SENATE
STATE OF MINNESOTA
NINETY-FIRST SESSION

S.F. No. 5

(SENATE AUTHORS: CHAMBERLAIN)

DATE	D-PG	OFFICIAL STATUS
01/10/2019	46	Introduction and first reading Referred to Taxes
04/25/2019		Comm report: To pass as amended Second reading (Non-revisor companion)

A bill for an act

relating to taxation; providing for conformity and nonconformity to certain federal provisions; modifying certain individual income tax and other miscellaneous provisions; amending Minnesota Statutes 2018, sections 289A.02, subdivision 7; 289A.08, subdivisions 1, 7; 289A.12, subdivision 14; 289A.35; 290.01, subdivisions 19, 22, 29a, 31, by adding subdivisions; 290.0131, subdivisions 1, 3, 10, 12, 13, by adding subdivisions; 290.0132, subdivisions 1, 7, 20, 21, 26, by adding subdivisions; 290.0133, subdivision 12, by adding a subdivision; 290.0134, by adding subdivisions; 290.06, subdivisions 2c, 2d; 290.0672, subdivisions 1, 2; 290.0681, subdivisions 1, 2, 3, 4; 290.0802, subdivision 2; 290.091, subdivision 2; 290.095, subdivision 4; 290.17, subdivision 2; 290.21, subdivision 4; 290.34, by adding a subdivision; 290.92, subdivision 1; 290A.03, subdivisions 3, 12, 15; 290A.04, subdivisions 2, 2a, 4; 291.005, subdivision 1; 297A.68, subdivision 25; 297B.03; 462D.06, subdivisions 1, 2; 469.316, subdivision 1; proposing coding for new law in Minnesota Statutes, chapter 290; repealing Minnesota Statutes 2018, sections 290.0131, subdivisions 7, 11; 290.0133, subdivisions 13, 14; 290.10, subdivision 2.

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

Section 1. Minnesota Statutes 2018, section 289A.02, subdivision 7, is amended to read:

Subd. 7. **Internal Revenue Code.** Unless specifically defined otherwise, "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through ~~December 16, 2016~~ March 31, 2018.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 2. Minnesota Statutes 2018, section 289A.08, subdivision 1, is amended to read:

Subdivision 1. **Generally; individuals.** (a) A taxpayer must file a return for each taxable year the taxpayer is required to file a return under section 6012 of the Internal Revenue Code or meets the requirements under paragraph (d) to file a return, except that:

(1) an individual who is not a Minnesota resident for any part of the year is not required to file a Minnesota income tax return if the individual's gross income derived from Minnesota sources as determined under sections 290.081, paragraph (a), and 290.17, is less than the filing requirements for a single individual who is a full year resident of Minnesota; ~~and~~

(2) an individual who is a Minnesota resident is not required to file a Minnesota income tax return if the individual's gross income derived from Minnesota sources as determined under section 290.17, less the subtractions allowed under section 290.0132, subdivisions 12 and 15, is less than the filing requirements for a single individual who is a full-year resident of Minnesota.

(b) The decedent's final income tax return, and other income tax returns for prior years where the decedent had gross income in excess of the minimum amount at which an individual is required to file and did not file, must be filed by the decedent's personal representative, if any. If there is no personal representative, the return or returns must be filed by the transferees, as defined in section 270C.58, subdivision 3, who receive property of the decedent.

(c) The term "gross income," as it is used in this section, has the same meaning given it in section 290.01, subdivision 20.

(d) The commissioner of revenue shall annually determine the gross income levels at which individuals are required to file a return for each taxable year based on the amounts that may be deducted under section 290.0803 and the personal and dependent exemptions under section 290.0138.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 3. Minnesota Statutes 2018, section 289A.08, subdivision 7, is amended to read:

Subd. 7. **Composite income tax returns for nonresident partners, shareholders, and beneficiaries.** (a) The commissioner may allow a partnership with nonresident partners to file a composite return and to pay the tax on behalf of nonresident partners who have no other Minnesota source income. This composite return must include the names, addresses, Social Security numbers, income allocation, and tax liability for the nonresident partners electing to be covered by the composite return.

(b) The computation of a partner's tax liability must be determined by multiplying the income allocated to that partner by the highest rate used to determine the tax liability for individuals under section 290.06, subdivision 2c. Nonbusiness deductions, standard deductions, or personal exemptions are not allowed.

(c) The partnership must submit a request to use this composite return filing method for nonresident partners. The requesting partnership must file a composite return in the form prescribed by the commissioner of revenue. The filing of a composite return is considered a request to use the composite return filing method.

(d) The electing partner must not have any Minnesota source income other than the income from the partnership and other electing partnerships. If it is determined that the electing partner has other Minnesota source income, the inclusion of the income and tax liability for that partner under this provision will not constitute a return to satisfy the requirements of subdivision 1. The tax paid for the individual as part of the composite return is allowed as a payment of the tax by the individual on the date on which the composite return payment was made. If the electing nonresident partner has no other Minnesota source income, filing of the composite return is a return for purposes of subdivision 1.

(e) This subdivision does not negate the requirement that an individual pay estimated tax if the individual's liability would exceed the requirements set forth in section 289A.25. The individual's liability to pay estimated tax is, however, satisfied when the partnership pays composite estimated tax in the manner prescribed in section 289A.25.

(f) If an electing partner's share of the partnership's gross income from Minnesota sources is less than the filing requirements for a nonresident under this subdivision, the tax liability is zero. However, a statement showing the partner's share of gross income must be included as part of the composite return.

(g) The election provided in this subdivision is only available to a partner who has no other Minnesota source income and who is either (1) a full-year nonresident individual or (2) a trust or estate that does not claim a deduction under either section 651 or 661 of the Internal Revenue Code.

(h) A corporation defined in section 290.9725 and its nonresident shareholders may make an election under this paragraph. The provisions covering the partnership apply to the corporation and the provisions applying to the partner apply to the shareholder.

(i) Estates and trusts distributing current income only and the nonresident individual beneficiaries of the estates or trusts may make an election under this paragraph. The provisions covering the partnership apply to the estate or trust. The provisions applying to the partner apply to the beneficiary.

(j) For the purposes of this subdivision, "income" means the partner's share of federal adjusted gross income from the partnership modified by the additions provided in section 290.0131, subdivisions 8 to ~~11~~ 10 and 15, and the subtractions provided in: (1) section 290.0132, subdivision 9, to the extent the amount is assignable or allocable to Minnesota under section 290.17; and (2) section 290.0132, subdivision 14. The subtraction allowed under section 290.0132, subdivision 9, is only allowed on the composite tax computation to the extent the electing partner would have been allowed the subtraction.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 4. Minnesota Statutes 2018, section 289A.12, subdivision 14, is amended to read:

Subd. 14. **Reporting exempt interest and exempt-interest dividends.** (a) A regulated investment company paying $10 or more in exempt-interest dividends to an individual who is a resident of Minnesota, or any person receiving $10 or more of exempt interest or exempt-interest dividends and paying as nominee to an individual who is a resident of Minnesota, must make a return indicating the amount of the exempt interest or exempt-interest dividends, the name, address, and Social Security number of the recipient, and any other information that the commissioner specifies. The return must be provided to the recipient by February 15 of the year following the year of the payment. The return provided to the recipient must include a clear statement, in the form prescribed by the commissioner, that the exempt interest or exempt-interest dividends must be included in the computation of Minnesota taxable income. By June 1 of each year, the payer must file a copy of the return with the commissioner.

(b) For purposes of this subdivision, the following definitions apply.

(1) "Exempt-interest dividends" mean exempt-interest dividends as defined in section 852(b)(5) of the Internal Revenue Code, but does not include the portion of exempt-interest dividends that are not required to be added to federal ~~taxable~~ adjusted gross income under section 290.0131, subdivision 2, paragraph (b).

(2) "Regulated investment company" means regulated investment company as defined in section 851(a) of the Internal Revenue Code or a fund of the regulated investment company as defined in section 851(g) of the Internal Revenue Code.

(3) "Exempt interest" means income on obligations of any state other than Minnesota, or a political or governmental subdivision, municipality, or governmental agency or instrumentality of any state other than Minnesota, and exempt from federal income taxes under the Internal Revenue Code or any other federal statute.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 5. Minnesota Statutes 2018, section 289A.35, is amended to read:

289A.35 ASSESSMENTS ON RETURNS.

(a) The commissioner may audit and adjust the taxpayer's computation of federal adjusted gross income, federal taxable income, items of federal tax preferences, or federal credit amounts to make them conform with the provisions of chapter 290 or section 298.01. If a return has been filed, the commissioner shall enter the liability reported on the return and may make any audit or investigation that is considered necessary.

(b) Upon petition by a taxpayer, and when the commissioner determines that it is in the best interest of the state, the commissioner may allow S corporations and partnerships to receive orders of assessment issued under section 270C.33, subdivision 4, on behalf of their owners, and to pay liabilities shown on such orders. In such cases, the owners' liability must be calculated using the method provided in section 289A.08, subdivision 7, paragraph (b).

(c) A taxpayer may petition the commissioner for the use of the method described in paragraph (b) after the taxpayer is notified that an audit has been initiated and before an order of assessment has been issued.

(d) A determination of the commissioner under paragraph (b) to grant or deny the petition of a taxpayer cannot be appealed to the Tax Court or any other court.

(e) The commissioner may audit and adjust the taxpayer's computation of tax under chapter 291. In the case of a return filed pursuant to section 289A.10, the commissioner shall notify the estate no later than nine months after the filing date, as provided by section 289A.38, subdivision 2, whether the return is under examination or the return has been processed as filed.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 6. Minnesota Statutes 2018, section 290.01, is amended by adding a subdivision to read:

Subd. 14a. **Surviving spouse.** The term "surviving spouse" means an individual who is a surviving spouse under section 2(a) of the Internal Revenue Code for the taxable year.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 7. Minnesota Statutes 2018, section 290.01, subdivision 19, is amended to read:

Subd. 19. **Net income.** (a) For a corporation taxable under section 290.02, and an estate or a trust taxable under section 290.03, the term "net income" means the federal taxable income, as defined in section 63 of the Internal Revenue Code of 1986, as amended through the date named in this subdivision, incorporating the federal effective dates of changes to the Internal Revenue Code and any elections made by the taxpayer in accordance with the Internal Revenue Code in determining federal taxable income for federal income tax purposes, and with the modifications provided in sections 290.0131 to 290.0136.

(b) For an individual, the term "net income" means federal adjusted gross income with the modifications provided in sections 290.0131, 290.0132, and 290.0135 to 290.0137.

