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State of Minnesota
HOUSE OF REPRESENTATIVES

SPECIAL SESSION

H. F. No. **18**

09/09/2013 Authored by Quam

The bill was read for the first time and referred to the Committee on Rules and Legislative Administration

1.1 A bill for an act
1.2 relating to taxation; corporate franchise; modifying rules for foreign operating
1.3 corporations and exclusion of foreign royalties; amending Minnesota Statutes
1.4 2012, sections 289A.08, subdivision 3, as amended; 290.01, subdivisions 19c,
1.5 as amended, 19d, as amended, by adding a subdivision; 290.0921, subdivision
1.6 3, as amended, by adding a subdivision; 290.095, subdivision 2, as amended;
1.7 290.10, subdivision 1, as amended; 290.17, subdivision 4, as amended; 290.191,
1.8 subdivision 5, as amended.

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

1.10 Section 1. Minnesota Statutes 2012, section 289A.08, subdivision 3, as amended by
1.11 Laws 2013, chapter 143, article 6, section 5, is amended to read:

1.12 Subd. 3. **Corporations.** (a) A corporation that is subject to the state's jurisdiction to
1.13 tax under section 290.014, subdivision 5, must file a return, except that a foreign operating
1.14 corporation as defined in section 290.01, subdivision 6c, is not required to file a return.

1.15 (b) Members of a unitary business that are required to file a combined report on one
1.16 return must designate a member of the unitary business to be responsible for tax matters,
1.17 including the filing of returns, the payment of taxes, additions to tax, penalties, interest,
1.18 or any other payment, and for the receipt of refunds of taxes or interest paid in excess of
1.19 taxes lawfully due. The designated member must be a member of the unitary business that
1.20 is filing the single combined report and either:

1.21 (1) a corporation that is subject to the taxes imposed by chapter 290; or

1.22 (2) a corporation that is not subject to the taxes imposed by chapter 290:

1.23 (i) Such corporation consents by filing the return as a designated member under this
1.24 clause to remit taxes, penalties, interest, or additions to tax due from the members of the
1.25 unitary business subject to tax, and receive refunds or other payments on behalf of other
1.26 members of the unitary business. The member designated under this clause is a "taxpayer"

2.1 for the purposes of this chapter and chapter 270C, and is liable for any liability imposed
 2.2 on the unitary business under this chapter and chapter 290.

2.3 (ii) If the state does not otherwise have the jurisdiction to tax the member designated
 2.4 under this clause, consenting to be the designated member does not create the jurisdiction
 2.5 to impose tax on the designated member, other than as described in item (i).

2.6 (iii) The member designated under this clause must apply for a business tax account
 2.7 identification number.

2.8 (c) The commissioner shall adopt rules for the filing of one return on behalf of the
 2.9 members of an affiliated group of corporations that are required to file a combined report.
 2.10 All members of an affiliated group that are required to file a combined report must file one
 2.11 return on behalf of the members of the group under rules adopted by the commissioner.

2.12 (d) If a corporation claims on a return that it has paid tax in excess of the amount of
 2.13 taxes lawfully due, that corporation must include on that return information necessary for
 2.14 payment of the tax in excess of the amount lawfully due by electronic means.

2.15 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 2.16 December 31, 2013.

2.17 Sec. 2. Minnesota Statutes 2012, section 290.01, as amended by Laws 2013, chapter
 2.18 143, article 6, is amended by adding a subdivision to read:

2.19 **Subd. 6c. Foreign operating corporation.** The term "foreign operating
 2.20 corporation," when applied to a corporation, means a domestic corporation with the
 2.21 following characteristics:

2.22 (1) it is part of a unitary business at least one member of which is taxable in this state;

2.23 (2) it has at least 80 percent of the gross income from all sources of the corporation
 2.24 in the tax year is active foreign business income; and

2.25 (3) for purposes of this subdivision, active foreign business income means gross
 2.26 income that is (i) derived from sources without the United States, as defined in subtitle A,
 2.27 chapter 1, subchapter N, part 1, of the Internal Revenue Code; and (ii) attributable to the
 2.28 active conduct of a trade or business in a foreign country.

2.29 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 2.30 December 31, 2013.

2.31 Sec. 3. Minnesota Statutes 2012, section 290.01, subdivision 19c, as amended by Laws
 2.32 2013, chapter 143, article 6, section 8, is amended to read:

3.1 Subd. 19c. **Corporations; additions to federal taxable income.** For corporations,
3.2 there shall be added to federal taxable income:

3.3 (1) the amount of any deduction taken for federal income tax purposes for income,
3.4 excise, or franchise taxes based on net income or related minimum taxes, including but not
3.5 limited to the tax imposed under section 290.0922, paid by the corporation to Minnesota,
3.6 another state, a political subdivision of another state, the District of Columbia, or any
3.7 foreign country or possession of the United States;

