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State of Minnesota

HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH SESSION

H. F. No. **1869**

01/24/2012 Authored by Mullery, Loeffler, Champion and Slocum
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 taxation; allowing a credit for hiring long-term unemployed
1.3 individuals; proposing coding for new law in Minnesota Statutes, chapter 290.
1.4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.5 Section 1. [290.0693] CREDIT FOR HIRING LONG-TERM UNEMPLOYED.

1.6 Subdivision 1. Credit allowed. An employer is allowed a credit against the tax
1.7 imposed under this chapter equal to 40 percent of the qualified wages paid or incurred by
1.8 the employer during the taxable year to qualified long-term unemployed individuals.

1.9 Subd. 2. Definitions. (a) For purposes of this section, the following terms have
1.10 the meanings given them.

1.11 (b) "Qualified long-term unemployed individual" means any individual who was not
1.12 a student for at least six months during the one-year period ending on the hiring date and
1.13 is certified by the commissioner of employment and economic development as either:

1.14 (1) having aggregate periods of unemployment during the two-year period ending
1.15 on the hiring date which equal or exceed 12 months; or

1.16 (2) receiving unemployment compensation under state or federal law for not less
1.17 than 12 months during the two-year period ending on the hiring date.

1.18 (c) "Qualified wages" means, with respect to any individual, wages attributable to
1.19 service rendered during the one-year period beginning with the day the individual begins
1.20 work for the employer, but not to exceed \$10,000 per year.

1.21 (d) "Student" means an individual enrolled at least half time in a program that leads
1.22 to a degree, certificate, or other recognized educational credential for at least six months
1.23 whether or not consecutive during the one-year period ending on the hiring date.

(e) "Wages" has the meaning given by section 3306(b) of the Internal Revenue Code (determined without regard to any dollar limitation contained in that section), except that it does not include:

(1) any amounts paid or incurred by an employer for any period to any individual for whom the employer receives federally funded payments for on-the-job training of the individual for that period; or

(2) any payments made to the employer (however utilized by the employer) with respect to the individual for that taxable year under a program established under section 482(e) of the Social Security Act (relating to work supplementation payments to employers).

Subd. 3. **Certain wages ineligible.** (a) No credit is allowed under subdivision 1 for wages paid to an individual when:

(1) the individual is a dependent of the taxpayer pursuant to section 152(d)(2)(H) of the Internal Revenue Code, or bears any of the relationships described in subparagraphs (A) to (G) of section 152(d)(2) of the Internal Revenue Code to the taxpayer;

(2) the taxpayer is a corporation and the individual owns, directly or indirectly, more than 50 percent in value of the outstanding stock of the corporation, or, the taxpayer is an entity other than a corporation and the individual owns, directly or indirectly, more than 50 percent of the capital and profits interests in the entity, as determined with the application of section 267(c) of the Internal Revenue Code; or

(3) the taxpayer is an estate or trust and the individual is a fiduciary of the estate or trust, or is an individual who bears any of the relationships described in subparagraphs (A) to (G) of section 152(d)(2) of the Internal Revenue Code to a grantor, beneficiary, or fiduciary of the estate or trust.

(b) No credit is allowed under subdivision 1 for wages paid to an individual if, before the hiring date of the individual, the individual had been employed by the employer at any time.

Subd. 4. **Individuals not meeting minimum employment periods.** (a) For an individual who has performed at least 120 hours, but less than 400 hours, of service for the employer, subdivision 1 must be applied by substituting "25 percent" for "40 percent."

(b) No credit is allowed under subdivision 1 for wages with respect to any individual unless the individual has performed at least 120 hours of service for the employer.

Subd. 5. **Treatment of successor employers; treatment of employees performing services for other persons.** (a) For a successor employer referred to in section 3306 (b)(1) of the Internal Revenue Code, the determination of the amount of the credit under

3.1 this section for wages paid by the successor employer are made in the same manner as if
3.2 the predecessor employer referred to in that section paid the wages.

3.3 (b) No credit is allowed under this section for remuneration paid by an employer to
3.4 an employee for services performed by the employee for another person unless the amount
3.5 reasonably expected to be received by the employer for the services from the other person
3.6 exceeds the remuneration paid by the employer to the employee for the services.

3.7 Subd. 6. **Partnerships and S corporations.** Credits granted to a partnership, a
3.8 limited liability company taxed as a partnership, or an S corporation are passed through
3.9 to the partners, members, or shareholders respectively, pro rata in proportion to each
3.10 partner's, member's, or shareholder's share of the entity's income.

3.11 Subd. 7. **Limitation; carryover.** (a) The credit may not exceed the liability for tax
3.12 imposed under section 290.06, subdivision 1 or 2c, for the taxable year reduced by the sum
3.13 of the nonrefundable credits allowed under this chapter. For a partner in a partnership or a
3.14 shareholder in an S corporation, the credit allowed for the taxable year must not exceed
3.15 the lesser of the amount determined under the preceding sentence for the taxable year or
3.16 an amount (separately computed with respect to the partner's or shareholder's interest in
3.17 the partnership or S corporation) equal to the amount of tax attributable to that portion
3.18 of taxable income which is allocable or apportionable to the partner's or shareholder's
3.19 interest in the partnership or S corporation.

3.20 (b) If the amount of the credit determined under this section for any taxable year
3.21 exceeds the limitation under paragraph (a), the excess is credit carryover to each of the 15
3.22 succeeding taxable years. The entire amount of the excess unused credit for the taxable
3.23 year must be carried first to the earliest of the taxable years to which the credit may be
3.24 carried and then to each successive year to which the credit may be carried. The amount of
3.25 the unused credit which may be added under this paragraph shall not exceed the taxpayer's
3.26 liability for tax less the credit for the taxable year.

3.27 Subd. 8. **Expiration.** The credit expires effective for wages paid in taxable years
3.28 beginning after December 31, 2014.

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