(c) In the case of a regulated investment company or a fund thereof, as defined in section 851(a) or 851(g) of the Internal Revenue Code, federal taxable income means investment company taxable income as defined in section 852(b)(2) of the Internal Revenue Code, except that:

(1) the exclusion of net capital gain provided in section 852(b)(2)(A) of the Internal Revenue Code does not apply;

(2) the deduction for dividends paid under section 852(b)(2)(D) of the Internal Revenue Code must be applied by allowing a deduction for capital gain dividends and exempt-interest dividends as defined in sections 852(b)(3)(C) and 852(b)(5) of the Internal Revenue Code; and

(3) the deduction for dividends paid must also be applied in the amount of any undistributed capital gains which the regulated investment company elects to have treated as provided in section 852(b)(3)(D) of the Internal Revenue Code.

(d) The net income of a real estate investment trust as defined and limited by section 856(a), (b), and (c) of the Internal Revenue Code means the real estate investment trust taxable income as defined in section 857(b)(2) of the Internal Revenue Code.

(e) The net income of a designated settlement fund as defined in section 468B(d) of the Internal Revenue Code means the gross income as defined in section 468B(b) of the Internal Revenue Code.

(f) The Internal Revenue Code of 1986, as amended through ~~December 16, 2016~~ March 31, 2018, shall be in effect for taxable years beginning after December 31, 1996.

(g) Except as otherwise provided, references to the Internal Revenue Code in this subdivision and sections 290.0131 to 290.0136 mean the code in effect for purposes of determining net income for the applicable year.

EFFECTIVE DATE. This section is effective the day following final enactment, except the changes incorporated by federal changes are effective retroactively at the same time as the changes were effective for federal purposes and the changes amending the new paragraph (a) and adding paragraph (b) are effective for taxable years beginning after December 31, 2018.

Sec. 8. Minnesota Statutes 2018, section 290.01, is amended by adding a subdivision to read:

Subd. 21a. **Adjusted gross income; federal adjusted gross income.** The terms "adjusted gross income" and "federal adjusted gross income" mean adjusted gross income, as defined in section 62 of the Internal Revenue Code, as amended through the date named in subdivision 19, paragraph (f), incorporating the federal effective date of changes to the Internal Revenue Code and any elections made by the taxpayer under the Internal Revenue Code in determining federal adjusted gross income for federal income tax purposes.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 9. Minnesota Statutes 2018, section 290.01, subdivision 22, is amended to read:

Subd. 22. **Taxable net income.** For tax years beginning after December 31, ~~1986~~ 2017, the term "taxable net income" means:

(1) for resident individuals ~~the same as~~, net income less the deductions allowed under section 290.0803;

(2) for individuals who were ~~not~~ residents of Minnesota for less than the entire year, ~~the same as~~ net income less the deductions allowed under section 290.0803, except that the tax is imposed only on the Minnesota apportioned share of that income as determined pursuant to section 290.06, subdivision 2c, paragraph (e);

(3) for all other taxpayers, the part of net income that is allocable to Minnesota by assignment or apportionment under one or more of sections 290.17, 290.191, 290.20, and 290.36, except that for nonresident individuals net income is reduced by the amount of the standard deduction allowable under section 290.0803, subdivision 2, before allocation of net income to Minnesota.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 10. Minnesota Statutes 2018, section 290.01, subdivision 29a, is amended to read:

Subd. 29a. **State itemized deduction.** (a) "State itemized deduction" means federal itemized deductions, as defined in section 63(d) of the Internal Revenue Code, disregarding any ~~limitation under section 68 of the Internal Revenue Code, and reduced by the amount of the addition required under section 290.0131, subdivision 13.~~ changes to itemized deductions made by Public Law 115-97 other than the changes made by section 11027, and disregarding the federal itemized deduction of income or sales taxes under section 164 of the Internal Revenue Code.

(b) For taxable years beginning after December 31, 2017, the amount that would have been allowable as interest under section 163(h)(3)(E) of the Internal Revenue Code, disregarding subparagraph 163(h)(3)(E)(iv), is allowed as a state itemized deduction.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 11. Minnesota Statutes 2018, section 290.01, is amended by adding a subdivision to read:

Subd. 29b. **State standard deduction.** "State standard deduction" means the federal standard deduction computed under section 63(c) and (f) of the Internal Revenue Code, as amended through December 16, 2016, except that for purposes of adjusting the amounts under this subdivision, the provisions of section 1(f) of the Internal Revenue Code, as amended through March 31, 2018, apply.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 12. Minnesota Statutes 2018, section 290.01, subdivision 31, is amended to read:

Subd. 31. **Internal Revenue Code.** Unless specifically defined otherwise, "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through ~~December 16, 2016~~ March 31, 2018. Internal Revenue Code also includes any uncodified provision in federal law that relates to provisions of the Internal Revenue Code that are incorporated into Minnesota law.

EFFECTIVE DATE. This section is effective the day following final enactment and applies to the same taxable years as the changes incorporated by federal changes are effective for federal purposes, including any provisions that are retroactive to taxable years beginning after December 31, 2016.

Sec. 13. Minnesota Statutes 2018, section 290.0131, subdivision 1, is amended to read:

Subdivision 1. **Definition; scope.** (a) For the purposes of this section, "addition" means an amount that must be added to federal ~~taxable~~ adjusted gross income, or for estates and trusts, federal taxable income, in computing net income for the taxable year to which the amounts relate.

(b) The additions in this section apply to individuals, estates, and trusts.

(c) Unless specifically indicated or unless the context clearly indicates otherwise, only amounts that were deducted or excluded in computing federal ~~taxable~~ adjusted gross income, or for estates and trusts, federal taxable income, are an addition under this section.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 14. Minnesota Statutes 2018, section 290.0131, subdivision 3, is amended to read:

Subd. 3. **Income, sales and use, motor vehicle sales, or excise taxes paid.** ~~(a)~~ For trusts and estates, 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, sales and use, motor vehicle sales, or excise taxes paid to any other state or to any province or territory of Canada is an addition to the extent deducted under section 63(d) of the Internal Revenue Code.

~~(b) The addition under paragraph (a) 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. For the purpose of this subdivision, income, sales and use, motor vehicle sales, or excise taxes are the last itemized deductions disallowed under subdivision 12.~~

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 15. Minnesota Statutes 2018, section 290.0131, subdivision 10, is amended to read:

Subd. 10. **Section 179 expensing.** Effective for property placed in service in taxable years beginning before January 1, 2020, 80 percent of the amount by which the deduction allowed under the dollar limits of section 179 of the Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal Revenue Code, as amended through December 31, 2003, is an addition.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2019.

Sec. 16. Minnesota Statutes 2018, section 290.0131, subdivision 12, is amended to read:

Subd. 12. **Disallowed itemized deductions.** (a) The amount of disallowed itemized deductions is an addition. The amount of disallowed itemized deductions~~, plus the addition required under subdivision 3,~~ may not be more than the amount by which the state itemized deductions~~, as allowed under section 63(d) of the Internal Revenue Code,~~ exceeds the amount of the state standard deduction ~~as defined in section 63(c) of the Internal Revenue Code~~.

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

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

(2) 80 percent of the amount of the state itemized deductions otherwise allowable to the taxpayer under the Internal Revenue Code for the taxable year.

(c) "Applicable amount" means $100,000, or $50,000 for a married individual filing a separate return. Each dollar amount is increased by an amount equal to:

(1) that dollar amount, multiplied by

(2) 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) of section 1(f)(3)~~ "1990" for "2016" in section 1(f)(3)(B)(ii) of the Internal Revenue Code.

(d) "Itemized deductions" excludes:

(1) the deduction for medical expenses under section 213 of the Internal Revenue Code;

(2) any deduction for investment interest as defined in section 163(d) of the Internal Revenue Code; and

(3) the deduction under section 165(a) of the Internal Revenue Code for casualty or theft losses described in paragraph (2) or (3) of section 165(c) of the Internal Revenue Code or for losses described in section 165(d) of the Internal Revenue Code.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 17. Minnesota Statutes 2018, section 290.0131, subdivision 13, is amended to read:

Subd. 13. **Disallowed personal exemption amount.** (a) The amount of disallowed personal exemptions for taxpayers with federal adjusted gross income over the threshold amount is an addition.

(b) The disallowed personal exemption amount is equal to the ~~number of~~ personal ~~exemptions~~ and dependent exemption subtraction allowed under section ~~151(b) and (c) of the Internal Revenue Code~~ 290.0132, subdivision 20, multiplied by the ~~dollar amount for personal exemptions under section 151(d)(1) and (2) of the Internal Revenue Code, as adjusted for inflation by section 151(d)(4) of the Internal Revenue Code, and by the~~ applicable percentage.

(c) For a married individual filing a separate return, "applicable percentage" means two percentage points for each $1,250, or fraction of that amount, by which the taxpayer's federal adjusted gross income for the taxable year exceeds the threshold amount. For all other filers, applicable percentage means two percentage points for each $2,500, or fraction of that amount, by which the taxpayer's federal adjusted gross income for the taxable year exceeds the threshold amount. The applicable percentage must not exceed 100 percent.

(d) "Threshold amount" means:

(1) $150,000 for a joint return or a surviving spouse;

(2) $125,000 for a head of a household;

(3) $100,000 for an individual who is not married and who is not a surviving spouse or head of a household; and

(4) $75,000 for a married individual filing a separate return.

(e) The thresholds must be increased by an amount equal to:

(1) the threshold dollar amount, multiplied by

(2) 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) of section 1(f)(3)~~ "1990" for "2016" in section 1(f)(3)(B)(ii) of the Internal Revenue Code.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 18. Minnesota Statutes 2018, section 290.0131, is amended by adding a subdivision to read:

Subd. 15. **Qualified business income addition.** For a trust or estate, the amount deducted under section 199A of the Internal Revenue Code in computing the federal taxable income of the trust or estate is an addition.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 19. Minnesota Statutes 2018, section 290.0131, is amended by adding a subdivision to read:

Subd. 16. **Foreign-derived intangible income.** The amount of foreign-derived intangible income deducted under section 250 of the Internal Revenue Code for the taxable year is an addition.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 20. Minnesota Statutes 2018, section 290.0132, subdivision 1, is amended to read:

Subdivision 1. **Definition; scope.** (a) For the purposes of this section, "subtraction" means an amount that ~~shall~~ is allowed to be subtracted from federal ~~taxable~~ adjusted gross income, or for estates and trusts, federal taxable income, in computing net income for the taxable year to which the amounts relate.

(b) The subtractions in this section apply to individuals, estates, and trusts.

