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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH SESSION

H. F. No. 2017

01/30/2012 Authored by Erickson
The bill was read for the first time and referred to the Committee on Taxes

1.1 A bill for an act
1.2 relating to taxation; income; modifying rates for individuals, estates, and trusts;
1.3 amending Minnesota Statutes 2010, section 290.06, subdivision 2d; Minnesota
1.4 Statutes 2011 Supplement, sections 289A.08, subdivision 7; 290.01, subdivisions
1.5 19, 19a, 19b; 290.06, subdivision 2c.

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

1.7 Section 1. Minnesota Statutes 2011 Supplement, section 289A.08, subdivision 7,
1.8 is amended to read:

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

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

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

1.23 (d) The electing partner must not have any Minnesota source income other than
1.24 the income from the partnership and other electing partnerships. If it is determined that
1.25 the electing partner has other Minnesota source income, the inclusion of the income

2.1 and tax liability for that partner under this provision will not constitute a return to
2.2 satisfy the requirements of subdivision 1. The tax paid for the individual as part of the
2.3 composite return is allowed as a payment of the tax by the individual on the date on
2.4 which the composite return payment was made. If the electing nonresident partner has no
2.5 other Minnesota source income, filing of the composite return is a return for purposes of
2.6 subdivision 1.

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

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

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

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

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

2.26 (j) For the purposes of this subdivision, "income" means the partner's share of
2.27 federal adjusted gross income from the partnership modified by the additions provided
2.28 in section 290.01, subdivision 19a, clauses (6) to (10), and the subtractions provided in:
2.29 (i) section 290.01, subdivision 19b, clause (8), to the extent the amount is assignable or
2.30 allocable to Minnesota under section 290.17; and (ii) section 290.01, subdivision 19b,
2.31 clause (13). The subtraction allowed under section 290.01, subdivision 19b, clause (8), is
2.32 only allowed on the composite tax computation to the extent the electing partner would
2.33 have been allowed the subtraction.

2.34 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
2.35 December 31, 2011.

3.1 Sec. 2. Minnesota Statutes 2011 Supplement, section 290.01, subdivision 19, is
3.2 amended to read:

3.3 Subd. 19. **Net income.** For purposes of this subdivision, "Internal Revenue Code"
3.4 means the Internal Revenue Code of 1986, as amended through the date named in this
3.5 subdivision.

3.6 For all but individuals, the term "net income" means the federal taxable income,
3.7 as defined in section 63 of the Internal Revenue Code of 1986, as amended through the
3.8 date named in this subdivision, incorporating the federal effective dates of changes to the
3.9 Internal Revenue Code and any elections made by the taxpayer in accordance with the
3.10 Internal Revenue Code in determining federal taxable income for federal income tax
3.11 purposes, and with the modifications provided in subdivisions 19a to 19f.

3.12 For individuals, the term "net income" means the federal taxable income, as defined
3.13 in section 63 of the Internal Revenue Code, incorporating the federal effective dates
3.14 of changes to the Internal Revenue Code and any elections made by the taxpayer in
3.15 accordance with the Internal Revenue Code in determining federal taxable income for
3.16 federal income tax purposes, plus the amount of the standard deduction or itemized
3.17 deduction used in determining federal taxable income for federal income tax purposes,
3.18 and with the modifications provided in subdivisions 19a to 19f.

3.19 In the case of a regulated investment company or a fund thereof, as defined in section
3.20 851(a) or 851(g) of the Internal Revenue Code, federal taxable income means investment
3.21 company taxable income as defined in section 852(b)(2) of the Internal Revenue Code,
3.22 except that:

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

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

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

3.32 The net income of a real estate investment trust as defined and limited by section
3.33 856(a), (b), and (c) of the Internal Revenue Code means the real estate investment trust
3.34 taxable income as defined in section 857(b)(2) of the Internal Revenue Code.