3.8 (2) interest not subject to federal tax upon obligations of: the United States, its
3.9 possessions, its agencies, or its instrumentalities; the state of Minnesota or any other
3.10 state, any of its political or governmental subdivisions, any of its municipalities, or any
3.11 of its governmental agencies or instrumentalities; the District of Columbia; or Indian
3.12 tribal governments;

3.13 (3) exempt-interest dividends received as defined in section 852(b)(5) of the Internal
3.14 Revenue Code;

3.15 (4) the amount of any net operating loss deduction taken for federal income tax
3.16 purposes under section 172 or 832(c)(10) of the Internal Revenue Code or operations loss
3.17 deduction under section 810 of the Internal Revenue Code;

3.18 (5) the amount of any special deductions taken for federal income tax purposes
3.19 under sections 241 to 247 and 965 of the Internal Revenue Code;

3.20 (6) losses from the business of mining, as defined in section 290.05, subdivision 1,
3.21 clause (a), that are not subject to Minnesota income tax;

3.22 (7) the amount of any capital losses deducted for federal income tax purposes under
3.23 sections 1211 and 1212 of the Internal Revenue Code;

3.24 (8) the amount of percentage depletion deducted under sections 611 through 614 and
3.25 291 of the Internal Revenue Code;

3.26 (9) for certified pollution control facilities placed in service in a taxable year
3.27 beginning before December 31, 1986, and for which amortization deductions were elected
3.28 under section 169 of the Internal Revenue Code of 1954, as amended through December
3.29 31, 1985, the amount of the amortization deduction allowed in computing federal taxable
3.30 income for those facilities;

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

3.34 (11) any increase in subpart F income, as defined in section 952(a) of the Internal
3.35 Revenue Code, for the taxable year when subpart F income is calculated without regard to
3.36 the provisions of Division C, title III, section 303(b) of Public Law 110-343;

4.1 (12) 80 percent of the depreciation deduction allowed under section 168(k)(1)(A)
4.2 and (k)(4)(A) of the Internal Revenue Code. For purposes of this clause, if the taxpayer
4.3 has an activity that in the taxable year generates a deduction for depreciation under
4.4 section 168(k)(1)(A) and (k)(4)(A) and the activity generates a loss for the taxable year
4.5 that the taxpayer is not allowed to claim for the taxable year, "the depreciation allowed
4.6 under section 168(k)(1)(A) and (k)(4)(A)" for the taxable year is limited to excess of the
4.7 depreciation claimed by the activity under section 168(k)(1)(A) and (k)(4)(A) over the
4.8 amount of the loss from the activity that is not allowed in the taxable year. In succeeding
4.9 taxable years when the losses not allowed in the taxable year are allowed, the depreciation
4.10 under section 168(k)(1)(A) and (k)(4)(A) is allowed;

4.11 (13) 80 percent of the amount by which the deduction allowed by section 179 of the
4.12 Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal
4.13 Revenue Code of 1986, as amended through December 31, 2003;

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

4.16 (15) the amount of expenses disallowed under section 290.10, subdivision 2; ~~and~~

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

4.19 (17) the amount of any deemed dividend from a foreign operating corporation
4.20 determined pursuant to section 290.17, subdivision 4, paragraph (j). The deemed dividend
4.21 shall be reduced by the amount of the addition to income required by clauses (18) to (21);

4.22 (18) an amount equal to the interest and intangible expenses, losses, and costs paid,
4.23 accrued, or incurred by any member of the taxpayer's unitary group to or for the benefit
4.24 of a corporation that is a member of the taxpayer's unitary business group that qualifies
4.25 as a foreign operating corporation. For purposes of this clause, intangible expenses and
4.26 costs include:

4.27 (i) expenses, losses, and costs for, or related to, the direct or indirect acquisition,
4.28 use, maintenance or management, ownership, sale, exchange, or any other disposition of
4.29 intangible property;

4.30 (ii) losses incurred, directly or indirectly, from factoring transactions or discounting
4.31 transactions;

4.32 (iii) royalty, patent, technical, and copyright fees;

4.33 (iv) licensing fees; and

4.34 (v) other similar expenses and costs.

5.1 For purposes of this clause, "intangible property" includes stocks, bonds, patents,
5.2 patent applications, trade names, trademarks, service marks, copyrights, mask works,
5.3 trade secrets, and similar types of intangible assets.

5.4 This clause does not apply to any item of interest or intangible expenses or costs
5.5 paid, accrued, or incurred, directly or indirectly, to a foreign operating corporation with
5.6 respect to such item of income to the extent that the income to the foreign operating
5.7 corporation is income from sources without the United States as defined in subtitle A,
5.8 chapter 1, subchapter N, part 1, of the Internal Revenue Code;

5.9 (19) except as already included in the taxpayer's taxable income pursuant to clause
5.10 (20), any interest income and income generated from intangible property received or
5.11 accrued by a foreign operating corporation that is a member of the taxpayer's unitary
5.12 group. For purposes of this clause, income generated from intangible property includes:

5.13 (i) income related to the direct or indirect acquisition, use, maintenance or
5.14 management, ownership, sale, exchange, or any other disposition of intangible property;

5.15 (ii) income from factoring transactions or discounting transactions;

5.16 (iii) royalty, patent, technical, and copyright fees;

5.17 (iv) licensing fees; and

5.18 (v) other similar income.