(c) Unless specifically indicated or unless the context clearly indicates otherwise, no amount deducted, subtracted, or otherwise excluded in computing federal ~~taxable~~ adjusted gross income, or for estates and trusts, federal taxable income, is a subtraction under this section.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 21. Minnesota Statutes 2018, section 290.0132, subdivision 7, is amended to read:

Subd. 7. **Charitable contributions for taxpayers who do not itemize.** ~~To the extent not deducted or not deductible under section 408(d)(8)(E) of the Internal Revenue Code in determining federal taxable income by~~ For an individual who does not itemize deductions ~~for federal income tax purposes~~ under section 290.0803 for the taxable year, an amount equal to 50 percent of the excess of charitable contributions over $500 allowable as a state itemized deduction for the taxable year ~~under section 170(a) of the Internal Revenue Code~~ is a subtraction. The subtraction under this subdivision must not include a distribution that is excluded from federal adjusted gross income and that is not deductible under section 408(d)(8)(E) of the Internal Revenue Code.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 22. Minnesota Statutes 2018, section 290.0132, subdivision 20, is amended to read:

Subd. 20. **~~Disallowed~~ Personal and dependent exemption.** ~~The amount of the phaseout of personal exemptions under section 151(d) of the Internal Revenue Code is a subtraction.~~ The amount of personal and dependent exemptions calculated under section 290.0138 is a subtraction.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 23. Minnesota Statutes 2018, section 290.0132, subdivision 21, is amended to read:

Subd. 21. **Military service pension; retirement pay.** To the extent included in federal ~~taxable~~ adjusted gross income, compensation received from a pension or other retirement pay from the federal government for service in the military, as computed under United

States Code, title 10, sections 1401 to 1414, 1447 to 1455, and 12733, is a subtraction. The subtraction is limited to individuals who do not claim the credit under section 290.0677.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 24. Minnesota Statutes 2018, section 290.0132, subdivision 26, is amended to read:

Subd. 26. **Social Security benefits.** (a) A portion of Social Security benefits is allowed as a subtraction. The subtraction equals the ~~lesser~~ greater of ~~Social Security benefits or a maximum~~ the subtraction ~~subject to the limits~~ under paragraphs (b), (c), and (d), or the percentage of Social Security benefits calculated under paragraph (e).

(b) For married taxpayers filing a joint return and surviving spouses, the maximum subtraction equals ~~$4,500~~ $4,590. The maximum subtraction is reduced by 20 percent of provisional income over ~~$77,000~~ $78,530. In no case is the subtraction less than zero.

(c) For single or head-of-household taxpayers, the maximum subtraction equals ~~$3,500~~ $3,570. The maximum subtraction is reduced by 20 percent of provisional income over ~~$60,200~~ $61,400. In no case is the subtraction less than zero.

(d) For married taxpayers filing separate returns, the maximum subtraction equals ~~$2,250~~ one-half the maximum subtraction for joint returns under paragraph (b). The maximum subtraction is reduced by 20 percent of provisional income over ~~$38,500~~ one-half the maximum subtraction for joint returns under paragraph (b). In no case is the subtraction less than zero.

(e) For taxable years beginning after December 31, 2019, for all taxpayers, the subtraction equals ten percent of Social Security benefits, and in each taxable year thereafter, the subtraction is increased by ten percentage points until the total subtraction amount equals 100 percent of Social Security benefits.

(f) For purposes of this subdivision, "provisional income" means modified adjusted gross income as defined in section 86(b)(2) of the Internal Revenue Code, plus one-half of the Social Security benefits received during the taxable year, and "Social Security benefits" has the meaning given in section 86(d)(1) of the Internal Revenue Code.

~~(f)~~ (g) The commissioner shall adjust the maximum subtraction and threshold amounts in paragraphs (b) to (d) by the percentage determined pursuant to the provisions of section 1(f) of the Internal Revenue Code, except that in section 1(f)(3)(B) of the Internal Revenue Code the word ~~"2016"~~ "2018" shall be substituted for the word ~~"1992." For 2018, the commissioner shall then determine the percentage change from the 12 months ending on~~

~~August 31, 2016, to the 12 months ending on August 31, 2017, and in each subsequent year, from the 12 months ending on August 31, 2016, to the 12 months ending on August 31 of the year preceding the taxable year.~~ "2016." The determination of the commissioner pursuant to this subdivision must not be considered a rule and is not subject to the Administrative Procedure Act contained in chapter 14, including section 14.386. The maximum subtraction and threshold amounts as adjusted must be rounded to the nearest $10 amount. If the amount ends in $5, the amount is rounded up to the nearest $10 amount.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 25. Minnesota Statutes 2018, section 290.0132, is amended by adding a subdivision to read:

Subd. 27. **Moving expenses.** The amount of expenses that qualify as a deduction under section 217(a) through (f) of the Internal Revenue Code, disregarding paragraph (k), and only to the extent the expenses are not deducted in computing federal taxable income is a subtraction.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 26. Minnesota Statutes 2018, section 290.0132, is amended by adding a subdivision to read:

Subd. 28. **Global intangible low-taxed income.** The taxpayer's global intangible low-taxed income included under section 951A of the Internal Revenue Code for the taxable year is a subtraction.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 27. Minnesota Statutes 2018, section 290.0132, is amended by adding a subdivision to read:

Subd. 29. **Deferred foreign income.** The amount of deferred foreign income recognized because of section 965 of the Internal Revenue Code, and before any deduction under section 965(c) of the Internal Revenue Code, is a subtraction.

EFFECTIVE DATE. This section is effective retroactively for taxable years beginning after December 31, 2017, and before January 1, 2020.

Sec. 28. Minnesota Statutes 2018, section 290.0132, is amended by adding a subdivision to read:

Subd. 30. **Standard or itemized deduction.** The amount allowed under section 290.0803 is a subtraction.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 29. Minnesota Statutes 2018, section 290.0132, is amended by adding a subdivision to read:

Subd. 31. **Tuition subtraction.** The amount that would have been allowable under section 222 of the Internal Revenue Code, disregarding paragraph (e) and only to the extent the amount is not deducted in computing federal adjusted gross income, is a subtraction.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2019.

Sec. 30. Minnesota Statutes 2018, section 290.0133, subdivision 12, is amended to read:

Subd. 12. **Section 179 expensing.** Effective for property placed in service in taxable years beginning before January 1, 2020, 80 percent of the amount by which the deduction allowed under the dollar limits of section 179 of the Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal Revenue Code, as amended through December 31, 2003, is an addition.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2019.

Sec. 31. Minnesota Statutes 2018, section 290.0133, is amended by adding a subdivision to read:

Subd. 15. **Foreign-derived intangible income.** The amount of foreign-derived intangible income deducted under section 250 of the Internal Revenue Code for the taxable year is an addition.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 32. Minnesota Statutes 2018, section 290.0134, is amended by adding a subdivision to read:

Subd. 17. **Global intangible low-taxed income.** The taxpayer's global intangible low-taxed income included under section 951A of the Internal Revenue Code for the taxable year is a subtraction.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 33. Minnesota Statutes 2018, section 290.0134, is amended by adding a subdivision to read:

Subd. 18. **Deferred foreign income.** The amount of deferred foreign income recognized because of section 965 of the Internal Revenue Code, and before any deduction under section 965(c) of the Internal Revenue Code, is a subtraction.

EFFECTIVE DATE. This section is effective retroactively for taxable years beginning after December 31, 2017, and before January 1, 2020.

Sec. 34. **[290.0138] PERSONAL AND DEPENDENT EXEMPTIONS.**

Subdivision 1. **Personal and dependent exemptions.** (a) A taxpayer is allowed: (1) a personal exemption in the amount of $4,150, and in the case of a married couple filing a joint return an additional personal exemption of $4,150; plus (2) a dependent exemption of $4,150 multiplied by the number of dependents of the taxpayer, as defined under sections 151 and 152 of the Internal Revenue Code.

(b) The personal and dependent exemptions are not allowed to an individual who is eligible to be claimed as a dependent, as defined in sections 151 or 152 of the Internal Revenue Code, by another taxpayer.

Subd. 2. **Cost-of-living adjustment.** For taxable years beginning after December 31, 2019, the commissioner shall annually adjust the amounts in subdivision 1 by the percentage determined pursuant to the provisions of section 1(f) of the Internal Revenue Code as amended through March 31, 2018, except that in section 1(f)(3)(B), the word "2018" shall be substituted for the word "1992." The exemption amount as adjusted for inflation must be rounded to the nearest $50. If the amount is not a multiple of $50, the commissioner shall round down to the next lowest multiple of $50. The determination of the commissioner under this subdivision is not a rule under the Administrative Procedure Act.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 35. Minnesota Statutes 2018, 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 ~~$35,480~~ $37,850, ~~5.35~~ 5.05 percent;

(2) On all over ~~$35,480~~ $37,850, but not over ~~$140,960~~ $150,380, 7.05 percent;

(3) On all over ~~$140,960~~ $150,380, but not over ~~$250,000~~ $266,700, 7.85 percent;

(4) On all over ~~$250,000~~ $266,700, 9.85 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:

(1) On the first ~~$24,270~~ $25,890, ~~5.35~~ 5.05 percent;

(2) On all over ~~$24,270~~ $25,890, but not over ~~$79,730~~ $85,060, 7.05 percent;

(3) On all over ~~$79,730~~ $85,060, but not over ~~$150,000~~ $160,020, 7.85 percent;

(4) On all over ~~$150,000~~ $160,020, 9.85 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 ~~$29,880~~ $31,880, ~~5.35~~ 5.05 percent;

(2) On all over ~~$29,880~~ $31,880, but not over ~~$120,070~~ $128,090, 7.05 percent;

(3) On all over ~~$120,070~~ $128,090, but not over ~~$200,000~~ $213,360, 7.85 percent;

(4) On all over ~~$200,000~~ $213,360, 9.85 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 290.0131, subdivisions 2 and 6 to ~~11~~ 10, and reduced by the Minnesota assignable portion of the subtraction for United States government interest under section 290.0132, subdivision 2, and the subtractions under section 290.0132, subdivisions 9, 10, 14, 15, 17, ~~and~~ 18, and 27 to 29, 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~~, increased by the amounts specified in section 290.0131, subdivisions 2 and 6 to ~~11~~ 10, and reduced by the amounts specified in section 290.0132, subdivisions 2, 9, 10, 14, 15, 17, ~~and~~ 18, and 27 to 29.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 36. Minnesota Statutes 2018, section 290.06, subdivision 2d, is amended to read:

Subd. 2d. **Inflation adjustment of brackets.** (a) For taxable years beginning after December 31, 2013, the minimum and maximum dollar amounts for each rate bracket for which a tax is imposed in subdivision 2c shall be adjusted for inflation by the percentage determined under paragraph (b). ~~For the purpose of making the adjustment as provided in this subdivision all of the rate brackets provided in subdivision 2c shall be the rate brackets as they existed for taxable years beginning after December 31, 2012, and before January 1, 2014.~~ The rate applicable to any rate bracket must not be changed. The dollar amounts setting forth the tax shall be adjusted to reflect the changes in the rate brackets. The rate brackets as adjusted must be rounded to the nearest $10 amount. If the rate bracket ends in $5, it must be rounded up to the nearest $10 amount.

