

1.1 A bill for an act

1.2 relating to taxation; individual income; removing certain additions to state
1.3 income tax; amending Minnesota Statutes 2009 Supplement, sections 290.01,
1.4 subdivision 19a; 290.06, subdivision 2c; 290.091, subdivision 2; 290A.03,
1.5 subdivision 3.

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

1.7 Section 1. Minnesota Statutes 2009 Supplement, section 290.01, subdivision 19a,
1.8 is amended to read:

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

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

1.15 (ii) exempt-interest dividends as defined in section 852(b)(5) of the Internal Revenue
1.16 Code, except the portion of the exempt-interest dividends derived from interest income
1.17 on obligations of the state of Minnesota or its political or governmental subdivisions,
1.18 municipalities, governmental agencies or instrumentalities, but only if the portion of the
1.19 exempt-interest dividends from such Minnesota sources paid to all shareholders represents
1.20 95 percent or more of the exempt-interest dividends that are paid by the regulated
1.21 investment company as defined in section 851(a) of the Internal Revenue Code, or the
1.22 fund of the regulated investment company as defined in section 851(g) of the Internal
1.23 Revenue Code, making the payment; and

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

2.4 (2) the amount of income, sales and use, motor vehicle sales, or excise taxes paid
2.5 or accrued within the taxable year under this chapter and the amount of taxes based on
2.6 net income paid, sales and use, motor vehicle sales, or excise taxes paid to any other
2.7 state or to any province or territory of Canada, to the extent allowed as a deduction
2.8 under section 63(d) of the Internal Revenue Code, but the addition may not be more
2.9 than the amount by which the itemized deductions as allowed under section 63(d) of
2.10 the Internal Revenue Code exceeds the amount of the standard deduction as defined in
2.11 section 63(c) of the Internal Revenue Code, disregarding the amounts allowed under
2.12 sections 63(c)(1)(C) and 63(c)(1)(E) of the Internal Revenue Code. For the purpose of
2.13 this paragraph, the disallowance of itemized deductions under section 68 of the Internal
2.14 Revenue Code of 1986, income, sales and use, motor vehicle sales, or excise taxes are
2.15 the last itemized deductions disallowed;

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

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

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

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

2.29 (7) 80 percent of the depreciation deduction allowed under section 168(k) of the
2.30 Internal Revenue Code. For purposes of this clause, if the taxpayer has an activity that
2.31 in the taxable year generates a deduction for depreciation under section 168(k) and the
2.32 activity generates a loss for the taxable year that the taxpayer is not allowed to claim for
2.33 the taxable year, "the depreciation allowed under section 168(k)" for the taxable year is
2.34 limited to excess of the depreciation claimed by the activity under section 168(k) over the
2.35 amount of the loss from the activity that is not allowed in the taxable year. In succeeding

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3.1 taxable years when the losses not allowed in the taxable year are allowed, the depreciation
3.2 under section 168(k) is allowed;

3.3 (8) 80 percent of the amount by which the deduction allowed by section 179 of the
3.4 Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal
3.5 Revenue Code of 1986, as amended through December 31, 2003;

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

3.8 (10) the exclusion allowed under section 139A of the Internal Revenue Code for
3.9 federal subsidies for prescription drug plans;

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

3.11 ~~(12) the amount deducted for qualified tuition and related expenses under section~~
3.12 ~~222 of the Internal Revenue Code, to the extent deducted from gross income;~~

3.13 ~~(13) the amount deducted for certain expenses of elementary and secondary school~~
3.14 ~~teachers under section 62(a)(2)(D) of the Internal Revenue Code, to the extent deducted~~
3.15 ~~from gross income;~~

3.16 ~~(14) the additional standard deduction for property taxes payable that is allowable~~
3.17 ~~under section 63(c)(1)(C) of the Internal Revenue Code;~~

3.18 ~~(15) the additional standard deduction for qualified motor vehicle sales taxes~~
3.19 ~~allowable under section 63(c)(1)(E) of the Internal Revenue Code;~~

3.20 ~~(16)~~ (12) discharge of indebtedness income resulting from reacquisition of business
3.21 indebtedness and deferred under section 108(i) of the Internal Revenue Code; and

3.22 ~~(17)~~ (13) the amount of unemployment compensation exempt from tax under section
3.23 85(c) of the Internal Revenue Code.