5.19 For purposes of this clause, "intangible property" includes stocks, bonds, patents,
5.20 patent applications, trade names, trademarks, service marks, copyrights, mask works,
5.21 trade secrets, and similar types of intangible assets.

5.22 This clause does not apply to any item of interest or intangible income received or
5.23 accrued by a foreign operating corporation with respect to such item of income to the
5.24 extent that the income is income from sources without the United States as defined in
5.25 subtitle A, chapter 1, subchapter N, part 1, of the Internal Revenue Code;

5.26 (20) the dividends attributable to the income of a foreign operating corporation that
5.27 is a member of the taxpayer's unitary group in an amount that is equal to the dividends
5.28 paid deduction of a real estate investment trust under section 561(a) of the Internal
5.29 Revenue Code for amounts paid or accrued by the real estate investment trust to the
5.30 foreign operating corporation; and

5.31 (21) the income of a foreign operating corporation that is a member of the taxpayer's
5.32 unitary group in an amount that is equal to gains derived from the sale of real or personal
5.33 property located in the United States.

5.34 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
5.35 December 31, 2013.

6.1 Sec. 4. Minnesota Statutes 2012, section 290.01, subdivision 19d, as amended by Laws
6.2 2013, chapter 143, article 6, section 9, is amended to read:

6.3 Subd. 19d. **Corporations; modifications decreasing federal taxable income.** For
6.4 corporations, there shall be subtracted from federal taxable income after the increases
6.5 provided in subdivision 19c:

6.6 (1) the amount of foreign dividend gross-up added to gross income for federal
6.7 income tax purposes under section 78 of the Internal Revenue Code;

6.8 (2) the amount of salary expense not allowed for federal income tax purposes due to
6.9 claiming the work opportunity credit under section 51 of the Internal Revenue Code;

6.10 (3) any dividend (not including any distribution in liquidation) paid within the
6.11 taxable year by a national or state bank to the United States, or to any instrumentality of
6.12 the United States exempt from federal income taxes, on the preferred stock of the bank
6.13 owned by the United States or the instrumentality;

6.14 (4) amounts disallowed for intangible drilling costs due to differences between
6.15 this chapter and the Internal Revenue Code in taxable years beginning before January
6.16 1, 1987, as follows:

6.17 (i) to the extent the disallowed costs are represented by physical property, an amount
6.18 equal to the allowance for depreciation under Minnesota Statutes 1986, section 290.09,
6.19 subdivision 7, subject to the modifications contained in subdivision 19e; and

6.20 (ii) to the extent the disallowed costs are not represented by physical property, an
6.21 amount equal to the allowance for cost depletion under Minnesota Statutes 1986, section
6.22 290.09, subdivision 8;

6.23 (5) the deduction for capital losses pursuant to sections 1211 and 1212 of the
6.24 Internal Revenue Code, except that:

6.25 (i) for capital losses incurred in taxable years beginning after December 31, 1986,
6.26 capital loss carrybacks shall not be allowed;

6.27 (ii) for capital losses incurred in taxable years beginning after December 31, 1986,
6.28 a capital loss carryover to each of the 15 taxable years succeeding the loss year shall be
6.29 allowed;

6.30 (iii) for capital losses incurred in taxable years beginning before January 1, 1987, a
6.31 capital loss carryback to each of the three taxable years preceding the loss year, subject to
6.32 the provisions of Minnesota Statutes 1986, section 290.16, shall be allowed; and

6.33 (iv) for capital losses incurred in taxable years beginning before January 1, 1987,
6.34 a capital loss carryover to each of the five taxable years succeeding the loss year to the
6.35 extent such loss was not used in a prior taxable year and subject to the provisions of
6.36 Minnesota Statutes 1986, section 290.16, shall be allowed;

7.1 (6) an amount for interest and expenses relating to income not taxable for federal
7.2 income tax purposes, if (i) the income is taxable under this chapter and (ii) the interest and
7.3 expenses were disallowed as deductions under the provisions of section 171(a)(2), 265 or
7.4 291 of the Internal Revenue Code in computing federal taxable income;

7.5 (7) in the case of mines, oil and gas wells, other natural deposits, and timber for
7.6 which percentage depletion was disallowed pursuant to subdivision 19c, clause (8), a
7.7 reasonable allowance for depletion based on actual cost. In the case of leases the deduction
7.8 must be apportioned between the lessor and lessee in accordance with rules prescribed
7.9 by the commissioner. In the case of property held in trust, the allowable deduction must
7.10 be apportioned between the income beneficiaries and the trustee in accordance with the
7.11 pertinent provisions of the trust, or if there is no provision in the instrument, on the basis
7.12 of the trust's income allocable to each;