(b) The commissioner shall adjust the rate brackets and by the percentage determined pursuant to the provisions of section 1(f) of the Internal Revenue Code, except that in section 1(f)(3)(B) the word ~~"2012"~~ "2018" shall be substituted for the word ~~"1992." For 2014, the commissioner shall then determine the percent change from the 12 months ending on August 31, 2012, to the 12 months ending on August 31, 2013, and in each subsequent year, from the 12 months ending on August 31, 2012, to the 12 months ending on August 31 of the year preceding the taxable year.~~ "2017." The determination of the commissioner pursuant to this subdivision shall not be considered a "rule" and shall not be subject to the Administrative Procedure Act contained in chapter 14.

No later than December 15 of each year, the commissioner shall announce the specific percentage that will be used to adjust the tax rate brackets.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 37. Minnesota Statutes 2018, section 290.0672, subdivision 1, is amended to read:

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

(b) "Long-term care insurance" means a policy that:

(1) qualifies for a deduction under section 213 of the Internal Revenue Code, disregarding the adjusted gross income test; or meets the requirements given in section 62A.46; or provides similar coverage issued under the laws of another jurisdiction; and

(2) has a lifetime long-term care benefit limit of not less than $100,000; and

(3) has been offered in compliance with the inflation protection requirements of section 62S.23.

(c) "Qualified beneficiary" means the taxpayer or the taxpayer's spouse.

(d) "Premiums deducted in determining ~~federal~~ taxable net income" means the lesser of (1) long-term care insurance premiums that qualify as deductions under section 213 of the Internal Revenue Code; and (2) the total amount deductible for medical ~~care~~ expenses under section 213 of the Internal Revenue Code.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 38. Minnesota Statutes 2018, section 290.0672, subdivision 2, is amended to read:

Subd. 2. **Credit.** A taxpayer is allowed a credit against the tax imposed by this chapter for long-term care insurance policy premiums paid during the tax year. The credit for each policy equals 25 percent of premiums paid to the extent not deducted in determining ~~federal~~ taxable net income. A taxpayer may claim a credit for only one policy for each qualified beneficiary. A maximum of $100 applies to each qualified beneficiary. The maximum total credit allowed per year is $200 for married couples filing joint returns and $100 for all other filers. For a nonresident or part-year resident, the credit determined under this section must be allocated based on the percentage calculated under section 290.06, subdivision 2c, paragraph (e).

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 39. Minnesota Statutes 2018, section 290.0681, subdivision 1, is amended to read:

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

(b) "Account" means the historic credit administration account in the special revenue fund.

(c) "Office" means the State Historic Preservation Office of the Department of Administration.

(d) "Project" means rehabilitation of a certified historic structure, as defined in section 47(c)(3)(A) of the Internal Revenue Code, that is located in Minnesota and is allowed a federal credit.

(e) "Federal credit" means the credit allowed under section ~~47(a)(2)~~ 47(a) of the Internal Revenue Code, except that the amount allowed is deemed to be allocated in the taxable year that the project is placed in service.

(f) "Placed in service" has the meaning used in section 47 of the Internal Revenue Code.

(g) "Qualified rehabilitation expenditures" has the meaning given in section 47 of the Internal Revenue Code.

EFFECTIVE DATE. This section is effective for applications for allocation certificates submitted after December 31, 2018.

Sec. 40. Minnesota Statutes 2018, section 290.0681, subdivision 2, is amended to read:

Subd. 2. **Credit or grant allowed; certified historic structure.** (a) A credit is allowed against the tax imposed under this chapter equal to not more than 100 percent of the credit allowed under section ~~47(a)(2)~~ 47(a) of the Internal Revenue Code for a project. The credit is payable in an amount equal to one-fifth of the total credit amount allowed in the five taxable years beginning with the year the project is placed in service. To qualify for the credit:

(1) the project must receive Part 3 certification and be placed in service during the taxable year; and

(2) the taxpayer must be allowed the federal credit and be issued a credit certificate for the taxable year as provided in subdivision 4.

(b) The commissioner of administration may pay a grant in lieu of the credit. The grant equals 90 percent of the credit that would be allowed for the project. The grant is payable in an amount equal to one-fifth of 90 percent of the credit that would be allowed for the project in the five taxable years beginning with the year the project is placed in service.

(c) In lieu of the credit under paragraph (a), an insurance company may claim a credit against the insurance premiums tax imposed under chapter 297I.

EFFECTIVE DATE. This section is effective for applications for allocation certificates submitted after December 31, 2018.

Sec. 41. Minnesota Statutes 2018, section 290.0681, subdivision 3, is amended to read:

Subd. 3. **Applications; allocations.** (a) To qualify for a credit or grant under this section, the developer of a project must apply to the office before the rehabilitation begins. The application must contain the information and be in the form prescribed by the office. The office may collect a fee for application of up to 0.5 percent of qualified rehabilitation expenditures, up to $40,000, based on estimated qualified rehabilitation expenditures, to offset costs associated with personnel and administrative expenses related to administering the credit and preparing the economic impact report in subdivision 9. Application fees are deposited in the account. The application must indicate if the application is for a credit or a grant in lieu of the credit or a combination of the two and designate the taxpayer qualifying for the credit or the recipient of the grant.

(b) Upon approving an application for credit, the office shall issue allocation certificates that:

(1) verify eligibility for the credit or grant;

(2) state the amount of credit or grant anticipated with the project, with the credit amount equal to 100 percent and the grant amount equal to 90 percent of the federal credit anticipated in the application;

(3) state that the credit or grant allowed may increase or decrease if the federal credit the project receives at the time it is placed in service is different than the amount anticipated at the time the allocation certificate is issued; and

(4) state the fiscal year in which the credit or grant is allocated, and that the taxpayer or grant recipient is entitled to receive one-fifth of the total amount of either the credit or the grant at the time the project is placed in service, provided that date is within three calendar years following the issuance of the allocation certificate.

(c) The office, in consultation with the commissioner, shall determine if the project is eligible for a credit or a grant under this section and must notify the developer in writing of its determination. Eligibility for the credit is subject to review and audit by the commissioner.

(d) The federal credit recapture and repayment requirements under section 50 of the Internal Revenue Code do not apply to the credit allowed under this section.

(e) Any decision of the office under paragraph (c) may be challenged as a contested case under chapter 14. The contested case proceeding must be initiated within 45 days of the date of written notification by the office.

EFFECTIVE DATE. This section is effective for applications for allocation certificates submitted after December 31, 2018.

Sec. 42. Minnesota Statutes 2018, section 290.0681, subdivision 4, is amended to read:

Subd. 4. **Credit certificates; grants.** (a)(1) The developer of a project for which the office has issued an allocation certificate must notify the office when the project is placed in service. Upon verifying that the project has been placed in service, and was allowed a federal credit, the office must issue a credit certificate to the taxpayer designated in the application or must issue a grant to the recipient designated in the application. The credit certificate must state the amount of the credit.

(2) The credit amount equals the federal credit allowed for the project.

(3) The grant amount equals 90 percent of the federal credit allowed for the project.

(b) The recipient of a credit certificate may assign the certificate to another taxpayer before the first one-fifth payment is claimed, which is then allowed the credit under this section or section 297I.20, subdivision 3. An assignment is not valid unless the assignee notifies the commissioner within 30 days of the date that the assignment is made. The commissioner shall prescribe the forms necessary for notifying the commissioner of the assignment of a credit certificate and for claiming a credit by assignment.

(c) Credits passed through to partners, members, shareholders, or owners pursuant to subdivision 5 are not an assignment of a credit certificate under this subdivision.

(d) A grant agreement between the office and the recipient of a grant may allow the grant to be issued to another individual or entity.

EFFECTIVE DATE. This section is effective for applications for allocation certificates submitted after December 31, 2018.

Sec. 43. Minnesota Statutes 2018, section 290.0802, subdivision 2, is amended to read:

Subd. 2. **Subtraction.** (a) A qualified individual is allowed a subtraction from federal ~~taxable~~ adjusted gross income of the individual's subtraction base amount. The excess of the subtraction base amount over the taxable net income computed without regard to the subtraction for the elderly or disabled under section 290.0132, subdivision 5, may be used to reduce the amount of a lump sum distribution subject to tax under section 290.032.

(b)(1) The initial subtraction base amount equals

(i) $12,000 for a married taxpayer filing a joint return if a spouse is a qualified individual,

(ii) $9,600 for a single taxpayer, and

(iii) $6,000 for a married taxpayer filing a separate federal return.

(2) The qualified individual's initial subtraction base amount, then, must be reduced by the sum of nontaxable retirement and disability benefits and one-half of the amount of adjusted gross income in excess of the following thresholds:

(i) $18,000 for a married taxpayer filing a joint return if both spouses are qualified individuals,

(ii) $14,500 for a single taxpayer or for a married couple filing a joint return if only one spouse is a qualified individual, and

(iii) $9,000 for a married taxpayer filing a separate federal return.

(3) In the case of a qualified individual who is under the age of 65, the maximum amount of the subtraction base may not exceed the taxpayer's disability income.

(4) The resulting amount is the subtraction base amount.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 44. **[290.0803] STANDARD OR ITEMIZED DEDUCTION.**

Subdivision 1. **Election.** An individual may elect to claim a state standard deduction in lieu of state itemized deductions. However, in the case of a married individual filing a separate return, if one spouse elects to claim state itemized deductions, the other spouse is not allowed a state standard deduction.

Subd. 2. **Subtraction.** Based on the election under subdivision 1, individuals are allowed to subtract from federal adjusted gross income the state standard deduction or the state itemized deduction.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 45. Minnesota Statutes 2018, 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;

(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 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 290.0131, subdivision 2; and

(6) the amount of addition required by section 290.0131, subdivisions 9 ~~to 11~~, 10, and 16;

(7) the deduction allowed under section 199A of the Internal Revenue Code;

less the sum of the amounts determined under the following:

(i) interest income as defined in section 290.0132, subdivision 2;

(ii) an overpayment of state income tax as provided by section 290.0132, subdivision 3, to the extent included in federal alternative minimum taxable income;

(iii) 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;

(iv) amounts subtracted from federal ~~taxable~~ adjusted gross income as provided by section 290.0132, subdivisions 7, 9 to 15, 17, 21, 24, and 26 to 29; ~~and~~

(v) the amount of the net operating loss allowed under section 290.095, subdivision 11, paragraph (c)~~.~~; and

(vi) the amount that would have been an allowable deduction under section 165(h) of the Internal Revenue Code, as amended through December 16, 2016, and that was taken as a Minnesota itemized deduction under section 290.01, subdivision 29.

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, except that alternative minimum taxable income must be increased by the amount of the addition under section 290.0131, subdivision 15.

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

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

(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) "Tentative minimum tax" equals 6.75 percent of alternative minimum taxable income after subtracting the exemption amount determined under subdivision 3.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 46. Minnesota Statutes 2018, section 290.095, subdivision 4, is amended to read:

Subd. 4. **Computation and modifications.** The following modifications shall be made in computing a net operating loss in any taxable year and also in computing the taxable net income for any taxable year before a net operating loss deduction shall be allowed:

(a) No deduction shall be allowed for or with respect to losses connected with income producing activities if the income therefrom would not be required to be either assignable to this state or included in computing the taxpayer's taxable net income.

