

State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-NINTH SESSION

H. F. No. 3319

03/17/2016 Authored by Fenton, Loonan, Swedzinski and Christensen
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; allowing an additional personal and
1.3 dependent exemption amount; amending Minnesota Statutes 2014, section
290.01, subdivisions 19a, 19b.
1.5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.6 Section 1. Minnesota Statutes 2014, section 290.01, subdivision 19a, is amended to read:

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

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

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

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

1.17 (B) the portion of the exempt-interest dividends derived from interest income
1.18 on obligations of the state of Minnesota or its political or governmental subdivisions,
1.19 municipalities, governmental agencies or instrumentalities, but only if the portion of the
1.20 exempt-interest dividends from such Minnesota sources paid to all shareholders represents
1.21 95 percent or more of the exempt-interest dividends, including any dividends exempt
1.22 under subitem (A), that are paid by the regulated investment company as defined in section
1.23 851(a) of the Internal Revenue Code, or the fund of the regulated investment company as
1.24 defined in section 851(g) of the Internal Revenue Code, making the payment; and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(15) the amount of disallowed itemized deductions, but the amount of disallowed itemized deductions plus the addition required under clause (2) may not be more than the amount by which the itemized deductions as allowed under section 63(d) of the Internal Revenue Code exceeds the amount of the standard deduction as defined in section 63(c) of the Internal Revenue Code, and reduced by any addition that would have been required under clause (17) if the taxpayer had claimed the standard deduction:

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

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

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

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

(A) such dollar amount, multiplied by

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

- 4.1 (iii) the term "itemized deductions" does not include:
- 4.2 (A) the deduction for medical expenses under section 213 of the Internal Revenue
- 4.3 Code;
- 4.4 (B) any deduction for investment interest as defined in section 163(d) of the Internal
- 4.5 Revenue Code; and
- 4.6 (C) the deduction under section 165(a) of the Internal Revenue Code for casualty or
- 4.7 theft losses described in paragraph (2) or (3) of section 165(c) of the Internal Revenue
- 4.8 Code or for losses described in section 165(d) of the Internal Revenue Code;
- 4.9 (16) the amount of disallowed personal exemptions for taxpayers with federal
- 4.10 adjusted gross income over the threshold amount:
- 4.11 (i) the disallowed personal exemption amount is equal to the additional exemption
- 4.12 amount allowed under subdivision 19b, clause (22), plus the number of personal
- 4.13 exemptions allowed under section 151(b) and (c) of the Internal Revenue Code multiplied
- 4.14 by the dollar amount for personal exemptions under section 151(d)(1) and (2) of the
- 4.15 Internal Revenue Code, as adjusted for inflation by section 151(d)(4) of the Internal
- 4.16 Revenue Code, and; the sum of which is multiplied by the applicable percentage;
- 4.17 (ii) "applicable percentage" means two percentage points for each \$2,500 (or
- 4.18 fraction thereof) by which the taxpayer's federal adjusted gross income for the taxable
- 4.19 year exceeds the threshold amount. In the case of a married individual filing a separate
- 4.20 return, the preceding sentence shall be applied by substituting "\$1,250" for "\$2,500." In
- 4.21 no event shall the applicable percentage exceed 100 percent;
- 4.22 (iii) the term "threshold amount" means:
- 4.23 (A) \$150,000 in the case of a joint return or a surviving spouse;
- 4.24 (B) \$125,000 in the case of a head of a household;
- 4.25 (C) \$100,000 in the case of an individual who is not married and who is not a
- 4.26 surviving spouse or head of a household; and
- 4.27 (D) \$75,000 in the case of a married individual filing a separate return; and
- 4.28 (iv) the thresholds shall be increased by an amount equal to:
- 4.29 (A) such dollar amount, multiplied by
- 4.30 (B) the cost-of-living adjustment determined under section 1(f)(3) of the Internal
- 4.31 Revenue Code for the calendar year in which the taxable year begins, by substituting
- 4.32 "calendar year 1990" for "calendar year 1992" in subparagraph (B) thereof; and
- 4.33 (17) to the extent deducted in the computation of federal taxable income, for taxable
- 4.34 years beginning after December 31, 2010, and before January 1, 2014, the difference
- 4.35 between the standard deduction allowed under section 63(c) of the Internal Revenue Code

and the standard deduction allowed for 2011, 2012, and 2013 under the Internal Revenue Code as amended through December 1, 2010.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2015.

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

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

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

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

(3) the amount paid to others, less the amount used to claim the credit allowed under section 290.0674, not to exceed \$1,625 for each qualifying child in grades kindergarten to 6 and \$2,500 for each qualifying child in grades 7 to 12, for tuition, textbooks, and transportation of each qualifying child in attending an elementary or secondary school situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a resident of this state may legally fulfill the state's compulsory attendance laws, which is not operated for profit, and which adheres to the provisions of the Civil Rights Act of 1964 and chapter 363A. For the purposes of this clause, "tuition" includes fees or tuition as defined in section 290.0674, subdivision 1, clause (1). As used in this clause, "textbooks" includes books and other instructional materials and equipment purchased or leased for use in elementary and secondary schools in teaching only those subjects legally and commonly taught in public elementary and secondary schools in this state. Equipment expenses qualifying for deduction includes expenses as defined and limited in section 290.0674, subdivision 1, clause (3). "Textbooks" does not include instructional books and materials used in the teaching of religious tenets, doctrines, or worship, the purpose of which is to instill such tenets, doctrines, or worship, nor does it include books or materials for, or transportation to, extracurricular activities including sporting events, musical or dramatic events, speech activities, driver's education, or similar programs. No deduction is permitted for any expense the taxpayer incurred in using the taxpayer's or the qualifying child's vehicle to provide such transportation for a qualifying child. For purposes of the subtraction provided by this clause, "qualifying child" has the meaning given in section 32(c)(3) of the Internal Revenue Code;