7.13 (8) for certified pollution control facilities placed in service in a taxable year
7.14 beginning before December 31, 1986, and for which amortization deductions were elected
7.15 under section 169 of the Internal Revenue Code of 1954, as amended through December
7.16 31, 1985, an amount equal to the allowance for depreciation under Minnesota Statutes
7.17 1986, section 290.09, subdivision 7;

7.18 (9) amounts included in federal taxable income that are due to refunds of income,
7.19 excise, or franchise taxes based on net income or related minimum taxes paid by the
7.20 corporation to Minnesota, another state, a political subdivision of another state, the
7.21 District of Columbia, or a foreign country or possession of the United States to the extent
7.22 that the taxes were added to federal taxable income under subdivision 19c, clause (1), in a
7.23 prior taxable year;

7.24 (10) income or gains from the business of mining as defined in section 290.05,
7.25 subdivision 1, clause (a), that are not subject to Minnesota franchise tax;

7.26 (11) the amount of disability access expenditures in the taxable year which are not
7.27 allowed to be deducted or capitalized under section 44(d)(7) of the Internal Revenue Code;

7.28 (12) the amount of qualified research expenses not allowed for federal income tax
7.29 purposes under section 280C(c) of the Internal Revenue Code, but only to the extent that
7.30 the amount exceeds the amount of the credit allowed under section 290.068;

7.31 (13) the amount of salary expenses not allowed for federal income tax purposes due to
7.32 claiming the Indian employment credit under section 45A(a) of the Internal Revenue Code;

7.33 (14) any decrease in subpart F income, as defined in section 952(a) of the Internal
7.34 Revenue Code, for the taxable year when subpart F income is calculated without regard to
7.35 the provisions of Division C, title III, section 303(b) of Public Law 110-343;

8.1 (15) in each of the five tax years immediately following the tax year in which an
 8.2 addition is required under subdivision 19c, clause (12), an amount equal to one-fifth of
 8.3 the delayed depreciation. For purposes of this clause, "delayed depreciation" means the
 8.4 amount of the addition made by the taxpayer under subdivision 19c, clause (12). The
 8.5 resulting delayed depreciation cannot be less than zero;

8.6 (16) in each of the five tax years immediately following the tax year in which an
 8.7 addition is required under subdivision 19c, clause (13), an amount equal to one-fifth of the
 8.8 amount of the addition;

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

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

8.17 (19) 80 percent of royalties, fees, or other like income accrued or received from a
 8.18 foreign operating corporation or a foreign corporation which is part of the same unitary
 8.19 business as the receiving corporation, unless the income resulting from such payments or
 8.20 accruals is income from sources within the United States as defined in subtitle A, chapter
 8.21 1, subchapter N, part 1, of the Internal Revenue Code.

8.22 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 8.23 December 31, 2013.

8.24 Sec. 5. Minnesota Statutes 2012, section 290.0921, subdivision 3, as amended by Laws
 8.25 2013, chapter 143, article 6, section 24, is amended to read:

8.26 Subd. 3. **Alternative minimum taxable income.** "Alternative minimum taxable
 8.27 income" is Minnesota net income as defined in section 290.01, subdivision 19, and
 8.28 includes the adjustments and tax preference items in sections 56, 57, 58, and 59(d), (e),
 8.29 (f), and (h) of the Internal Revenue Code. If a corporation files a separate company
 8.30 Minnesota tax return, the minimum tax must be computed on a separate company basis.
 8.31 If a corporation is part of a tax group filing a unitary return, the minimum tax must be
 8.32 computed on a unitary basis. The following adjustments must be made.

8.33 (1) For purposes of the depreciation adjustments under section 56(a)(1) and
 8.34 56(g)(4)(A) of the Internal Revenue Code, the basis for depreciable property placed in
 8.35 service in a taxable year beginning before January 1, 1990, is the adjusted basis for federal

9.1 income tax purposes, including any modification made in a taxable year under section
9.2 290.01, subdivision 19e, or Minnesota Statutes 1986, section 290.09, subdivision 7,
9.3 paragraph (c).

9.4 For taxable years beginning after December 31, 2000, the amount of any remaining
9.5 modification made under section 290.01, subdivision 19e, or Minnesota Statutes 1986,
9.6 section 290.09, subdivision 7, paragraph (c), not previously deducted is a depreciation
9.7 allowance in the first taxable year after December 31, 2000.

9.8 (2) The portion of the depreciation deduction allowed for federal income tax
9.9 purposes under section 168(k) of the Internal Revenue Code that is required as an
9.10 addition under section 290.01, subdivision 19c, clause (12), is disallowed in determining
9.11 alternative minimum taxable income.

9.12 (3) The subtraction for depreciation allowed under section 290.01, subdivision 19d,
9.13 clause (15), is allowed as a depreciation deduction in determining alternative minimum
9.14 taxable income.