(b) A net operating loss deduction shall not be allowed.

(c) The amount deductible on account of losses from sales or exchanges of capital assets shall not exceed the amount includable on account of gains from sales or exchanges of capital assets.

(d) Renegotiation of profits for a prior taxable year under the renegotiation laws of the United States of America, including renegotiation of the profits with a subcontractor, shall not enter into the computation.

(e) Federal income and excess profits taxes shall not be allowed as a deduction.

(f) The 80-percent limitation under section 172(a)(2) of the Internal Revenue Code does not apply to the computations for corporate taxpayers under this section.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 47. Minnesota Statutes 2018, section 290.17, subdivision 2, is amended to read:

Subd. 2. **Income not derived from conduct of a trade or business.** The income of a taxpayer subject to the allocation rules that is not derived from the conduct of a trade or business must be assigned in accordance with paragraphs (a) to (f):

(a)(1) Subject to paragraphs (a)(2) and (a)(3), income from wages as defined in section 3401(a) ~~and~~, (f), and (i) of the Internal Revenue Code is assigned to this state if, and to the extent that, the work of the employee is performed within it; all other income from such sources is treated as income from sources without this state.

Severance pay shall be considered income from labor or personal or professional services.

(2) In the case of an individual who is a nonresident of Minnesota and who is an athlete or entertainer, income from compensation for labor or personal services performed within this state shall be determined in the following manner:

(i) the amount of income to be assigned to Minnesota for an individual who is a nonresident salaried athletic team employee shall be determined by using a fraction in which the denominator contains the total number of days in which the individual is under a duty to perform for the employer, and the numerator is the total number of those days spent in Minnesota. For purposes of this paragraph, off-season training activities, unless conducted at the team's facilities as part of a team imposed program, are not included in the total number of duty days. Bonuses earned as a result of play during the regular season or for participation in championship, play-off, or all-star games must be allocated under the formula. Signing bonuses are not subject to allocation under the formula if they are not conditional on playing any games for the team, are payable separately from any other compensation, and are nonrefundable; and

(ii) the amount of income to be assigned to Minnesota for an individual who is a nonresident, and who is an athlete or entertainer not listed in item (i), for that person's athletic or entertainment performance in Minnesota shall be determined by assigning to this state all income from performances or athletic contests in this state.

(3) For purposes of this section, amounts received by a nonresident as "retirement income" as defined in section (b)(1) of the State Income Taxation of Pension Income Act, Public Law 104-95, are not considered income derived from carrying on a trade or business or from wages or other compensation for work an employee performed in Minnesota, and are not taxable under this chapter.

(b) Income or gains from tangible property located in this state that is not employed in the business of the recipient of the income or gains must be assigned to this state.

(c) Income or gains from intangible personal property not employed in the business of the recipient of the income or gains must be assigned to this state if the recipient of the income or gains is a resident of this state or is a resident trust or estate.

Gain on the sale of a partnership interest is allocable to this state in the ratio of the original cost of partnership tangible property in this state to the original cost of partnership tangible property everywhere, determined at the time of the sale. If more than 50 percent of the value of the partnership's assets consists of intangibles, gain or loss from the sale of the partnership interest is allocated to this state in accordance with the sales factor of the partnership for its first full tax period immediately preceding the tax period of the partnership during which the partnership interest was sold.

Gain on the sale of an interest in a single member limited liability company that is disregarded for federal income tax purposes is allocable to this state as if the single member limited liability company did not exist and the assets of the limited liability company are personally owned by the sole member.

Gain on the sale of goodwill or income from a covenant not to compete that is connected with a business operating all or partially in Minnesota is allocated to this state to the extent that the income from the business in the year preceding the year of sale was allocable to Minnesota under subdivision 3.

When an employer pays an employee for a covenant not to compete, the income allocated to this state is in the ratio of the employee's service in Minnesota in the calendar year preceding leaving the employment of the employer over the total services performed by the employee for the employer in that year.

(d) Income from winnings on a bet made by an individual while in Minnesota is assigned to this state. In this paragraph, "bet" has the meaning given in section 609.75, subdivision 2, as limited by section 609.75, subdivision 3, clauses (1), (2), and (3).

(e) All items of gross income not covered in paragraphs (a) to (d) and not part of the taxpayer's income from a trade or business shall be assigned to the taxpayer's domicile.

(f) For the purposes of this section, working as an employee shall not be considered to be conducting a trade or business.

EFFECTIVE DATE. This section is effective for wages paid after December 31, 2017.

Sec. 48. Minnesota Statutes 2018, section 290.21, subdivision 4, is amended to read:

Subd. 4. **Dividends received from another corporation.** (a)(1) Eighty percent of dividends received by a corporation during the taxable year from another corporation, in which the recipient owns 20 percent or more of the stock, by vote and value, not including stock described in section 1504(a)(4) of the Internal Revenue Code when the corporate stock with respect to which dividends are paid does not constitute the stock in trade of the taxpayer or would not be included in the inventory of the taxpayer, or does not constitute property held by the taxpayer primarily for sale to customers in the ordinary course of the taxpayer's trade or business, or when the trade or business of the taxpayer does not consist principally of the holding of the stocks and the collection of the income and gains therefrom; and

(2)(i) the remaining 20 percent of dividends if the dividends received are the stock in an affiliated company transferred in an overall plan of reorganization and the dividend is eliminated in consolidation under Treasury Department Regulation 1.1502-14(a), as amended through December 31, 1989;

(ii) the remaining 20 percent of dividends if the dividends are received from a corporation which is subject to tax under section 290.36 and which is a member of an affiliated group of corporations as defined by the Internal Revenue Code and the dividend is eliminated in consolidation under Treasury Department Regulation 1.1502-14(a), as amended through December 31, 1989, or is deducted under an election under section 243(b) of the Internal Revenue Code; or

(iii) the remaining 20 percent of the dividends if the dividends are received from a property and casualty insurer as defined under section 60A.60, subdivision 8, which is a member of an affiliated group of corporations as defined by the Internal Revenue Code and either: (A) the dividend is eliminated in consolidation under Treasury Regulation 1.1502-14(a), as amended through December 31, 1989; or (B) the dividend is deducted under an election under section 243(b) of the Internal Revenue Code.

(b) Seventy percent of dividends received by a corporation during the taxable year from another corporation in which the recipient owns less than 20 percent of the stock, by vote or value, not including stock described in section 1504(a)(4) of the Internal Revenue Code when the corporate stock with respect to which dividends are paid does not constitute the stock in trade of the taxpayer, or does not constitute property held by the taxpayer primarily for sale to customers in the ordinary course of the taxpayer's trade or business, or when the trade or business of the taxpayer does not consist principally of the holding of the stocks and the collection of income and gain therefrom.

(c) The dividend deduction provided in this subdivision shall be allowed only with respect to dividends that are included in a corporation's Minnesota taxable net income for the taxable year.

The dividend deduction provided in this subdivision does not apply to a dividend from a corporation which, for the taxable year of the corporation in which the distribution is made or for the next preceding taxable year of the corporation, is a corporation exempt from tax under section 501 of the Internal Revenue Code.

The dividend deduction provided in this subdivision does not apply to a dividend received from a real estate investment trust as defined in section 856 of the Internal Revenue Code.

The dividend deduction provided in this subdivision applies to the amount of regulated investment company dividends only to the extent determined under section 854(b) of the Internal Revenue Code.

The dividend deduction provided in this subdivision shall not be allowed with respect to any dividend for which a deduction is not allowed under the provisions of section 246(c) or 246A of the Internal Revenue Code.

(d) If dividends received by a corporation that does not have nexus with Minnesota under the provisions of Public Law 86-272 are included as income on the return of an affiliated corporation permitted or required to file a combined report under section 290.17, subdivision 4, or 290.34, subdivision 2, then for purposes of this subdivision the determination as to whether the trade or business of the corporation consists principally of the holding of stocks and the collection of income and gains therefrom shall be made with reference to the trade or business of the affiliated corporation having a nexus with Minnesota.

(e) The deduction provided by this subdivision does not apply if the dividends are paid by a FSC as defined in section 922 of the Internal Revenue Code.

(f) If one or more of the members of the unitary group whose income is included on the combined report received a dividend, the deduction under this subdivision for each member of the unitary business required to file a return under this chapter is the product of: (1) 100 percent of the dividends received by members of the group; (2) the percentage allowed pursuant to paragraph (a) or (b); and (3) the percentage of the taxpayer's business income apportionable to this state for the taxable year under section 290.191 or 290.20.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 49. Minnesota Statutes 2018, section 290.34, is amended by adding a subdivision to read:

Subd. 5. **Insurance companies; interest expense limitation.** To be consistent with the federal treatment of the interest expense limitation under section 163(j) of the Internal Revenue Code for an affiliated group that includes an insurance company taxable under chapter 297I and exempt from taxation under section 290.05, subdivision 1, clause (c), the rules under this subdivision apply. In that case, the interest expense limitation under section 163(j) of the Internal Revenue Code must be computed for the corporation subject to tax under this chapter using the adjusted taxable income of the insurance companies that are part of the affiliated group and taxed under chapter 297I.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 50. Minnesota Statutes 2018, section 290.92, subdivision 1, is amended to read:

Subdivision 1. **Definitions.** (1) **Wages.** For purposes of this section, the term "wages" means the same as that term is defined in section 3401(a) ~~and~~, (f), and (i) of the Internal Revenue Code.

(2) **Payroll period.** For purposes of this section the term "payroll period" means a period for which a payment of wages is ordinarily made to the employee by the employee's employer, and the term "miscellaneous payroll period" means a payroll period other than a daily, weekly, biweekly, semimonthly, monthly, quarterly, semiannual, or annual payroll period.

(3) **Employee.** For purposes of this section the term "employee" means any resident individual performing services for an employer, either within or without, or both within and without the state of Minnesota, and every nonresident individual performing services within the state of Minnesota, the performance of which services constitute, establish, and determine the relationship between the parties as that of employer and employee. As used in the preceding sentence, the term "employee" includes an officer of a corporation, and an officer, employee, or elected official of the United States, a state, or any political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing.

(4) **Employer.** For purposes of this section the term "employer" means any person, including individuals, fiduciaries, estates, trusts, partnerships, limited liability companies, and corporations transacting business in or deriving any income from sources within the state of Minnesota for whom an individual performs or performed any service, of whatever nature, as the employee of such person, except that if the person for whom the individual performs or performed the services does not have control of the payment of the wages for such services, the term "employer," except for purposes of paragraph (1), means the person having control of the payment of such wages. As used in the preceding sentence, the term "employer" includes any corporation, individual, estate, trust, or organization which is exempt from taxation under section 290.05 and further includes, but is not limited to, officers of corporations who have control, either individually or jointly with another or others, of the payment of the wages.