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

4.4 The Internal Revenue Code of 1986, as amended through April 14, 2011, shall be
 4.5 in effect for taxable years beginning after December 31, 1996. The provisions of the
 4.6 act of January 22, 2010, Public Law 111-126, to accelerate the benefits for charitable
 4.7 cash contributions for the relief of victims of the Haitian earthquake, are effective at the
 4.8 same time they became effective for federal purposes and apply to the subtraction under
 4.9 subdivision 19b, clause (6). The provisions of title II, section 2112, of the act of September
 4.10 27, 2010, Public Law 111-240, rollovers from elective deferral plans to designated Roth
 4.11 accounts, are effective at the same time they became effective for federal purposes and
 4.12 taxable rollovers are included in net income at the same time they are included in gross
 4.13 income for federal purposes.

4.14 Except as otherwise provided, references to the Internal Revenue Code in
 4.15 subdivisions 19 to 19f mean the code in effect for purposes of determining net income for
 4.16 the applicable year.

4.17 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 4.18 December 31, 2011.

4.19 Sec. 3. Minnesota Statutes 2011 Supplement, section 290.01, subdivision 19a, is
 4.20 amended to read:

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

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

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

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

4.31 (B) the portion of the exempt-interest dividends derived from interest income
 4.32 on obligations of the state of Minnesota or its political or governmental subdivisions,
 4.33 municipalities, governmental agencies or instrumentalities, but only if the portion of the
 4.34 exempt-interest dividends from such Minnesota sources paid to all shareholders represents
 4.35 95 percent or more of the exempt-interest dividends, including any dividends exempt

5.1 under subitem (A), that are paid by the regulated investment company as defined in section
5.2 851(a) of the Internal Revenue Code, or the fund of the regulated investment company as
5.3 defined in section 851(g) of the Internal Revenue Code, making the payment; and

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

5.7 (2) the amount of income, sales and use, motor vehicle sales, or excise taxes paid or
5.8 accrued within the taxable year under this chapter and the amount of taxes based on net
5.9 income paid, sales and use, motor vehicle sales, or excise taxes paid to any other state
5.10 or to any province or territory of Canada, to the extent allowed as a deduction under
5.11 section 63(d) of the Internal Revenue Code, but the addition may not be more than the
5.12 amount by which the itemized deductions as allowed under section 63(d) of the Internal
5.13 Revenue Code exceeds the amount of the standard deduction as defined in section 63(c) of
5.14 the Internal Revenue Code, disregarding the amounts allowed under sections 63(c)(1)(C)
5.15 and 63(c)(1)(E) of the Internal Revenue Code, minus any addition that would have been
5.16 required under clause (21) if the taxpayer had claimed the standard deduction. For the
5.17 purpose of this paragraph, the disallowance of itemized deductions under section 68 of
5.18 the Internal Revenue Code of 1986, income, sales and use, motor vehicle sales, or excise
5.19 taxes are the last itemized deductions disallowed;

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

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

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

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

5.33 (7) 80 percent of the depreciation deduction allowed under section 168(k) of the
5.34 Internal Revenue Code. For purposes of this clause, if the taxpayer has an activity that
5.35 in the taxable year generates a deduction for depreciation under section 168(k) and the
5.36 activity generates a loss for the taxable year that the taxpayer is not allowed to claim for

6.1 the taxable year, "the depreciation allowed under section 168(k)" for the taxable year is
6.2 limited to excess of the depreciation claimed by the activity under section 168(k) over the
6.3 amount of the loss from the activity that is not allowed in the taxable year. In succeeding
6.4 taxable years when the losses not allowed in the taxable year are allowed, the depreciation
6.5 under section 168(k) is allowed;

6.6 (8) 80 percent of the amount by which the deduction allowed by section 179 of the
6.7 Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal
6.8 Revenue Code of 1986, as amended through December 31, 2003;

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

6.11 (10) for taxable years beginning before January 1, 2013, the exclusion allowed
6.12 under section 139A of the Internal Revenue Code for federal subsidies for prescription
6.13 drug plans;