9.15 (4) The alternative tax net operating loss deduction under sections 56(a)(4) and 56(d)
9.16 of the Internal Revenue Code does not apply.

9.17 (5) The special rule for certain dividends under section 56(g)(4)(C)(ii) of the Internal
9.18 Revenue Code does not apply.

9.19 (6) The tax preference for depletion under section 57(a)(1) of the Internal Revenue
9.20 Code does not apply.

9.21 (7) The tax preference for intangible drilling costs under section 57(a)(2) of the
9.22 Internal Revenue Code must be calculated without regard to subparagraph (E) and the
9.23 subtraction under section 290.01, subdivision 19d, clause (4).

9.24 (8) The tax preference for tax exempt interest under section 57(a)(5) of the Internal
9.25 Revenue Code does not apply.

9.26 (9) The tax preference for charitable contributions of appreciated property under
9.27 section 57(a)(6) of the Internal Revenue Code does not apply.

9.28 (10) For purposes of calculating the tax preference for accelerated depreciation or
9.29 amortization on certain property placed in service before January 1, 1987, under section
9.30 57(a)(7) of the Internal Revenue Code, the deduction allowable for the taxable year is the
9.31 deduction allowed under section 290.01, subdivision 19e.

9.32 For taxable years beginning after December 31, 2000, the amount of any remaining
9.33 modification made under section 290.01, subdivision 19e, not previously deducted is a
9.34 depreciation or amortization allowance in the first taxable year after December 31, 2004.

9.35 (11) For purposes of calculating the adjustment for adjusted current earnings in
9.36 section 56(g) of the Internal Revenue Code, the term "alternative minimum taxable

10.1 income" as it is used in section 56(g) of the Internal Revenue Code, means alternative
 10.2 minimum taxable income as defined in this subdivision, determined without regard to the
 10.3 adjustment for adjusted current earnings in section 56(g) of the Internal Revenue Code.

10.4 (12) For purposes of determining the amount of adjusted current earnings under
 10.5 section 56(g)(3) of the Internal Revenue Code, no adjustment shall be made under section
 10.6 56(g)(4) of the Internal Revenue Code with respect to (i) the amount of foreign dividend
 10.7 gross-up subtracted as provided in section 290.01, subdivision 19d, clause (1), or (ii) the
 10.8 amount of refunds of income, excise, or franchise taxes subtracted as provided in section
 10.9 290.01, subdivision 19d, clause (9), or (iii) the amount of royalties, fees, or other like
 10.10 income subtracted as provided in section 290.01, subdivision 19d, clause (19).

10.11 (13) Alternative minimum taxable income excludes the income from operating in a
 10.12 job opportunity building zone as provided under section 469.317.

10.13 (14) Alternative minimum taxable income excludes the income from operating in a
 10.14 biotechnology and health sciences industry zone as provided under section 469.337.

10.15 Items of tax preference must not be reduced below zero as a result of the
 10.16 modifications in this subdivision.

10.17 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 10.18 December 31, 2013.

10.19 Sec. 6. Minnesota Statutes 2012, section 290.0921, as amended by Laws 2013, chapter
 10.20 143, article 6, is amended by adding a subdivision to read:

10.21 Subd. 7a. **Foreign operating companies.** The income and deductions related to
 10.22 foreign operating companies, as defined in section 290.01, subdivision 6c, that are used
 10.23 to calculate Minnesota alternative minimum taxable income, are limited to the amounts
 10.24 included for purposes of calculating taxable income under section 290.01, subdivision 29.

10.25 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 10.26 December 31, 2013.

10.27 Sec. 7. Minnesota Statutes 2012, section 290.095, subdivision 2, as amended by Laws
 10.28 2013, chapter 143, article 6, section 26, is amended to read:

10.29 Subd. 2. **Defined and limited.** (a) The term "net operating loss" as used in this
 10.30 section shall mean a net operating loss as defined in section 172(c) of the Internal Revenue
 10.31 Code, with the modifications specified in subdivision 4. The deductions provided in
 10.32 section 290.21 and the modification provided in section 290.01, subdivision 19d, clause
 10.33 (19), cannot be used in the determination of a net operating loss.

11.1 (b) The term "net operating loss deduction" as used in this section means the
11.2 aggregate of the net operating loss carryovers to the taxable year, computed in accordance
11.3 with subdivision 3. The provisions of section 172(b) of the Internal Revenue Code relating
11.4 to the carryback of net operating losses, do not apply.

11.5 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
11.6 December 31, 2013.