(5) **Number of withholding exemptions claimed.** For purposes of this section, the term "number of withholding exemptions claimed" means the number of withholding exemptions claimed in a withholding exemption certificate in effect under subdivision 5, except that if no such certificate is in effect, the number of withholding exemptions claimed shall be considered to be zero.

EFFECTIVE DATE. This section is effective for wages paid after July 1, 2019.

Sec. 51. Minnesota Statutes 2018, section 290A.03, subdivision 3, is amended to read:

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

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

(2) the sum of the following amounts to the extent not included in clause (1):

(i) all nontaxable income;

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

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

(iv) cash public assistance and relief;

(v) any pension or annuity (including railroad retirement benefits, all payments received under the federal Social Security Act, Supplemental Security Income, and veterans benefits), which was not exclusively funded by the claimant or spouse, or which was funded exclusively by the claimant or spouse and which funding payments were excluded from federal adjusted gross income in the years when the payments were made;

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

(vii) workers' compensation;

(viii) nontaxable strike benefits;

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

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

(xi) contributions made by the claimant to an individual retirement account, including a qualified voluntary employee contribution; simplified employee pension plan; self-employed retirement plan; cash or deferred arrangement plan under section 401(k) of the Internal Revenue Code; or deferred compensation plan under section 457 of the Internal Revenue Code, to the extent the sum of amounts exceeds the retirement base amount for the claimant and spouse;

(xii) to the extent not included in federal adjusted gross income, distributions received by the claimant or spouse from a traditional or Roth style retirement account or plan;

(xiii) nontaxable scholarship or fellowship grants;

(xiv) ~~the amount of deduction allowed under section 199 of the Internal Revenue Code~~ <u>alimony received to the extent not included in the recipient's income</u>;

(xv) the amount of deduction allowed under section 220 or 223 of the Internal Revenue Code;

(xvi) the amount deducted for tuition expenses under section 222 of the Internal Revenue Code; ~~and~~

(xvii) the amount deducted for certain expenses of elementary and secondary school teachers under section 62(a)(2)(D) of the Internal Revenue Code~~.~~<u>;</u>

<u>(xviii) the amount excluded from federal adjusted gross income for qualified moving expense reimbursements under section 132(a)(6) of the Internal Revenue Code, as amended through December 16, 2016; and</u>

<u>(xix) the amount deducted from federal adjusted gross income for moving expenses under section 217 of the Internal Revenue Code, as amended through December 16, 2016.</u>

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

(b) "Income" does not include:

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

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

(3) to the extent included in federal adjusted gross income, amounts contributed by the claimant or spouse to a traditional or Roth style retirement account or plan, but not to exceed the retirement base amount reduced by the amount of contributions excluded from federal adjusted gross income, but not less than zero;

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

(5) relief granted under this chapter;

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

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

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

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

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

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

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

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

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

(d)(1) For purposes of this subdivision, the "exemption amount" means ~~the exemption amount under section 151(d) of the Internal Revenue Code for the taxable year for which the income is reported; "retirement base amount" means the deductible amount for the taxable year for the claimant and spouse under section 219(b)(5)(A) of the Internal Revenue Code, adjusted for inflation as provided in section 219(b)(5)(C) of the Internal Revenue Code, without regard to whether the claimant or spouse claimed a deduction; and "traditional or Roth style retirement account or plan" means retirement plans under sections 401, 403, 408, 408A, and 457 of the Internal Revenue Code.~~ $4,150. For taxable years beginning after December 31, 2018, the commissioner shall annually adjust the $4,150 by the percentage determined pursuant to the provisions of section 1(f) of the Internal Revenue Code, as amended through March 31, 2018. The exemption amount as adjusted for inflation must be rounded to the nearest $50. If the amount is not a multiple of $50, the commissioner shall round down to the next lowest multiple of $50. The determination of the commissioner under this subdivision is not a rule under the Administrative Procedure Act, including section 14.386; and

(2) "retirement base amount" means the deductible amount for the taxable year for the claimant and spouse under section 219(b)(5)(A) of the Internal Revenue Code, adjusted for inflation as provided in section 219(b)(5)(C) of the Internal Revenue Code, without regard to whether the claimant or spouse claimed a deduction, and "traditional or Roth-style retirement account or plan" means retirement plans under sections 401, 403, 408, 408A, and 457 of the Internal Revenue Code.

EFFECTIVE DATE. This section is effective for property tax refunds based on property taxes payable after December 31, 2019, and rent paid after December 31, 2018.

Sec. 52. Minnesota Statutes 2018, section 290A.03, subdivision 12, is amended to read:

Subd. 12. **Gross rent.** (a) "Gross rent" means rental paid for the right of occupancy, at arm's length, of a homestead, exclusive of charges for any medical services furnished by the landlord as a part of the rental agreement, whether expressly set out in the rental agreement or not.

(b) The gross rent of a resident of a nursing home or intermediate care facility is ~~$350~~ $490 per month. The gross rent of a resident of an adult foster care home is ~~$550~~ $760 per month. Beginning for rent paid in ~~2002~~ 2019, the commissioner shall annually adjust for inflation the gross rent amounts stated in this paragraph. The adjustment must be made in accordance with section 1(f) of the Internal Revenue Code, except that for purposes of this paragraph the percentage increase shall be determined from the year ending on June 30, ~~2001~~ 2017, to the year ending on June 30 of the year in which the rent is paid. The commissioner shall round the gross rents to the nearest $10 amount. If the amount ends in $5, the commissioner shall round it up to the next $10 amount. The determination of the commissioner under this paragraph is not a rule under the Administrative Procedure Act.

(c) If the landlord and tenant have not dealt with each other at arm's length and the commissioner determines that the gross rent charged was excessive, the commissioner may adjust the gross rent to a reasonable amount for purposes of this chapter.

(d) Any amount paid by a claimant residing in property assessed pursuant to section 273.124, subdivision 3, 4, 5, or 6 for occupancy in that property shall be excluded from gross rent for purposes of this chapter. However, property taxes imputed to the homestead of the claimant or the dwelling unit occupied by the claimant that qualifies for homestead treatment pursuant to section 273.124, subdivision 3, 4, 5, or 6 shall be included within the term "property taxes payable" as defined in subdivision 13, notwithstanding the fact that ownership is not in the name of the claimant.

EFFECTIVE DATE. This section is effective for refunds based on rent paid after December 31, 2018, and property taxes payable after December 31, 2019.

Sec. 53. Minnesota Statutes 2018, section 290A.03, subdivision 15, is amended to read:

Subd. 15. **Internal Revenue Code.** "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through ~~December 16, 2016~~ March 31, 2018.

EFFECTIVE DATE. This section is effective for property tax refunds based on property taxes payable after December 31, 2019, and rent paid after December 31, 2018.

Sec. 54. Minnesota Statutes 2018, section 290A.04, subdivision 2, is amended to read:

Subd. 2. **Homeowners; homestead credit refund.** A claimant whose property taxes payable are in excess of the percentage of the household income stated below shall pay an amount equal to the percent of income shown for the appropriate household income level along with the percent to be paid by the claimant of the remaining amount of property taxes payable. The state refund equals the amount of property taxes payable that remain, up to the state refund amount shown below.

~~Household Income~~	~~Percent of Income~~	~~Percent Paid by Claimant~~	~~Maximum State Refund~~
~~$0 to 1,619~~	~~1.0 percent~~	~~15 percent~~	~~$ 2,580~~
~~1,620 to 3,229~~	~~1.1 percent~~	~~15 percent~~	~~$ 2,580~~
~~3,230 to 4,889~~	~~1.2 percent~~	~~15 percent~~	~~$ 2,580~~
~~4,890 to 6,519~~	~~1.3 percent~~	~~20 percent~~	~~$ 2,580~~
~~6,520 to 8,129~~	~~1.4 percent~~	~~20 percent~~	~~$ 2,580~~
~~8,130 to 11,389~~	~~1.5 percent~~	~~20 percent~~	~~$ 2,580~~
~~11,390 to 13,009~~	~~1.6 percent~~	~~20 percent~~	~~$ 2,580~~
~~13,010 to 14,649~~	~~1.7 percent~~	~~20 percent~~	~~$ 2,580~~
~~14,650 to 16,269~~	~~1.8 percent~~	~~20 percent~~	~~$ 2,580~~
~~16,270 to 17,879~~	~~1.9 percent~~	~~25 percent~~	~~$ 2,580~~
~~17,880 to 22,779~~	~~2.0 percent~~	~~25 percent~~	~~$ 2,580~~
~~22,780 to 24,399~~	~~2.0 percent~~	~~30 percent~~	~~$ 2,580~~
~~24,400 to 27,659~~	~~2.0 percent~~	~~30 percent~~	~~$ 2,580~~
~~27,660 to 39,029~~	~~2.0 percent~~	~~35 percent~~	~~$ 2,580~~
~~39,030 to 56,919~~	~~2.0 percent~~	~~35 percent~~	~~$ 2,090~~
~~56,920 to 65,049~~	~~2.0 percent~~	~~40 percent~~	~~$ 1,830~~
~~65,050 to 73,189~~	~~2.1 percent~~	~~40 percent~~	~~$ 1,510~~
~~73,190 to 81,319~~	~~2.2 percent~~	~~40 percent~~	~~$ 1,350~~
~~81,320 to 89,449~~	~~2.3 percent~~	~~40 percent~~	~~$ 1,180~~
~~89,450 to 94,339~~	~~2.4 percent~~	~~45 percent~~	~~$ 1,000~~
~~94,340 to 97,609~~	~~2.5 percent~~	~~45 percent~~	~~$ 830~~
~~97,610 to 101,559~~	~~2.5 percent~~	~~50 percent~~	~~$ 680~~
~~101,560 to 105,499~~	~~2.5 percent~~	~~50 percent~~	~~$ 500~~

Household Income	Percent of Income	Percent Paid by Claimant	Maximum State Refund
$0 to 1,729	1.0 percent	15 percent	$ 2,760
1,730 to 3,449	1.1 percent	15 percent	$ 2,760
3,450 to 5,229	1.2 percent	15 percent	$ 2,760
5,230 to 6,969	1.3 percent	20 percent	$ 2,760
6,970 to 8,689	1.4 percent	20 percent	$ 2,760
8,690 to 12,169	1.5 percent	20 percent	$ 2,760
12,170 to 13,899	1.6 percent	20 percent	$ 2,760
13,900 to 15,659	1.7 percent	20 percent	$ 2,760
15,660 to 17,389	1.8 percent	20 percent	$ 2,760
17,390 to 19,109	1.9 percent	25 percent	$ 2,760

19,110 to 24,349	2.0 percent	25 percent	$ 2,760
24,350 to 26,079	2.0 percent	30 percent	$ 2,760
26,080 to 29,559	2.0 percent	30 percent	$ 2,760
29,560 to 41,709	2.0 percent	35 percent	$ 2,760
41,710 to 60,829	2.0 percent	35 percent	$ 2,230
60,830 to 69,519	2.0 percent	40 percent	$ 1,960
69,520 to 78,219	2.1 percent	40 percent	$ 1,610
78,220 to 86,909	2.2 percent	40 percent	$ 1,440
86,910 to 95,599	2.3 percent	40 percent	$ 1,260
95,600 to 100,819	2.4 percent	45 percent	$ 1,070
100,820 to 104,319	2.5 percent	45 percent	$ 890
104,320 to 108,539	2.5 percent	50 percent	$ 730
108,540 to 112,749	2.5 percent	50 percent	$ 530

The payment made to a claimant shall be the amount of the state refund calculated under this subdivision. No payment is allowed if the claimant's household income is ~~$105,500~~ $112,750 or more.

