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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-EIGHTH SESSION

H. F. No. 1251

03/05/2013 Authored by Lenczewski
The bill was read for the first time and referred to the Committee on Taxes

A bill for an act

relating to taxes; individual income and corporate franchise; providing for federal conformity under certain conditions; proposing coding for new law in Minnesota Statutes, chapter 290.

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

Section 1. **[290.016] FEDERAL CONFORMITY FOR CURRENT TAXABLE YEAR.**

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

(b) "Current taxable year" means taxable years beginning during the calendar year in which the qualified federal enactment occurred, or, in the case of a qualified federal enactment that occurs in January or February, current taxable year means taxable years beginning during the calendar year preceding that in which the qualified federal enactment occurred.

(c) "Minnesota corporate franchise tax revenue" means revenue derived from the tax under sections 290.06, subdivision 1, and 290.0921.

(d) "Minnesota individual income tax revenue" means revenue derived from the tax under sections 290.06, subdivision 2c, and 290.091.

(e) "Nonqualifying provision" means a federal change to the definition of net income in section 290.01, subdivision 19, which was in effect in the preceding taxable year, but which Minnesota did not adopt for the preceding taxable year, but instead required an addition to federal taxable income, subtraction from federal taxable income, or other modification.

(f) "Preceding taxable year" means taxable years beginning during the calendar year preceding that in which the qualified federal enactment occurred, or, in the case of a qualified federal enactment that occurs in January or February, "preceding taxable year" means taxable years beginning during the second calendar year preceding that in which the qualified federal enactment occurred.

(g) "Qualified federal enactment" means a federal tax law that:

(1) modifies the definition of net income in section 290.01, subdivision 19, for the current taxable year; and

(2) was enacted into law after the adjournment of the regular legislative session for the year or within two calendar weeks before the last day of the calendar year in which the legislature is permitted by the constitution to meet in regular session, and before the date on which the legislature reconvenes in regular session.

(h) "Qualified federal tax provision" means a provision of a qualified federal enactment that the commissioner determines is the same or similar to a provision of federal law affecting the computation of net income for the preceding taxable year and the predecessor provision was not a nonqualifying provision.

Subd. 2. Qualified federal tax provisions effective for current taxable year. (a) Each year in which there is one or more qualified federal enactments, the commissioner must estimate the effect of each qualified federal tax provision on Minnesota individual income tax revenues and Minnesota corporate franchise tax revenues for the current taxable year.

(b) Notwithstanding the provisions of section 290.01 specifying that the Internal Revenue Code means the version of the Internal Revenue Code as amended through a specific date, the Internal Revenue Code for the current taxable year includes each qualified federal tax provision if the commissioner estimates that the sum of the effects of all qualified federal tax provisions on Minnesota individual income tax and corporate franchise tax revenues will result in an increase or decrease in Minnesota individual income tax and corporate franchise tax revenues of less than one percent of Minnesota individual income tax and corporate franchise tax revenues estimated for the current taxable year.

(c) Each qualified federal tax provision that becomes effective under this section for the current taxable year is effective at the same time it became effective for federal purposes.

Subd. 3. Federal conformity bracket adjustment; individuals. (a) If the commissioner determines that the conditions required under subdivision 2, paragraph (b), are satisfied, the commissioner must adjust the individual income tax brackets for the current taxable year to offset the effect of the qualified federal tax provisions on Minnesota individual income tax revenues, as provided in paragraph (b).

(b) The commissioner must adjust the individual income tax brackets in section 290.06, subdivision 2c, in a manner such that the aggregate increase or decrease in tax for each income bracket, other than the first bracket, bears the same relationship to the total increase or decrease in tax as the current tax assessed on income in each bracket bears to the total current tax assessed on income in all brackets other than the first bracket. The commissioner may round the brackets as provided in section 290.06, subdivision 2d, paragraph (a).

Subd. 4. Federal conformity surtax; corporations. (a) If the commissioner determines that the conditions required under subdivision 2, paragraph (b), are satisfied, the commissioner must assess a surtax for the current taxable year to offset the effect of the qualified federal tax provisions on corporate franchise tax revenues, as provided in this section. The surtax may be positive, in the case of a qualified federal provision estimated to result in a decrease in Minnesota corporate franchise tax revenue, or negative, in the case of a qualified federal tax provision estimated to result in an increase in Minnesota corporate franchise tax revenue.

(b) The commissioner must assess a surtax on the tax owed under section 290.06, subdivision 1, at the rate necessary to offset the increase or decrease in Minnesota corporate franchise tax revenue resulting from the qualified federal tax provision. The commissioner may round the rate of the surtax to be in an increment of one-tenth of one percent.

Subd. 5. Reports and draft legislation. (a) Within 30 days of a qualified federal enactment, the commissioner must notify the chairs of the legislative committees with jurisdiction over taxes of:

(1) any qualified federal tax provisions included in the qualified federal enactment;

(2) whether or not the qualified federal tax provisions in the qualified federal enactment, in aggregate with any qualified federal tax provisions from previous qualified federal enactments, meet the conditions required under subdivision 2, paragraph (b);

(3) the amount of any bracket adjustment required under subdivision 3; and

(4) the amount and rate of any surtax assessment required under subdivision 4.

(b) By January 15 of the next year, the commissioner must provide the chairs of the house and senate committees with jurisdiction over taxes with draft legislation to update the statutes for any qualified federal tax provisions, bracket adjustments, and surtax assessments in the current taxable year.

Subd. 6. Estimated taxes; exceptions. No addition to tax, penalties, or interest may be made under section 289A.25 or 289A.26, for the current taxable year, with respect to an underpayment of estimated tax, to the extent that the underpayment was created or increased by the changes to the income brackets or the surtax under this section.

- 4.1 **EFFECTIVE DATE.** This section is effective the day following final enactment for
- 4.2 qualified federal enactments occurring in calendar year 2013 and following years.