11.7 Sec. 8. Minnesota Statutes 2012, section 290.10, subdivision 1, as amended by Laws
11.8 2013, chapter 143, article 6, section 27, is amended to read:

11.9 Subdivision 1. **Expenses, interest, and taxes.** Except as provided in section 290.17,
11.10 subdivision 4, paragraph (k), in computing the net income of a taxpayer no deduction shall
11.11 in any case be allowed for expenses, interest and taxes connected with or allocable against
11.12 the production or receipt of all income not included in the measure of the tax imposed by
11.13 this chapter, except that for corporations engaged in the business of mining or producing
11.14 iron ore, the mining of which is subject to the occupation tax imposed by section 298.01,
11.15 subdivision 4, this shall not prevent the deduction of expenses and other items to the extent
11.16 that the expenses and other items are allowable under this chapter and are not deductible,
11.17 capitalizable, retainable in basis, or taken into account by allowance or otherwise in
11.18 computing the occupation tax and do not exceed the amounts taken for federal income tax
11.19 purposes for that year. Occupation taxes imposed under chapter 298, royalty taxes imposed
11.20 under chapter 299, or depletion expenses may not be deducted under this subdivision.

11.21 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
11.22 December 31, 2013.

11.23 Sec. 9. Minnesota Statutes 2012, section 290.17, subdivision 4, as amended by Laws
11.24 2013, chapter 143, article 6, section 28, is amended to read:

11.25 Subd. 4. **Unitary business principle.** (a) If a trade or business conducted wholly
11.26 within this state or partly within and partly without this state is part of a unitary business,
11.27 the entire income of the unitary business is subject to apportionment pursuant to section
11.28 290.191. Notwithstanding subdivision 2, paragraph (c), none of the income of a unitary
11.29 business is considered to be derived from any particular source and none may be allocated
11.30 to a particular place except as provided by the applicable apportionment formula. The
11.31 provisions of this subdivision do not apply to business income subject to subdivision 5,
11.32 income of an insurance company, or income of an investment company determined under
11.33 section 290.36.

12.1 (b) The term "unitary business" means business activities or operations which
12.2 result in a flow of value between them. The term may be applied within a single legal
12.3 entity or between multiple entities and without regard to whether each entity is a sole
12.4 proprietorship, a corporation, a partnership or a trust.

12.5 (c) Unity is presumed whenever there is unity of ownership, operation, and use,
12.6 evidenced by centralized management or executive force, centralized purchasing,
12.7 advertising, accounting, or other controlled interaction, but the absence of these
12.8 centralized activities will not necessarily evidence a nonunitary business. Unity is also
12.9 presumed when business activities or operations are of mutual benefit, dependent upon or
12.10 contributory to one another, either individually or as a group.

12.11 (d) Where a business operation conducted in Minnesota is owned by a business
12.12 entity that carries on business activity outside the state different in kind from that
12.13 conducted within this state, and the other business is conducted entirely outside the state, it
12.14 is presumed that the two business operations are unitary in nature, interrelated, connected,
12.15 and interdependent unless it can be shown to the contrary.

12.16 (e) Unity of ownership does not exist when two or more corporations are involved
12.17 unless more than 50 percent of the voting stock of each corporation is directly or indirectly
12.18 owned by a common owner or by common owners, either corporate or noncorporate, or
12.19 by one or more of the member corporations of the group. For this purpose, the term
12.20 "voting stock" shall include membership interests of mutual insurance holding companies
12.21 formed under section 66A.40.

12.22 (f) The net income and apportionment factors under section 290.191 or 290.20 of
12.23 foreign corporations and other foreign entities which are part of a unitary business shall
12.24 not be included in the net income or the apportionment factors of the unitary business;
12.25 except that the income and apportionment factors of a foreign entity, other than an entity
12.26 treated as a C corporation for federal income tax purposes, that are included in the federal
12.27 taxable income, as defined in section 63 of the Internal Revenue Code as amended through
12.28 the date named in section 290.01, subdivision 19, of a domestic corporation, domestic
12.29 entity, or individual must be included in determining net income and the factors to be used
12.30 in the apportionment of net income pursuant to section 290.191 or 290.20. A foreign
12.31 corporation or other foreign entity which is not included on a combined report and which
12.32 is required to file a return under this chapter shall file on a separate return basis. The net
12.33 income and apportionment factors under section 290.191 or 290.20 of foreign operating
12.34 corporations shall not be included in the net income or the apportionment factors of the
12.35 unitary business except as provided in paragraph (j).

13.1 (g) For purposes of determining the net income of a unitary business and the factors
13.2 to be used in the apportionment of net income pursuant to section 290.191 or 290.20, there
13.3 must be included only the income and apportionment factors of domestic corporations or
13.4 other domestic entities other than foreign operating corporations that are determined to
13.5 be part of the unitary business pursuant to this subdivision, notwithstanding that foreign
13.6 corporations or other foreign entities might be included in the unitary business; except that
13.7 the income and apportionment factors of a foreign entity, other than an entity treated as
13.8 a C corporation for federal income tax purposes, that is included in the federal taxable
13.9 income, as defined in section 63 of the Internal Revenue Code as amended through the
13.10 date named in section 290.01, subdivision 19, of a domestic corporation, domestic entity,
13.11 or individual must be included in determining net income and the factors to be used in the
13.12 apportionment of net income pursuant to section 290.191 or 290.20.