EFFECTIVE DATE. This section is effective for refunds based on property taxes payable after December 31, 2018.

Sec. 55. Minnesota Statutes 2018, section 290A.04, subdivision 2a, is amended to read:

Subd. 2a. **Renters.** A claimant whose rent constituting property taxes exceeds the percentage of the household income stated below must pay an amount equal to the percent of income shown for the appropriate household income level along with the percent to be paid by the claimant of the remaining amount of rent constituting property taxes. The state refund equals the amount of rent constituting property taxes that remain, up to the maximum state refund amount shown below.

~~Household Income~~	~~Percent of Income~~	~~Percent Paid by Claimant~~	~~Maximum State Refund~~
~~$0 to 4,909~~	~~1.0 percent~~	~~5 percent~~	~~$ 2,000~~
~~4,910 to 6,529~~	~~1.0 percent~~	~~10 percent~~	~~$ 2,000~~
~~6,530 to 8,159~~	~~1.1 percent~~	~~10 percent~~	~~$ 1,950~~
~~8,160 to 11,439~~	~~1.2 percent~~	~~10 percent~~	~~$ 1,900~~
~~11,440 to 14,709~~	~~1.3 percent~~	~~15 percent~~	~~$ 1,850~~
~~14,710 to 16,339~~	~~1.4 percent~~	~~15 percent~~	~~$ 1,800~~
~~16,340 to 17,959~~	~~1.4 percent~~	~~20 percent~~	~~$ 1,750~~
~~17,960 to 21,239~~	~~1.5 percent~~	~~20 percent~~	~~$ 1,700~~

~~21,240 to 22,869~~	~~1.6 percent~~	~~20 percent~~	$ ~~1,650~~
~~22,870 to 24,499~~	~~1.7 percent~~	~~25 percent~~	$ ~~1,650~~
~~24,500 to 27,779~~	~~1.8 percent~~	~~25 percent~~	$ ~~1,650~~
~~27,780 to 29,399~~	~~1.9 percent~~	~~30 percent~~	$ ~~1,650~~
~~29,400 to 34,299~~	~~2.0 percent~~	~~30 percent~~	$ ~~1,650~~
~~34,300 to 39,199~~	~~2.0 percent~~	~~35 percent~~	$ ~~1,650~~
~~39,200 to 45,739~~	~~2.0 percent~~	~~40 percent~~	$ ~~1,650~~
~~45,740 to 47,369~~	~~2.0 percent~~	~~45 percent~~	$ ~~1,500~~
~~47,370 to 49,009~~	~~2.0 percent~~	~~45 percent~~	$ ~~1,350~~
~~49,010 to 50,649~~	~~2.0 percent~~	~~45 percent~~	$ ~~1,150~~
~~50,650 to 52,269~~	~~2.0 percent~~	~~50 percent~~	$ ~~1,000~~
~~52,270 to 53,909~~	~~2.0 percent~~	~~50 percent~~	$ ~~900~~
~~53,910 to 55,539~~	~~2.0 percent~~	~~50 percent~~	$ ~~500~~
~~55,540 to 57,169~~	~~2.0 percent~~	~~50 percent~~	$ ~~200~~

Household Income	Percent of Income	Percent Paid by Claimant	Maximum State Refund
$0 to 5,249	1.0 percent	5 percent	$ 2,140
5,250 to 6,979	1.0 percent	10 percent	$ 2,140
6,980 to 8,719	1.1 percent	10 percent	$ 2,080
8,720 to 12,229	1.2 percent	10 percent	$ 2,030
12,230 to 15,719	1.3 percent	15 percent	$ 1,980
15,720 to 17,459	1.4 percent	15 percent	$ 1,920
17,460 to 19,189	1.4 percent	20 percent	$ 1,870
19,190 to 22,699	1.5 percent	20 percent	$ 1,820
22,700 to 24,439	1.6 percent	20 percent	$ 1,760
24,440 to 26,179	1.7 percent	25 percent	$ 1,760
26,180 to 29,689	1.8 percent	25 percent	$ 1,760
29,690 to 31,419	1.9 percent	30 percent	$ 1,760
31,420 to 36,659	2.0 percent	30 percent	$ 1,760
36,660 to 41,889	2.0 percent	35 percent	$ 1,760
41,890 to 48,879	2.0 percent	40 percent	$ 1,760
48,880 to 50,629	2.0 percent	45 percent	$ 1,600
50,630 to 52,379	2.0 percent	45 percent	$ 1,440
52,380 to 54,129	2.0 percent	45 percent	$ 1,230
54,130 to 55,859	2.0 percent	50 percent	$ 1,070
55,860 to 57,619	2.0 percent	50 percent	$ 960

57,620 to 59,359	2.0 percent	50 percent	$ 530
59,360 to 61,099	2.0 percent	50 percent	$ 210

The payment made to a claimant is the amount of the state refund calculated under this subdivision. No payment is allowed if the claimant's household income is ~~$57,170~~ $61,100 or more.

EFFECTIVE DATE. This section is effective for refunds based on rent paid after December 31, 2016.

Sec. 56. Minnesota Statutes 2018, section 290A.04, subdivision 4, is amended to read:

Subd. 4. **Inflation adjustment.** (a) Beginning for property tax refunds payable in calendar year 2002, the commissioner shall annually adjust the dollar amounts of the income thresholds and the maximum refunds under subdivisions 2 and 2a for inflation. The commissioner shall make the inflation adjustments in accordance with section 1(f) of the Internal Revenue Code, except that for purposes of this subdivision the percentage increase shall be determined as provided in this subdivision.

(b) In adjusting the dollar amounts of the income thresholds and the maximum refunds under subdivision 2 for inflation, the percentage increase shall be determined from the year ending on June 30, ~~2013~~ 2018, to the year ending on June 30 of the year preceding that in which the refund is payable.

(c) In adjusting the dollar amounts of the income thresholds and the maximum refunds under subdivision 2a for inflation, the percentage increase shall be determined from the year ending on June 30, ~~2013~~ 2018, to the year ending on June 30 of the year preceding that in which the refund is payable.

(d) The commissioner shall use the appropriate percentage increase to annually adjust the income thresholds and maximum refunds under subdivisions 2 and 2a for inflation without regard to whether or not the income tax brackets are adjusted for inflation in that year. The commissioner shall round the thresholds and the maximum amounts, as adjusted to the nearest $10 amount. If the amount ends in $5, the commissioner shall round it up to the next $10 amount.

(e) The commissioner shall annually announce the adjusted refund schedule at the same time provided under section 290.06. The determination of the commissioner under this subdivision is not a rule under the Administrative Procedure Act.

EFFECTIVE DATE. This section is effective for refunds based on property taxes paid after December 31, 2019, and rent paid after December 31, 2018.

Sec. 57. Minnesota Statutes 2018, section 291.005, subdivision 1, is amended to read:

Subdivision 1. **Scope.** Unless the context otherwise clearly requires, the following terms used in this chapter shall have the following meanings:

(1) "Commissioner" means the commissioner of revenue or any person to whom the commissioner has delegated functions under this chapter.

(2) "Federal gross estate" means the gross estate of a decedent as required to be valued and otherwise determined for federal estate tax purposes under the Internal Revenue Code, increased by the value of any property in which the decedent had a qualifying income interest for life and for which an election was made under section 291.03, subdivision 1d, for Minnesota estate tax purposes, but was not made for federal estate tax purposes.

(3) "Internal Revenue Code" means the United States Internal Revenue Code of 1986, as amended through ~~December 16, 2016~~ March 31, 2018.

(4) "Minnesota gross estate" means the federal gross estate of a decedent after (a) excluding therefrom any property included in the estate which has its situs outside Minnesota, and (b) including any property omitted from the federal gross estate which is includable in the estate, has its situs in Minnesota, and was not disclosed to federal taxing authorities.

(5) "Nonresident decedent" means an individual whose domicile at the time of death was not in Minnesota.

(6) "Personal representative" means the executor, administrator or other person appointed by the court to administer and dispose of the property of the decedent. If there is no executor, administrator or other person appointed, qualified, and acting within this state, then any person in actual or constructive possession of any property having a situs in this state which is included in the federal gross estate of the decedent shall be deemed to be a personal representative to the extent of the property and the Minnesota estate tax due with respect to the property.

(7) "Resident decedent" means an individual whose domicile at the time of death was in Minnesota. The provisions of section 290.01, subdivision 7, paragraphs (c) and (d), apply to determinations of domicile under this chapter.

(8) "Situs of property" means, with respect to:

(i) real property, the state or country in which it is located;

(ii) tangible personal property, the state or country in which it was normally kept or located at the time of the decedent's death or for a gift of tangible personal property within three years of death, the state or country in which it was normally kept or located when the gift was executed;

(iii) a qualified work of art, as defined in section 2503(g)(2) of the Internal Revenue Code, owned by a nonresident decedent and that is normally kept or located in this state because it is on loan to an organization, qualifying as exempt from taxation under section 501(c)(3) of the Internal Revenue Code, that is located in Minnesota, the situs of the art is deemed to be outside of Minnesota, notwithstanding the provisions of item (ii); and

(iv) intangible personal property, the state or country in which the decedent was domiciled at death or for a gift of intangible personal property within three years of death, the state or country in which the decedent was domiciled when the gift was executed.

For a nonresident decedent with an ownership interest in a pass-through entity with assets that include real or tangible personal property, situs of the real or tangible personal property, including qualified works of art, is determined as if the pass-through entity does not exist and the real or tangible personal property is personally owned by the decedent. If the pass-through entity is owned by a person or persons in addition to the decedent, ownership of the property is attributed to the decedent in proportion to the decedent's capital ownership share of the pass-through entity.