3.24 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
3.25 December 31, 2009.

3.26 Sec. 2. Minnesota Statutes 2009 Supplement, section 290.06, subdivision 2c, is
3.27 amended to read:

3.28 Subd. 2c. **Schedules of rates for individuals, estates, and trusts.** (a) The income
3.29 taxes imposed by this chapter upon married individuals filing joint returns and surviving
3.30 spouses as defined in section 2(a) of the Internal Revenue Code must be computed by
3.31 applying to their taxable net income the following schedule of rates:

3.32 (1) On the first \$25,680, 5.35 percent;

3.33 (2) On all over \$25,680, but not over \$102,030, 7.05 percent;

3.34 (3) On all over \$102,030, 7.85 percent.

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4.1 Married individuals filing separate returns, estates, and trusts must compute their
4.2 income tax by applying the above rates to their taxable income, except that the income
4.3 brackets will be one-half of the above amounts.

4.4 (b) The income taxes imposed by this chapter upon unmarried individuals must be
4.5 computed by applying to taxable net income the following schedule of rates:

4.6 (1) On the first \$17,570, 5.35 percent;

4.7 (2) On all over \$17,570, but not over \$57,710, 7.05 percent;

4.8 (3) On all over \$57,710, 7.85 percent.

4.9 (c) The income taxes imposed by this chapter upon unmarried individuals qualifying
4.10 as a head of household as defined in section 2(b) of the Internal Revenue Code must be
4.11 computed by applying to taxable net income the following schedule of rates:

4.12 (1) On the first \$21,630, 5.35 percent;

4.13 (2) On all over \$21,630, but not over \$86,910, 7.05 percent;

4.14 (3) On all over \$86,910, 7.85 percent.

4.15 (d) In lieu of a tax computed according to the rates set forth in this subdivision, the
4.16 tax of any individual taxpayer whose taxable net income for the taxable year is less than
4.17 an amount determined by the commissioner must be computed in accordance with tables
4.18 prepared and issued by the commissioner of revenue based on income brackets of not
4.19 more than \$100. The amount of tax for each bracket shall be computed at the rates set
4.20 forth in this subdivision, provided that the commissioner may disregard a fractional part of
4.21 a dollar unless it amounts to 50 cents or more, in which case it may be increased to \$1.

4.22 (e) An individual who is not a Minnesota resident for the entire year must compute
4.23 the individual's Minnesota income tax as provided in this subdivision. After the
4.24 application of the nonrefundable credits provided in this chapter, the tax liability must
4.25 then be multiplied by a fraction in which:

4.26 (1) the numerator is the individual's Minnesota source federal adjusted gross income
4.27 as defined in section 62 of the Internal Revenue Code and increased by the additions
4.28 required under section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), (9), (12), and
4.29 (13), ~~(16), and (17)~~, and reduced by the Minnesota assignable portion of the subtraction
4.30 for United States government interest under section 290.01, subdivision 19b, clause
4.31 (1), and the subtractions under section 290.01, subdivision 19b, clauses (9), (10), (14),
4.32 (15), (16), and (18), after applying the allocation and assignability provisions of section
4.33 290.081, clause (a), or 290.17; and

4.34 (2) the denominator is the individual's federal adjusted gross income as defined in
4.35 section 62 of the Internal Revenue Code of 1986, increased by the amounts specified in
4.36 section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), (9), (12), and (13), ~~(16), and~~

5.1 ~~(17)~~, and reduced by the amounts specified in section 290.01, subdivision 19b, clauses (1),
5.2 (9), (10), (14), (15), (16), and (18).

5.3 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
5.4 December 31, 2009.