13.13 (h) Each corporation or other entity, except a sole proprietorship, that is part of a
13.14 unitary business must file combined reports as the commissioner determines. On the
13.15 reports, all intercompany transactions between entities included pursuant to paragraph
13.16 (g) must be eliminated and the entire net income of the unitary business determined in
13.17 accordance with this subdivision is apportioned among the entities by using each entity's
13.18 Minnesota factors for apportionment purposes in the numerators of the apportionment
13.19 formula and the total factors for apportionment purposes of all entities included pursuant
13.20 to paragraph (g) in the denominators of the apportionment formula. Except as otherwise
13.21 provided by paragraph (f), all sales of the unitary business made within this state pursuant
13.22 to section 290.191 or 290.20 must be included on the combined report of a corporation or
13.23 other entity that is a member of the unitary business and is subject to the jurisdiction of
13.24 this state to impose tax under this chapter.

13.25 (i) If a corporation has been divested from a unitary business and is included in a
13.26 combined report for a fractional part of the common accounting period of the combined
13.27 report:

13.28 (1) its income includable in the combined report is its income incurred for that part
13.29 of the year determined by proration or separate accounting; and

13.30 (2) its sales, property, and payroll included in the apportionment formula must
13.31 be prorated or accounted for separately.

13.32 (j) The adjusted net income of a foreign operating corporation shall be deemed to
13.33 be paid as a dividend on the last day of its taxable year to each shareholder thereof, in
13.34 proportion to each shareholder's ownership, with which such corporation is engaged in
13.35 a unitary business. Such deemed dividend shall be treated as a dividend under section
13.36 290.21, subdivision 4.

14.1 Dividends actually paid by a foreign operating corporation to a corporate shareholder
 14.2 which is a member of the same unitary business as the foreign operating corporation shall
 14.3 be eliminated from the net income of the unitary business in preparing a combined report
 14.4 for the unitary business. The adjusted net income of a foreign operating corporation
 14.5 shall be its net income adjusted as follows:

14.6 (1) any taxes paid or accrued to a foreign country, the commonwealth of Puerto
 14.7 Rico, or a United States possession or political subdivision of any of the foregoing shall
 14.8 be a deduction; and

14.9 (2) the subtraction from federal taxable income for payments received from foreign
 14.10 corporations or foreign operating corporations under section 290.01, subdivision 19d,
 14.11 clause (19), shall not be allowed.

14.12 If a foreign operating corporation incurs a net loss, neither income nor deduction from
 14.13 that corporation shall be included in determining the net income of the unitary business.

14.14 (k) Deductions for expenses, interest, or taxes otherwise allowable under this chapter
 14.15 that are connected with or allocable against dividends, deemed dividends described
 14.16 in paragraph (j), or royalties, fees, or other like income described in section 290.01,
 14.17 subdivision 19d, clause (19), shall not be disallowed.

14.18 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 14.19 December 31, 2013.

14.20 Sec. 10. Minnesota Statutes 2012, section 290.191, subdivision 5, as amended by Laws
 14.21 2013, chapter 143, article 6, section 29, is amended to read:

14.22 Subd. 5. **Determination of sales factor.** For purposes of this section, the following
 14.23 rules apply in determining the sales factor.

14.24 (a) The sales factor includes all sales, gross earnings, or receipts received in the
 14.25 ordinary course of the business, except that the following types of income are not included
 14.26 in the sales factor:

14.27 (1) interest;

14.28 (2) dividends;

14.29 (3) sales of capital assets as defined in section 1221 of the Internal Revenue Code;

14.30 (4) sales of property used in the trade or business, except sales of leased property of
 14.31 a type which is regularly sold as well as leased; ~~and~~

14.32 (5) sales of debt instruments as defined in section 1275(a)(1) of the Internal Revenue
 14.33 Code or sales of stock; and

14.34 (6) royalties, fees, or other like income of a type which qualify for a subtraction from
 14.35 federal taxable income under section 290.01, subdivision 19d, clause (19).

15.1 (b) Sales of tangible personal property are made within this state if the property is
15.2 received by a purchaser at a point within this state, and the taxpayer is taxable in this state,
15.3 regardless of the f.o.b. point, other conditions of the sale, or the ultimate destination
15.4 of the property.

15.5 (c) Tangible personal property delivered to a common or contract carrier or foreign
15.6 vessel for delivery to a purchaser in another state or nation is a sale in that state or nation,
15.7 regardless of f.o.b. point or other conditions of the sale.

15.8 (d) Notwithstanding paragraphs (b) and (c), when intoxicating liquor, wine,
15.9 fermented malt beverages, cigarettes, or tobacco products are sold to a purchaser who is
15.10 licensed by a state or political subdivision to resell this property only within the state of
15.11 ultimate destination, the sale is made in that state.

