franson, Gunther and others

The bill was read for the first time and referred to the Committee on Greater Minnesota Economic and Workforce Development Policy

1.1 A bill for an act
1.2 relating to taxation; economic development; providing for a workforce housing
1.3 grant program; appropriating money; amending Minnesota Statutes 2014, section
1.4 290.01, subdivisions 19a, 19c; proposing coding for new law in Minnesota
1.5 Statutes, chapters 116J; 290.

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

1.7 Section 1. [116J.549] WORKFORCE HOUSING GRANT PROGRAM.

1.8 Subdivision 1. Establishment. The commissioner of employment and economic
1.9 development shall establish a workforce housing grant program to award grants to
1.10 qualified cities to be used for qualified expenditures.

1.11 Subd. 2. Definitions. (a) For purposes of this section, the following terms have
1.12 the meanings given.

1.13 (b) "Market rate residential rental properties" means properties that are rented at
1.14 market value and excludes:

1.15 (1) properties constructed with financial assistance requiring the property to be
1.16 occupied by residents that meet income limits under federal or state law of initial
1.17 occupancy; and

1.18 (2) properties constructed with federal, state, or local flood recovery assistance,
1.19 regardless of whether that assistance imposed income limits as a condition of receiving
1.20 assistance.

1.21 (c) "Qualified city" means a home rule charter or statutory city with a population
1.22 exceeding 1,500.

1.23 (d) "Qualified expenditure" means expenditures for market rate residential rental
1.24 properties including acquisition of property; construction of improvements; provisions

2.1 of loans or subsidies, grants, interest rate subsidies, public infrastructure, and related
 2.2 financing costs.

2.3 Subd. 3. **Application.** The commissioner shall develop forms and procedures to
 2.4 solicit and review applications for grants under this section. A city must include in its
 2.5 application information sufficient to verify that it meets the program requirements under
 2.6 this section and any additional evidence of the scarcity of workforce housing in the city
 2.7 that it considers appropriate or that the commissioner requires.

2.8 Subd. 4. **Program requirements.** The commissioner must not award a grant to a
 2.9 city under this section until the following determinations are made:

2.10 (1) the average vacancy rate for rental housing located in the city, and in any other
 2.11 city located within 25 miles or less of the boundaries of the city, has been five percent or
 2.12 less for at least the prior two-year period;

2.13 (2) one or more businesses located in the city, or within 25 miles of the city, that
 2.14 employs a minimum of 20 full-time equivalent employees in aggregate have provided
 2.15 a written statement to the city indicating that the lack of available rental housing has
 2.16 impeded their ability to recruit and hire employees;

2.17 (3) the city has a population exceeding 1,500;

2.18 (4) fewer than five market rate residential rental units per 1,000 residents were
 2.19 constructed in the city in each of the last ten years; and

2.20 (5) the city has certified that the grants will be used for qualified expenditures for
 2.21 the development of rental housing to serve employees of businesses located in the city
 2.22 or surrounding area.

2.23 Subd. 5. **Allocation.** The amount of a grant under this section may not exceed the
 2.24 lesser of \$..... per unit or percent of the qualified expenditures for the project.

2.25 Subd. 6. **Report.** By January 15 of the year following the year in which the grant was
 2.26 issued, each city receiving a grant under this section must submit a report to the chairs and
 2.27 ranking minority members of the senate and house of representatives committees having
 2.28 jurisdiction over taxes and workforce development specifying the projects that received
 2.29 grants under this section and the specific purposes for which the grant funds were used.

2.30 **EFFECTIVE DATE.** This section is effective July 1, 2015.

2.31 Sec. 2. Minnesota Statutes 2014, section 290.01, subdivision 19a, is amended to read:

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

2.34 (1)(i) interest income on obligations of any state other than Minnesota or a political
 2.35 or governmental subdivision, municipality, or governmental agency or instrumentality

3.1 of any state other than Minnesota exempt from federal income taxes under the Internal
3.2 Revenue Code or any other federal statute; and

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

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

3.7 (B) the portion of the exempt-interest dividends derived from interest income
3.8 on obligations of the state of Minnesota or its political or governmental subdivisions,
3.9 municipalities, governmental agencies or instrumentalities, but only if the portion of the
3.10 exempt-interest dividends from such Minnesota sources paid to all shareholders represents
3.11 95 percent or more of the exempt-interest dividends, including any dividends exempt
3.12 under subitem (A), that are paid by the regulated investment company as defined in section
3.13 851(a) of the Internal Revenue Code, or the fund of the regulated investment company as
3.14 defined in section 851(g) of the Internal Revenue Code, making the payment; and

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

3.18 (2) the amount of income, sales and use, motor vehicle sales, or excise taxes paid or
3.19 accrued within the taxable year under this chapter and the amount of taxes based on net
3.20 income paid, sales and use, motor vehicle sales, or excise taxes paid to any other state or
3.21 to any province or territory of Canada, to the extent allowed as a deduction under section
3.22 63(d) of the Internal Revenue Code, but the addition may not be more than the amount
3.23 by which the state itemized deduction exceeds the amount of the standard deduction as
3.24 defined in section 63(c) of the Internal Revenue Code, minus any addition that would have
3.25 been required under clause (17) if the taxpayer had claimed the standard deduction. For
3.26 the purpose of this clause, income, sales and use, motor vehicle sales, or excise taxes are
3.27 the last itemized deductions disallowed under clause (15);