5.5 Sec. 3. Minnesota Statutes 2009 Supplement, section 290.091, subdivision 2, is
5.6 amended to read:

5.7 Subd. 2. **Definitions.** For purposes of the tax imposed by this section, the following
5.8 terms have the meanings given:

5.9 (a) "Alternative minimum taxable income" means the sum of the following for
5.10 the taxable year:

5.11 (1) the taxpayer's federal alternative minimum taxable income as defined in section
5.12 55(b)(2) of the Internal Revenue Code;

5.13 (2) the taxpayer's itemized deductions allowed in computing federal alternative
5.14 minimum taxable income, but excluding:

5.15 (i) the charitable contribution deduction under section 170 of the Internal Revenue
5.16 Code;

5.17 (ii) the medical expense deduction;

5.18 (iii) the casualty, theft, and disaster loss deduction; and

5.19 (iv) the impairment-related work expenses of a disabled person;

5.20 (3) for depletion allowances computed under section 613A(c) of the Internal
5.21 Revenue Code, with respect to each property (as defined in section 614 of the Internal
5.22 Revenue Code), to the extent not included in federal alternative minimum taxable income,
5.23 the excess of the deduction for depletion allowable under section 611 of the Internal
5.24 Revenue Code for the taxable year over the adjusted basis of the property at the end of the
5.25 taxable year (determined without regard to the depletion deduction for the taxable year);

5.26 (4) to the extent not included in federal alternative minimum taxable income, the
5.27 amount of the tax preference for intangible drilling cost under section 57(a)(2) of the
5.28 Internal Revenue Code determined without regard to subparagraph (E);

5.29 (5) to the extent not included in federal alternative minimum taxable income, the
5.30 amount of interest income as provided by section 290.01, subdivision 19a, clause (1); and

5.31 (6) the amount of addition required by section 290.01, subdivision 19a, clauses
5.32 (7) to (9), (12), and (13), ~~(16), and (17)~~;

5.33 less the sum of the amounts determined under the following:

5.34 (1) interest income as defined in section 290.01, subdivision 19b, clause (1);

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6.1 (2) an overpayment of state income tax as provided by section 290.01, subdivision
6.2 19b, clause (2), to the extent included in federal alternative minimum taxable income;

6.3 (3) the amount of investment interest paid or accrued within the taxable year on
6.4 indebtedness to the extent that the amount does not exceed net investment income, as
6.5 defined in section 163(d)(4) of the Internal Revenue Code. Interest does not include
6.6 amounts deducted in computing federal adjusted gross income; and

6.7 (4) amounts subtracted from federal taxable income as provided by section 290.01,
6.8 subdivision 19b, clauses (6), (9) to (16), and (18).

6.9 In the case of an estate or trust, alternative minimum taxable income must be
6.10 computed as provided in section 59(c) of the Internal Revenue Code.

6.11 (b) "Investment interest" means investment interest as defined in section 163(d)(3)
6.12 of the Internal Revenue Code.

6.13 (c) "Net minimum tax" means the minimum tax imposed by this section.

6.14 (d) "Regular tax" means the tax that would be imposed under this chapter (without
6.15 regard to this section and section 290.032), reduced by the sum of the nonrefundable
6.16 credits allowed under this chapter.

6.17 (e) "Tentative minimum tax" equals 6.4 percent of alternative minimum taxable
6.18 income after subtracting the exemption amount determined under subdivision 3.

6.19 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
6.20 December 31, 2009.

6.21 Sec. 4. Minnesota Statutes 2009 Supplement, section 290A.03, subdivision 3, is
6.22 amended to read:

6.23 Subd. 3. **Income.** (1) "Income" means the sum of the following:

6.24 (a) federal adjusted gross income as defined in the Internal Revenue Code; and

6.25 (b) the sum of the following amounts to the extent not included in clause (a):

6.26 (i) all nontaxable income;

6.27 (ii) the amount of a passive activity loss that is not disallowed as a result of section
6.28 469, paragraph (i) or (m) of the Internal Revenue Code and the amount of passive activity
6.29 loss carryover allowed under section 469(b) of the Internal Revenue Code;

6.30 (iii) an amount equal to the total of any discharge of qualified farm indebtedness
6.31 of a solvent individual excluded from gross income under section 108(g) of the Internal
6.32 Revenue Code;