15.12 (e) Sales made by or through a corporation that is qualified as a domestic
15.13 international sales corporation under section 992 of the Internal Revenue Code are not
15.14 considered to have been made within this state.

15.15 (f) Sales, rents, royalties, and other income in connection with real property is
15.16 attributed to the state in which the property is located.

15.17 (g) Receipts from the lease or rental of tangible personal property, including finance
15.18 leases and true leases, must be attributed to this state if the property is located in this
15.19 state and to other states if the property is not located in this state. Receipts from the
15.20 lease or rental of moving property including, but not limited to, motor vehicles, rolling
15.21 stock, aircraft, vessels, or mobile equipment are included in the numerator of the receipts
15.22 factor to the extent that the property is used in this state. The extent of the use of moving
15.23 property is determined as follows:

15.24 (1) A motor vehicle is used wholly in the state in which it is registered.

15.25 (2) The extent that rolling stock is used in this state is determined by multiplying
15.26 the receipts from the lease or rental of the rolling stock by a fraction, the numerator of
15.27 which is the miles traveled within this state by the leased or rented rolling stock and the
15.28 denominator of which is the total miles traveled by the leased or rented rolling stock.

15.29 (3) The extent that an aircraft is used in this state is determined by multiplying the
15.30 receipts from the lease or rental of the aircraft by a fraction, the numerator of which is
15.31 the number of landings of the aircraft in this state and the denominator of which is the
15.32 total number of landings of the aircraft.

15.33 (4) The extent that a vessel, mobile equipment, or other mobile property is used in
15.34 the state is determined by multiplying the receipts from the lease or rental of the property
15.35 by a fraction, the numerator of which is the number of days during the taxable year the
15.36 property was in this state and the denominator of which is the total days in the taxable year.

16.1 (h) Royalties and other income not described in paragraph (a), clause (6), received
16.2 for the use of or for the privilege of using intangible property, including patents,
16.3 know-how, formulas, designs, processes, patterns, copyrights, trade names, service names,
16.4 franchises, licenses, contracts, customer lists, or similar items, must be attributed to the
16.5 state in which the property is used by the purchaser. If the property is used in more
16.6 than one state, the royalties or other income must be apportioned to this state pro rata
16.7 according to the portion of use in this state. If the portion of use in this state cannot be
16.8 determined, the royalties or other income must be excluded from both the numerator
16.9 and the denominator. Intangible property is used in this state if the purchaser uses the
16.10 intangible property or the rights therein in the regular course of its business operations in
16.11 this state, regardless of the location of the purchaser's customers.

16.12 (i) Sales of intangible property are made within the state in which the property is
16.13 used by the purchaser. If the property is used in more than one state, the sales must be
16.14 apportioned to this state pro rata according to the portion of use in this state. If the
16.15 portion of use in this state cannot be determined, the sale must be excluded from both the
16.16 numerator and the denominator of the sales factor. Intangible property is used in this
16.17 state if the purchaser used the intangible property in the regular course of its business
16.18 operations in this state.

16.19 (j) Receipts from the performance of services must be attributed to the state where
16.20 the services are received. For the purposes of this section, receipts from the performance
16.21 of services provided to a corporation, partnership, or trust may only be attributed to a state
16.22 where it has a fixed place of doing business. If the state where the services are received is
16.23 not readily determinable or is a state where the corporation, partnership, or trust receiving
16.24 the service does not have a fixed place of doing business, the services shall be deemed
16.25 to be received at the location of the office of the customer from which the services were
16.26 ordered in the regular course of the customer's trade or business. If the ordering office
16.27 cannot be determined, the services shall be deemed to be received at the office of the
16.28 customer to which the services are billed.

16.29 (k) For the purposes of this subdivision and subdivision 6, paragraph (l), receipts
16.30 from management, distribution, or administrative services performed by a corporation
16.31 or trust for a fund of a corporation or trust regulated under United States Code, title 15,
16.32 sections 80a-1 through 80a-64, must be attributed to the state where the shareholder of
16.33 the fund resides. Under this paragraph, receipts for services attributed to shareholders are
16.34 determined on the basis of the ratio of: (1) the average of the outstanding shares in the
16.35 fund owned by shareholders residing within Minnesota at the beginning and end of each
16.36 year; and (2) the average of the total number of outstanding shares in the fund at the

17.1 beginning and end of each year. Residence of the shareholder, in the case of an individual,
17.2 is determined by the mailing address furnished by the shareholder to the fund. Residence
17.3 of the shareholder, when the shares are held by an insurance company as a depositor for
17.4 the insurance company policyholders, is the mailing address of the policyholders. In
17.5 the case of an insurance company holding the shares as a depositor for the insurance
17.6 company policyholders, if the mailing address of the policyholders cannot be determined
17.7 by the taxpayer, the receipts must be excluded from both the numerator and denominator.
17.8 Residence of other shareholders is the mailing address of the shareholder.

17.9 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
17.10 December 31, 2013.