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

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

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

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

4.7 (7) 80 percent of the depreciation deduction allowed under section 168(k) of the
4.8 Internal Revenue Code. For purposes of this clause, if the taxpayer has an activity that
4.9 in the taxable year generates a deduction for depreciation under section 168(k) and the
4.10 activity generates a loss for the taxable year that the taxpayer is not allowed to claim for
4.11 the taxable year, "the depreciation allowed under section 168(k)" for the taxable year is
4.12 limited to excess of the depreciation claimed by the activity under section 168(k) over the
4.13 amount of the loss from the activity that is not allowed in the taxable year. In succeeding
4.14 taxable years when the losses not allowed in the taxable year are allowed, the depreciation
4.15 under section 168(k) is allowed;

4.16 (8) 80 percent of the amount by which the deduction allowed by section 179 of the
4.17 Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal
4.18 Revenue Code of 1986, as amended through December 31, 2003;

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

4.21 (10) the amount of expenses disallowed under section 290.10, subdivision 2;

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

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

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

4.30 (14) changes to federal taxable income attributable to a net operating loss that the
4.31 taxpayer elected to carry back for more than two years for federal purposes but for which
4.32 the losses can be carried back for only two years under section 290.095, subdivision
4.33 11, paragraph (c);

4.34 (15) the amount of disallowed itemized deductions, but the amount of disallowed
4.35 itemized deductions plus the addition required under clause (2) may not be more than the
4.36 amount by which the itemized deductions as allowed under section 63(d) of the Internal

5.1 Revenue Code exceeds the amount of the standard deduction as defined in section 63(c) of
5.2 the Internal Revenue Code, and reduced by any addition that would have been required
5.3 under clause (17) if the taxpayer had claimed the standard deduction:

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

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

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

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

5.12 (A) such dollar amount, multiplied by

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

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

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

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

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

5.24 (16) the amount of disallowed personal exemptions for taxpayers with federal
5.25 adjusted gross income over the threshold amount:

5.26 (i) the disallowed personal exemption amount is equal to the number of personal
5.27 exemptions allowed under section 151(b) and (c) of the Internal Revenue Code multiplied
5.28 by the dollar amount for personal exemptions under section 151(d)(1) and (2) of the
5.29 Internal Revenue Code, as adjusted for inflation by section 151(d)(4) of the Internal
5.30 Revenue Code, and by the applicable percentage;

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

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

- 6.1 (A) \$150,000 in the case of a joint return or a surviving spouse;
- 6.2 (B) \$125,000 in the case of a head of a household;
- 6.3 (C) \$100,000 in the case of an individual who is not married and who is not a
- 6.4 surviving spouse or head of a household; and
- 6.5 (D) \$75,000 in the case of a married individual filing a separate return; and
- 6.6 (iv) the thresholds shall be increased by an amount equal to:
- 6.7 (A) such dollar amount, multiplied by
- 6.8 (B) the cost-of-living adjustment determined under section 1(f)(3) of the Internal
- 6.9 Revenue Code for the calendar year in which the taxable year begins, by substituting
- 6.10 "calendar year 1990" for "calendar year 1992" in subparagraph (B) thereof; ~~and~~
- 6.11 (17) to the extent deducted in the computation of federal taxable income, for taxable
- 6.12 years beginning after December 31, 2010, and before January 1, 2014, the difference
- 6.13 between the standard deduction allowed under section 63(c) of the Internal Revenue Code
- 6.14 and the standard deduction allowed for 2011, 2012, and 2013 under the Internal Revenue
- 6.15 Code as amended through December 1, 2010; and
- 6.16 (18) to the extent deducted in the computation of federal taxable income,
- 6.17 contributions for which the taxpayer claims a credit under section 290.0682.

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

6.19 December 31, 2014.

6.20 Sec. 3. Minnesota Statutes 2014, section 290.01, subdivision 19c, is amended to read:

6.21 Subd. 19c. **Corporations; additions to federal taxable income.** For corporations,

6.22 there shall be added to federal taxable income:

6.23 (1) the amount of any deduction taken for federal income tax purposes for income,

6.24 excise, or franchise taxes based on net income or related minimum taxes, including but not

6.25 limited to the tax imposed under section 290.0922, paid by the corporation to Minnesota,

6.26 another state, a political subdivision of another state, the District of Columbia, or any

6.27 foreign country or possession of the United States;

6.28 (2) interest not subject to federal tax upon obligations of: the United States, its

6.29 possessions, its agencies, or its instrumentalities; the state of Minnesota or any other

6.30 state, any of its political or governmental subdivisions, any of its municipalities, or any

6.31 of its governmental agencies or instrumentalities; the District of Columbia; or Indian

6.32 tribal governments;

6.33 (3) exempt-interest dividends received as defined in section 852(b)(5) of the Internal