6.33 (iv) cash public assistance and relief;

6.34 (v) any pension or annuity (including railroad retirement benefits, all payments
6.35 received under the federal Social Security Act, Supplemental Security Income, and

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7.1 veterans benefits), which was not exclusively funded by the claimant or spouse, or which
7.2 was funded exclusively by the claimant or spouse and which funding payments were
7.3 excluded from federal adjusted gross income in the years when the payments were made;

7.4 (vi) interest received from the federal or a state government or any instrumentality
7.5 or political subdivision thereof;

7.6 (vii) workers' compensation;

7.7 (viii) nontaxable strike benefits;

7.8 (ix) the gross amounts of payments received in the nature of disability income or
7.9 sick pay as a result of accident, sickness, or other disability, whether funded through
7.10 insurance or otherwise;

7.11 (x) a lump-sum distribution under section 402(e)(3) of the Internal Revenue Code of
7.12 1986, as amended through December 31, 1995;

7.13 (xi) contributions made by the claimant to an individual retirement account,
7.14 including a qualified voluntary employee contribution; simplified employee pension plan;
7.15 self-employed retirement plan; cash or deferred arrangement plan under section 401(k)
7.16 of the Internal Revenue Code; or deferred compensation plan under section 457 of the
7.17 Internal Revenue Code;

7.18 (xii) nontaxable scholarship or fellowship grants;

7.19 (xiii) the amount of deduction allowed under section 199 of the Internal Revenue
7.20 Code;

7.21 (xiv) the amount of deduction allowed under section 220 or 223 of the Internal
7.22 Revenue Code; and

7.23 ~~(xv) the amount of tuition expenses required to be added to income under section~~
7.24 ~~290.01, subdivision 19a, clause (12);~~

7.25 ~~(xvi) the amount deducted for certain expenses of elementary and secondary school~~
7.26 ~~teachers under section 62(a)(2)(D) of the Internal Revenue Code; and~~

7.27 ~~(xvii)~~ (xv) unemployment compensation.

7.28 In the case of an individual who files an income tax return on a fiscal year basis, the
7.29 term "federal adjusted gross income" shall mean federal adjusted gross income reflected
7.30 in the fiscal year ending in the calendar year. Federal adjusted gross income shall not be
7.31 reduced by the amount of a net operating loss carryback or carryforward or a capital loss
7.32 carryback or carryforward allowed for the year.

7.33 (2) "Income" does not include:

7.34 (a) amounts excluded pursuant to the Internal Revenue Code, sections 101(a) and
7.35 102;

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8.1 (b) amounts of any pension or annuity which was exclusively funded by the claimant
8.2 or spouse and which funding payments were not excluded from federal adjusted gross
8.3 income in the years when the payments were made;

8.4 (c) surplus food or other relief in kind supplied by a governmental agency;

8.5 (d) relief granted under this chapter;

8.6 (e) child support payments received under a temporary or final decree of dissolution
8.7 or legal separation; or

8.8 (f) restitution payments received by eligible individuals and excludable interest as
8.9 defined in section 803 of the Economic Growth and Tax Relief Reconciliation Act of
8.10 2001, Public Law 107-16.

8.11 (3) The sum of the following amounts may be subtracted from income:

8.12 (a) for the claimant's first dependent, the exemption amount multiplied by 1.4;

8.13 (b) for the claimant's second dependent, the exemption amount multiplied by 1.3;

8.14 (c) for the claimant's third dependent, the exemption amount multiplied by 1.2;

8.15 (d) for the claimant's fourth dependent, the exemption amount multiplied by 1.1;

8.16 (e) for the claimant's fifth dependent, the exemption amount; and

8.17 (f) if the claimant or claimant's spouse was disabled or attained the age of 65
8.18 on or before December 31 of the year for which the taxes were levied or rent paid, the
8.19 exemption amount.

8.20 For purposes of this subdivision, the "exemption amount" means the exemption
8.21 amount under section 151(d) of the Internal Revenue Code for the taxable year for which
8.22 the income is reported.

8.23 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
8.24 December 31, 2009.