6.1 (4) income as provided under section 290.0802;

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

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

6.10 (7) for individuals who are allowed a federal foreign tax credit for taxes that do not
6.11 qualify for a credit under section 290.06, subdivision 22, an amount equal to the carryover
6.12 of subnational foreign taxes for the taxable year, but not to exceed the total subnational
6.13 foreign taxes reported in claiming the foreign tax credit. For purposes of this clause,
6.14 "federal foreign tax credit" means the credit allowed under section 27 of the Internal
6.15 Revenue Code, and "carryover of subnational foreign taxes" equals the carryover allowed
6.16 under section 904(c) of the Internal Revenue Code minus national level foreign taxes to
6.17 the extent they exceed the federal foreign tax credit;

6.18 (8) in each of the five tax years immediately following the tax year in which an
6.19 addition is required under subdivision 19a, clause (7), or 19c, clause (12), in the case of a
6.20 shareholder of a corporation that is an S corporation, an amount equal to one-fifth of the
6.21 delayed depreciation. For purposes of this clause, "delayed depreciation" means the amount
6.22 of the addition made by the taxpayer under subdivision 19a, clause (7), or subdivision 19c,
6.23 clause (12), in the case of a shareholder of an S corporation, minus the positive value of
6.24 any net operating loss under section 172 of the Internal Revenue Code generated for the
6.25 tax year of the addition. The resulting delayed depreciation cannot be less than zero;

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

6.27 (10) to the extent included in federal taxable income, the amount of compensation
6.28 paid to members of the Minnesota National Guard or other reserve components of the
6.29 United States military for active service, including compensation for services performed
6.30 under the Active Guard Reserve (AGR) program. For purposes of this clause, "active
6.31 service" means (i) state active service as defined in section 190.05, subdivision 5a, clause
6.32 (1); or (ii) federally funded state active service as defined in section 190.05, subdivision
6.33 5b, and "active service" includes service performed in accordance with section 190.08,
6.34 subdivision 3;

6.35 (11) to the extent included in federal taxable income, the amount of compensation
6.36 paid to Minnesota residents who are members of the armed forces of the United States

or United Nations for active duty performed under United States Code, title 10; or the authority of the United Nations;

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

(13) in each of the five tax years immediately following the tax year in which an addition is required under subdivision 19a, clause (8), or 19c, clause (13), in the case of a shareholder of a corporation that is an S corporation, an amount equal to one-fifth of the addition made by the taxpayer under subdivision 19a, clause (8), or 19c, clause (13), in the case of a shareholder of a corporation that is an S corporation, minus the positive value of any net operating loss under section 172 of the Internal Revenue Code generated for the tax year of the addition. If the net operating loss exceeds the addition for the tax year, a subtraction is not allowed under this clause;

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

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

(16) to the extent included in federal taxable income, discharge of indebtedness income resulting from reacquisition of business indebtedness included in federal taxable income under section 108(i) of the Internal Revenue Code. This subtraction applies only to the extent that the income was included in net income in a prior year as a result of the addition under subdivision 19a, clause (13);

8.1 (17) the amount of the net operating loss allowed under section 290.095, subdivision
8.2 11, paragraph (c);

8.3 (18) the amount of expenses not allowed for federal income tax purposes due
8.4 to claiming the railroad track maintenance credit under section 45G(a) of the Internal
8.5 Revenue Code;

8.6 (19) the amount of the limitation on itemized deductions under section 68(b) of the
8.7 Internal Revenue Code;

8.8 (20) the amount of the phaseout of personal exemptions under section 151(d) of
8.9 the Internal Revenue Code; ~~and~~

8.10 (21) to the extent included in federal taxable income, the amount of qualified
8.11 transportation fringe benefits described in section 132(f)(1)(A) and (B) of the Internal
8.12 Revenue Code. The subtraction is limited to the lesser of the amount of qualified
8.13 transportation fringe benefits received in excess of the limitations under section
8.14 132(f)(2)(A) of the Internal Revenue Code for the year or the difference between the
8.15 maximum qualified parking benefits excludable under section 132(f)(2)(B) of the Internal
8.16 Revenue Code minus the amount of transit benefits excludable under section 132(f)(2)(A)
8.17 of the Internal Revenue Code; and

8.18 (22) an additional exemption amount equal to the number of personal exemptions
8.19 allowed under section 151(b) and (c) of the Internal Revenue Code, multiplied by
8.20 one-quarter of the dollar amount for personal exemptions under section 151(d)(1) and
8.21 (2) of the Internal Revenue Code, as adjusted for inflation by section 151(d)(4) of the
8.22 Internal Revenue Code.

8.23 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
8.24 December 31, 2015.