

SENATE
STATE OF MINNESOTA
NINETY-FIRST SESSION

S.F. No. 4161

(SENATE AUTHORS: CHAMBERLAIN and Rest)

DATE
03/09/2020

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5346 Introduction and first reading
Referred to Taxes

OFFICIAL STATUS

1.1 A bill for an act
1.2 relating to taxation; individual income and corporate franchise; providing
1.3 subtractions for certain capital gains and interest; amending Minnesota Statutes
1.4 2018, sections 290.0132, by adding a subdivision; 290.0134, by adding a
1.5 subdivision.

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

1.7 Section 1. Minnesota Statutes 2018, section 290.0132, is amended by adding a subdivision
1.8 to read:

1.9 Subd. 30. Capital gain and loan interest; employee stock ownership plans and
1.10 worker cooperatives. (a) Subject to the requirements of paragraph (b), the sum of the
1.11 following amounts is a subtraction:

1.12 (1) net capital gain from the sale of employer securities of an eligible Minnesota
1.13 corporation directly or indirectly to a qualified Minnesota employee stock ownership plan
1.14 or an eligible Minnesota worker cooperative; and

1.15 (2) interest earned from a qualified ownership succession loan.

1.16 (b) The subtraction allowed under paragraph (a), clause (1), applies if:

1.17 (1) immediately after the taxpayer sells stock to the qualified Minnesota employee stock
1.18 ownership plan, the plan owns at least 30 percent of:

1.19 (i) each class of outstanding stock of the corporation; or

1.20 (ii) the total value of all outstanding stock of the corporation;

1.21 (2) within 60 days after the taxpayer sells stock to the eligible Minnesota worker
1.22 cooperative, members of the cooperative own at least 30 percent of:

- 2.1 (i) each class of outstanding stock of the corporation; or
- 2.2 (ii) the total value of all outstanding stock of the corporation;
- 2.3 (3) the taxpayer has continuously held the employer securities for at least three years as
- 2.4 of the date of sale; and
- 2.5 (4) the employer securities were not received by the individual in:
- 2.6 (i) a distribution from a plan described in section 401(a) of the Internal Revenue Code;
- 2.7 or
- 2.8 (ii) a transfer pursuant to an option or other right to acquire stock to which section 83,
- 2.9 422, or 423 of the Internal Revenue Code applies.
- 2.10 (c) For purposes of this subdivision, the following terms have the meanings given:
- 2.11 (1) "eligible Minnesota corporation" means a corporation that, on the date of the sale,
- 2.12 employs 500 or fewer full-time equivalent employees and:
- 2.13 (i) has its principal place of business in Minnesota;
- 2.14 (ii) employs at least 20 Minnesota residents who met the requirements for participation
- 2.15 in the qualified Minnesota employee stock ownership plan; or
- 2.16 (iii) employs at least five Minnesota residents who are eligible to purchase membership
- 2.17 in the eligible Minnesota worker cooperative;
- 2.18 (2) "eligible Minnesota worker cooperative" means an eligible worker-owned cooperative
- 2.19 that is a cooperative within the meaning of section 308A.005, subdivision 5, and has its
- 2.20 principal place of business in Minnesota;
- 2.21 (3) "eligible worker-owned cooperative" has the meaning given in section 1042(c)(2)
- 2.22 of the Internal Revenue Code;
- 2.23 (4) "employee stock ownership plan" has the meaning given in section 4975(e)(7) of
- 2.24 the Internal Revenue Code;
- 2.25 (5) "employer securities" has the meaning given in section 409(l) of the Internal Revenue
- 2.26 Code, excluding stock that is readily tradable on an established securities market;
- 2.27 (6) "qualified Minnesota employee stock ownership plan" means an employee stock
- 2.28 ownership plan that is maintained by an eligible Minnesota corporation; and
- 2.29 (7) "qualified ownership succession loan" means:

3.1 (i) a single loan, a part of a series of loans, or an extension of credit to the trustee of a
 3.2 qualified Minnesota employee stock ownership plan of which all proceeds are applied to
 3.3 the acquisition of employer securities of an eligible Minnesota corporation for the qualified
 3.4 Minnesota employee stock ownership plan;

3.5 (ii) a single loan, a part of a series of loans, or an extension of credit to an eligible
 3.6 Minnesota corporation that maintains a qualified Minnesota employee stock ownership plan
 3.7 of which all proceeds are loaned to the trustee of the qualified Minnesota employee stock
 3.8 ownership plan and applied to the acquisition of employer securities of the eligible Minnesota
 3.9 corporation for the qualified Minnesota employee stock ownership plan;

3.10 (iii) a single loan, a part of a series of loans, or an extension of credit to an eligible
 3.11 Minnesota corporation of which at least 90 percent of the proceeds are applied to the
 3.12 redemption of employer securities as part of a plan to convert the corporation to an eligible
 3.13 Minnesota worker cooperative; or

3.14 (iv) a loan used to refinance a qualified ownership succession loan described in item (i),
 3.15 (ii), or (iii).

3.16 (d) For purposes of paragraph (c), clause (7), an employee stock ownership plan must
 3.17 not be treated as a qualified Minnesota employee stock ownership plan, and an eligible
 3.18 worker-owned cooperative must not be treated as an eligible Minnesota worker cooperative,
 3.19 unless the plan or cooperative meets the minimum ownership requirement described in
 3.20 paragraph (b), clause (1) or (2), as applicable, and in the case of paragraph (c) clause (7),
 3.21 item (iv), the minimum ownership requirement is still satisfied on the date of the refinancing.

3.22 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December
 3.23 31, 2019.

3.24 Sec. 2. Minnesota Statutes 2018, section 290.0134, is amended by adding a subdivision
 3.25 to read:

3.26 **Subd. 20. Loan interest; employee stock ownership plans and worker**
 3.27 **cooperatives.** (a) The amount equal to the interest earned from a qualified ownership
 3.28 succession loan by the following entities is a subtraction:

3.29 (1) a bank, as defined in section 581 of the Internal Revenue Code;

3.30 (2) an insurance company;

3.31 (3) a corporation actively engaged in the business of lending money; or

4.1 (4) a regulated investment company, as defined in section 851 of the Internal Revenue
4.2 Code.

4.3 (b) The definitions under section 290.0132, subdivision 30, paragraph (c), apply to this
4.4 subdivision.

4.5 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December
4.6 31, 2019.