(9) "Pass-through entity" includes the following:

(i) an entity electing S corporation status under section 1362 of the Internal Revenue Code;

(ii) an entity taxed as a partnership under subchapter K of the Internal Revenue Code;

(iii) a single-member limited liability company or similar entity, regardless of whether it is taxed as an association or is disregarded for federal income tax purposes under Code of Federal Regulations, title 26, section 301.7701-3; or

(iv) a trust to the extent the property is includible in the decedent's federal gross estate; but excludes

(v) an entity whose ownership interest securities are traded on an exchange regulated by the Securities and Exchange Commission as a national securities exchange under section 6 of the Securities Exchange Act, United States Code, title 15, section 78f.

<u>**EFFECTIVE DATE.** This section is effective retroactively for estates of decedents dying after December 31, 2018.</u>

Sec. 58. Minnesota Statutes 2018, section 297A.68, subdivision 25, is amended to read:

Subd. 25. **Sale of property used in a trade or business.** (a) The sale of tangible personal property primarily used in a trade or business is exempt if the sale is not made in the normal course of business of selling that kind of property and if one of the following conditions is satisfied:

(1) the sale occurs in a transaction subject to or described in section 118, 331, 332, 336, 337, 338, 351, 355, 368, 721, 731, 1031, or 1033 of the Internal Revenue Code, as amended through December 16, 2016;

(2) the sale is between members of a controlled group as defined in section 1563(a) of the Internal Revenue Code;

(3) the sale is a sale of farm machinery;

(4) the sale is a farm auction sale;

(5) the sale is a sale of substantially all of the assets of a trade or business; or

(6) the total amount of gross receipts from the sale of trade or business property made during the calendar month of the sale and the preceding 11 calendar months does not exceed $1,000.

The use, storage, distribution, or consumption of tangible personal property acquired as a result of a sale exempt under this subdivision is also exempt.

(b) For purposes of this subdivision, the following terms have the meanings given.

(1) A "farm auction" is a public auction conducted by a licensed auctioneer if substantially all of the property sold consists of property used in the trade or business of farming and property not used primarily in a trade or business.

(2) "Trade or business" includes the assets of a separate division, branch, or identifiable segment of a trade or business if, before the sale, the income and expenses attributable to the separate division, branch, or identifiable segment could be separately ascertained from the books of account or record (the lease or rental of an identifiable segment does not qualify for the exemption).

(3) A "sale of substantially all of the assets of a trade or business" must occur as a single transaction or a series of related transactions within the 12-month period beginning on the date of the first sale of assets intended to qualify for the exemption provided in paragraph (a), clause (5).

EFFECTIVE DATE. This section is effective retroactively for sales and purchases made after December 31, 2018.

Sec. 59. Minnesota Statutes 2018, section 297B.03, is amended to read:

297B.03 EXEMPTIONS.

There is specifically exempted from the provisions of this chapter and from computation of the amount of tax imposed by it the following:

(1) purchase or use, including use under a lease purchase agreement or installment sales contract made pursuant to section 465.71, of any motor vehicle by the United States and its agencies and instrumentalities and by any person described in and subject to the conditions provided in section 297A.67, subdivision 11;

(2) purchase or use of any motor vehicle by any person who was a resident of another state or country at the time of the purchase and who subsequently becomes a resident of Minnesota, provided the purchase occurred more than 60 days prior to the date such person began residing in the state of Minnesota and the motor vehicle was registered in the person's name in the other state or country;

(3) purchase or use of any motor vehicle by any person making a valid election to be taxed under the provisions of section 297A.90;

(4) purchase or use of any motor vehicle previously registered in the state of Minnesota when such transfer constitutes a transfer within the meaning of section 118, 331, 332, 336, 337, 338, 351, 355, 368, 721, 731, 1031, 1033, or 1563(a) of the Internal Revenue Code, as amended through December 16, 2016;

(5) purchase or use of any vehicle owned by a resident of another state and leased to a Minnesota-based private or for-hire carrier for regular use in the transportation of persons or property in interstate commerce provided the vehicle is titled in the state of the owner or secured party, and that state does not impose a sales tax or sales tax on motor vehicles used in interstate commerce;

(6) purchase or use of a motor vehicle by a private nonprofit or public educational institution for use as an instructional aid in automotive training programs operated by the institution. "Automotive training programs" includes motor vehicle body and mechanical repair courses but does not include driver education programs;

(7) purchase of a motor vehicle by an ambulance service licensed under section 144E.10 when that vehicle is equipped and specifically intended for emergency response or for providing ambulance service;

(8) purchase of a motor vehicle by or for a public library, as defined in section 134.001, subdivision 2, as a bookmobile or library delivery vehicle;

(9) purchase of a ready-mixed concrete truck;

(10) purchase or use of a motor vehicle by a town for use exclusively for road maintenance, including snowplows and dump trucks, but not including automobiles, vans, or pickup trucks;

(11) purchase or use of a motor vehicle by a corporation, society, association, foundation, or institution organized and operated exclusively for charitable, religious, or educational purposes, except a public school, university, or library, but only if the vehicle is:

(i) a truck, as defined in section 168.002, a bus, as defined in section 168.002, or a passenger automobile, as defined in section 168.002, if the automobile is designed and used for carrying more than nine persons including the driver; and

(ii) intended to be used primarily to transport tangible personal property or individuals, other than employees, to whom the organization provides service in performing its charitable, religious, or educational purpose;

(12) purchase of a motor vehicle for use by a transit provider exclusively to provide transit service is exempt if the transit provider is either (i) receiving financial assistance or reimbursement under section 174.24 or 473.384, or (ii) operating under section 174.29, 473.388, or 473.405;

(13) purchase or use of a motor vehicle by a qualified business, as defined in section 469.310, located in a job opportunity building zone, if the motor vehicle is principally garaged in the job opportunity building zone and is primarily used as part of or in direct support of the person's operations carried on in the job opportunity building zone. The exemption under this clause applies to sales, if the purchase was made and delivery received during the duration of the job opportunity building zone. The exemption under this clause also applies to any local sales and use tax;

(14) purchase of a leased vehicle by the lessee who was a participant in a lease-to-own program from a charitable organization that is:

(i) described in section 501(c)(3) of the Internal Revenue Code; and

(ii) licensed as a motor vehicle lessor under section 168.27, subdivision 4; and

(15) purchase of a motor vehicle used exclusively as a mobile medical unit for the provision of medical or dental services by a federally qualified health center, as defined under title 19 of the Social Security Act, as amended by Section 4161 of the Omnibus Budget Reconciliation Act of 1990.

EFFECTIVE DATE. This section is effective retroactively for sales and purchases made after December 31, 2018.

Sec. 60. Minnesota Statutes 2018, section 462D.06, subdivision 1, is amended to read:

Subdivision 1. **Subtraction.** (a) As provided in section 290.0132, subdivision 25, an account holder is allowed a subtraction from ~~the~~ federal ~~taxable~~ adjusted gross income equal to interest or dividends earned on the first-time home buyer savings account during the taxable year.

(b) The subtraction under paragraph (a) is allowed each year for the taxable years including and following the taxable year in which the account was established. No person other than the account holder is allowed a subtraction under this section.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 61. Minnesota Statutes 2018, section 462D.06, subdivision 2, is amended to read:

Subd. 2. **Addition.** (a) As provided in section 290.0131, subdivision 14, an account holder must add to federal ~~taxable~~ adjusted gross income the following amounts:

(1) the amount in excess of the total contributions for all taxable years that is withdrawn and used for other than eligible costs, or for a transfer permitted under section 462D.04, subdivision 2; and

(2) the amount remaining in the first-time home buyer savings account at the close of the tenth taxable year that exceeds the total contributions to the account for all taxable years.

(b) For an account that received a transfer under section 462D.04, subdivision 2, the ten-year period under paragraph (a), clause (2), ends at the close of the earliest taxable year that applies to either account under that clause.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 62. Minnesota Statutes 2018, section 469.316, subdivision 1, is amended to read:

Subdivision 1. **Application.** An individual, estate, or trust operating a trade or business in a job opportunity building zone, and an individual, estate, or trust making a qualifying investment in a qualified business operating in a job opportunity building zone qualifies for the exemptions from taxes imposed under chapter 290, as provided in this section. The exemptions provided under this section apply only to the extent that the income otherwise would be taxable under chapter 290. Subtractions under this section from federal adjusted gross income, federal taxable income, alternative minimum taxable income, or any other base subject to tax are limited to the amount that otherwise would be included in the tax base absent the exemption under this section. This section applies only to taxable years beginning during the duration of the job opportunity building zone.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

Sec. 63. **REPEALER.**

Minnesota Statutes 2018, sections 290.0131, subdivisions 7 and 11; 290.0133, subdivisions 13 and 14; and 290.10, subdivision 2, are repealed.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2018.

290.0131 INDIVIDUALS; ADDITIONS TO FEDERAL TAXABLE INCOME.

Subd. 7. **Fines, fees, and penalties.** The amount of expenses disallowed under section 290.10, subdivision 2, is an addition.

Subd. 11. **Income attributable to domestic production activities.** The amount of the deduction allowable under section 199 of the Internal Revenue Code is an addition.

290.0133 CORPORATIONS; ADDITIONS TO FEDERAL TAXABLE INCOME.

Subd. 13. **Income attributable to domestic production activities.** The amount of the deduction allowable under section 199 of the Internal Revenue Code is an addition.

Subd. 14. **Fines, fees, and penalties.** The amount of expenses disallowed under section 290.10, subdivision 2, is an addition.

290.10 NONDEDUCTIBLE ITEMS.

Subd. 2. **Fines, fees, and penalties.** (a) Except as provided in this subdivision, no deduction from taxable income for a trade or business expense under section 162(a) of the Internal Revenue Code shall be allowed for any amount paid or incurred, whether by suit, agreement, or otherwise, to, or at the direction of, a government or entity described in paragraph (d) in relation to the violation of any law or the investigation or inquiry by such government or entity into the potential violation of any law.

(b) Exception for amounts constituting restitution or paid to come into compliance with the law. Paragraph (a) does not apply to any amount which:

(1) the taxpayer establishes:

(i) constitutes restitution, including remediation of property for damage or harm caused by or which may be caused by the violation of any law or the potential violation of any law; or

(ii) is paid to come into compliance with any law which was violated or involved in the investigation or inquiry; and

(2) is identified as restitution or as an amount paid to come into compliance with the law, as the case may be, in the court order or settlement agreement.

This paragraph does not apply to any amount paid or incurred as reimbursement to the government or entity for the costs of any investigation or litigation.

(c) Paragraph (a) does not apply to any amount paid or incurred by order of a court in a suit in which no government or entity described in paragraph (d) is a party.

(d) An entity is described in this paragraph if it is:

(1) a nongovernmental entity which exercises self-regulatory powers, including imposing sanctions, in connection with a qualified board or exchange, as defined in section 1256(g)(7) of the Internal Revenue Code; or

(2) to the extent provided in federal regulations, a nongovernmental entity which exercises self-regulatory powers, including imposing sanctions, as part of performing an essential governmental function.

(e) Paragraph (a) does not apply to any amount paid or incurred as taxes due.