

A bill for an act

relating to taxation; providing a rate reduction for individual income tax to offset state transportation tax increases; amending Minnesota Statutes 2006, sections 290.06, subdivision 2c; 290.091, subdivisions 1, 2, 6.

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

Section 1. **PURPOSE.**

In order to avoid increasing the risk of economic recession in Minnesota while still meeting the state's significant transportation and transit needs, the legislature finds it necessary to implement individual income tax rate reductions to offset the state transportation tax increases enacted in Laws 2008, chapter 152.

Sec. 2. Minnesota Statutes 2006, section 290.06, subdivision 2c, is amended to read:

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

(1) On the first \$25,680, ~~5.35~~ 5.3 percent;

(2) On all over \$25,680, but not over \$102,030, ~~7.05~~ 7 percent;

(3) On all over \$102,030, ~~7.85~~ 7.8 percent.

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

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

H.F. No. 4138, as introduced - 2007-2008th Legislative Session (2007-2008)

(1) On the first \$17,570, ~~5.35~~ 5.3 percent;

(2) On all over \$17,570, but not over \$57,710, ~~7.05~~ 7 percent;

(3) On all over \$57,710, ~~7.85~~ 7.8 percent.

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

(1) On the first \$21,630, ~~5.35~~ 5.3 percent;

(2) On all over \$21,630, but not over \$86,910, ~~7.05~~ 7 percent;

(3) On all over \$86,910, ~~7.85~~ 7.8 percent.

For taxable years beginning after December 31, 2008, and before January 1, 2011, all of the percentage rates in this section are reduced by two-tenths of one percent, to 5.15, 6.85, and 7.65 percent. For taxable years beginning after December 31, 2010, all of the percentage rates in this section are reduced by .35 of one percent, to 5, 6.7, and 7.5 percent.

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

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

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

(2) the denominator is the individual's federal adjusted gross income as defined in section 62 of the Internal Revenue Code of 1986, increased by the amounts specified in section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), and (9), and reduced by the amounts specified in section 290.01, subdivision 19b, clauses (1), (9), (10), (14), (15), and (16).

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2007.

Sec. 3. Minnesota Statutes 2006, section 290.091, subdivision 1, is amended to read:

Subdivision 1. **Imposition of tax.** In addition to all other taxes imposed by this chapter a tax is imposed on individuals, estates, and trusts equal to the excess (if any) of

- (a) an amount equal to ~~6.4~~ 6.2 percent of alternative minimum taxable income after subtracting the exemption amount, over
- (b) the regular tax for the taxable year.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2008.

Sec. 4. Minnesota Statutes 2006, section 290.091, subdivision 2, is amended to read:

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

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

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

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

- (i) the charitable contribution deduction under section 170 of the Internal Revenue Code:

- (A) for taxable years beginning before January 1, 2006, to the extent that the deduction exceeds 1.0 percent of adjusted gross income;

- (B) for taxable years beginning after December 31, 2005, to the full extent of the deduction.

For purposes of this clause, "adjusted gross income" has the meaning given in section 62 of the Internal Revenue Code;

- (ii) the medical expense deduction;

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

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

- (3) for depletion allowances computed under section 613A(c) of the Internal Revenue Code, with respect to each property (as defined in section 614 of the Internal Revenue Code), to the extent not included in federal alternative minimum taxable income, the excess of the deduction for depletion allowable under section 611 of the Internal

H.F. No. 4138, as introduced - 2007-2008th Legislative Session (2007-2008)

Revenue Code for the taxable year over the adjusted basis of the property at the end of the taxable year (determined without regard to the depletion deduction for the taxable year);

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

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

(6) the amount of addition required by section 290.01, subdivision 19a, clauses (7), (8), and (9);

less the sum of the amounts determined under the following:

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

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

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

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

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

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

(c) "Tentative minimum tax" equals ~~6.4~~ 6.2 percent of alternative minimum taxable income after subtracting the exemption amount determined under subdivision 3.

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

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

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2008.

Sec. 5. Minnesota Statutes 2006, section 290.091, subdivision 6, is amended to read:

Subd. 6. Credit for prior years' liability. (a) A credit is allowed against the tax imposed by this chapter on individuals, trusts, and estates equal to the minimum tax credit for the taxable year. The minimum tax credit equals the adjusted net minimum

H.F. No. 4138, as introduced - 2007-2008th Legislative Session (2007-2008)

tax for taxable years beginning after December 31, 1988, reduced by the minimum tax credits allowed in a prior taxable year. The credit may not exceed the excess (if any) for the taxable year of

(1) the regular tax, over

(2) the greater of (i) the tentative alternative minimum tax, or (ii) zero.

(b) The adjusted net minimum tax for a taxable year equals the lesser of the net minimum tax or the excess (if any) of

(1) the tentative minimum tax, over

(2) ~~6.4~~ 6.2 percent of the sum of

(i) adjusted gross income as defined in section 62 of the Internal Revenue Code,

(ii) interest income as defined in section 290.01, subdivision 19a, clause (1),

(iii) interest on specified private activity bonds, as defined in section 57(a)(5) of the Internal Revenue Code, to the extent not included under clause (ii),

(iv) depletion as defined in section 57(a)(1), determined without regard to the last sentence of paragraph (1), of the Internal Revenue Code, less

(v) the deductions allowed in computing alternative minimum taxable income provided in subdivision 2, paragraph (a), clause (2) of the first series of clauses and clauses (1), (2), and (3) of the second series of clauses, and

(vi) the exemption amount determined under subdivision 3.

In the case of an individual who is not a Minnesota resident for the entire year, adjusted net minimum tax must be multiplied by the fraction defined in section 290.06, subdivision 2c, paragraph (e). In the case of a trust or estate, adjusted net minimum tax must be multiplied by the fraction defined under subdivision 4, paragraph (b).

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2008.