6.34 Revenue Code;

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

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

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

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

7.10 (8) the amount of percentage depletion deducted under sections 611 through 614 and
7.11 291 of the Internal Revenue Code;

7.12 (9) for certified pollution control facilities placed in service in a taxable year
7.13 beginning before December 31, 1986, and for which amortization deductions were elected
7.14 under section 169 of the Internal Revenue Code of 1954, as amended through December
7.15 31, 1985, the amount of the amortization deduction allowed in computing federal taxable
7.16 income for those facilities;

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

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

7.23 (12) 80 percent of the depreciation deduction allowed under section 168(k)(1)(A)
7.24 and (k)(4)(A) of the Internal Revenue Code. For purposes of this clause, if the taxpayer
7.25 has an activity that in the taxable year generates a deduction for depreciation under
7.26 section 168(k)(1)(A) and (k)(4)(A) and the activity generates a loss for the taxable year
7.27 that the taxpayer is not allowed to claim for the taxable year, "the depreciation allowed
7.28 under section 168(k)(1)(A) and (k)(4)(A)" for the taxable year is limited to excess of the
7.29 depreciation claimed by the activity under section 168(k)(1)(A) and (k)(4)(A) over the
7.30 amount of the loss from the activity that is not allowed in the taxable year. In succeeding
7.31 taxable years when the losses not allowed in the taxable year are allowed, the depreciation
7.32 under section 168(k)(1)(A) and (k)(4)(A) is allowed;

7.33 (13) 80 percent of the amount by which the deduction allowed by section 179 of the
7.34 Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal
7.35 Revenue Code of 1986, as amended through December 31, 2003;

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

8.3 (15) the amount of expenses disallowed under section 290.10, subdivision 2; ~~and~~

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

8.6 (17) to the extent deducted in the computation of federal taxable income,
8.7 contributions for which the taxpayer claims a credit under section 290.0682.

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

8.10 **Sec. 4. [290.0682] CREDIT FOR CONTRIBUTIONS TO LAND TRUSTS.**

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

8.13 (b) "Land trust" means a community land trust as defined in section 462A.30,
8.14 subdivision 8, and as used in section 462A.31.

8.15 (c) "Qualified city" means a city in Minnesota in which:

8.16 (1) the average vacancy rate for rental housing located in the city, and in any other
8.17 city located within 25 miles or less of the boundaries of the city, has been five percent or
8.18 less for at least the prior two-year period;

8.19 (2) fewer than five residential units per 1,000 residents were constructed in the city
8.20 in each of the last ten years; and

8.21 (3) the population exceeds 1,500.

8.22 (d) "Qualified employee" means a person employed by a qualified taxpayer at a
8.23 location within 25 miles of the boundaries of the qualified city in which the land trust
8.24 owns land.

8.25 (e) "Qualified housing" means newly constructed owner-occupied housing built on
8.26 land owned by a land trust and offered for sale at a price at or below 250 percent of the
8.27 median sale price for owner-occupied housing in the county.

8.28 (f) "Qualified taxpayer" means a taxpayer with at least 25 employees.

8.29 **Subd. 2. Credit allowed.** A qualified taxpayer is allowed a credit against the
8.30 tax imposed under this chapter for contributions to land trusts used to buy land and
8.31 develop qualified housing in qualified cities. The credit equals five percent of the amount
8.32 contributed. A qualified taxpayer may claim the credit in each of the 20 years following
8.33 the year of the contribution, but may not claim the credit in any year in which the number
8.34 of qualified employees is less than the number employed in the year of the contribution.

9.1 Subd. 3. **Proportional credits.** A qualified taxpayer that is a pass-through entity
9.2 must provide each investor a statement indicating the investor's share of the credit amount
9.3 allowed to the pass-through entity based on its share of the pass-through entity's capital
9.4 assets at the time of the contribution.

9.5 Subd. 4. **Credit refundable.** If the amount of the credit under this section for
9.6 any taxable year exceeds the qualified taxpayer's liability for tax under this chapter, the
9.7 commissioner shall refund the excess to the taxpayer. An amount sufficient to pay the
9.8 refunds required by this section is appropriated to the commissioner from the general fund.

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

9.11 Sec. 5. **PROMOTION OF CREATION OF LAND TRUSTS.**

9.12 By January 1, 2016, the commissioner of the Minnesota Housing Finance Agency
9.13 shall develop and implement a plan for promoting and facilitating the creation of land
9.14 trusts, focusing on areas of the state with shortages of workforce housing, demonstrated by
9.15 either low rental vacancy rates or low rates of new construction of owner-occupied housing.

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

9.17 Sec. 6. **APPROPRIATION.**

9.18 \$5,000,000 in fiscal year 2016 is appropriated from the general fund to the
9.19 commissioner of employment and economic development to make grants under the
9.20 workforce housing grants pilot program in Minnesota Statutes, section 116J.549. Any
9.21 unused amounts carryover and remain available through fiscal year 2018. The base
9.22 for fiscal year 2018 is zero. Of these amounts, the commissioner of employment and
9.23 economic development may use up to five percent for administrative expenses.