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

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

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

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

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

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

6.27 (17) the amount of unemployment compensation exempt from tax under section
6.28 85(c) of the Internal Revenue Code;

6.29 (18) changes to federal taxable income attributable to a net operating loss that the
6.30 taxpayer elected to carry back for more than two years for federal purposes but for which
6.31 the losses can be carried back for only two years under section 290.095, subdivision
6.32 11, paragraph (c);

6.33 (19) to the extent included in the computation of federal taxable income in taxable
6.34 years beginning after December 31, 2010, and before January 1, 2012, the amount of
6.35 disallowed itemized deductions, but the amount of disallowed itemized deductions plus
6.36 the addition required under clause (2) may not be more than the amount by which the

7.1 itemized deductions as allowed under section 63(d) of the Internal Revenue Code exceeds
7.2 the amount of the standard deduction as defined in section 63(c) of the Internal Revenue
7.3 Code, disregarding the amounts allowed under sections 63(c)(1)(C) and 63(c)(1)(E) of the
7.4 Internal Revenue Code, and reduced by any addition that would have been required under
7.5 clause (21) if the taxpayer had claimed the standard deduction:

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

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

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

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

7.14 (A) such dollar amount, multiplied by

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

7.18 (iii) the term "itemized deductions" does not include:

7.19 (A) the deduction for medical expenses under section 213 of the Internal Revenue
7.20 Code;

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

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

7.26 (20) to the extent included in federal taxable income in taxable years beginning after
7.27 December 31, 2010, the amount of disallowed personal exemptions for taxpayers with
7.28 federal adjusted gross income over the threshold amount:

7.29 (i) the disallowed personal exemption amount is equal to the dollar amount of the
7.30 personal exemptions claimed by the taxpayer in the computation of federal taxable income
7.31 multiplied by the applicable percentage;

7.32 (ii) "applicable percentage" means two percentage points for each \$2,500 (or
7.33 fraction thereof) by which the taxpayer's federal adjusted gross income for the taxable
7.34 year exceeds the threshold amount. In the case of a married individual filing a separate
7.35 return, the preceding sentence shall be applied by substituting "\$1,250" for "\$2,500." In
7.36 no event shall the applicable percentage exceed 100 percent;

8.1 (iii) the term "threshold amount" means:

8.2 (A) \$150,000 in the case of a joint return or a surviving spouse;

8.3 (B) \$125,000 in the case of a head of a household;

8.4 (C) \$100,000 in the case of an individual who is not married and who is not a
8.5 surviving spouse or head of a household; and

8.6 (D) \$75,000 in the case of a married individual filing a separate return; and

8.7 (iv) the thresholds shall be increased by an amount equal to:

8.8 (A) such dollar amount, multiplied by

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

8.12 (21) to the extent deducted in the computation of federal taxable income, for taxable
8.13 years beginning after December 31, 2010, and before January 1, ~~2013~~ 2012, the difference
8.14 between the standard deduction allowed under section 63(c) of the Internal Revenue Code
8.15 and the standard deduction allowed for 2011 ~~and 2012~~ under the Internal Revenue Code
8.16 as amended through December 1, 2010.

8.17 Sec. 4. Minnesota Statutes 2011 Supplement, section 290.01, subdivision 19b, is
8.18 amended to read:

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

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

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

8.27 (3) the amount paid to others, less the amount used to claim the credit allowed under
8.28 section 290.0674, not to exceed \$1,625 for each qualifying child in grades kindergarten
8.29 to 6 and \$2,500 for each qualifying child in grades 7 to 12, for tuition, textbooks, and
8.30 transportation of each qualifying child in attending an elementary or secondary school
8.31 situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a
8.32 resident of this state may legally fulfill the state's compulsory attendance laws, which
8.33 is not operated for profit, and which adheres to the provisions of the Civil Rights Act
8.34 of 1964 and chapter 363A. For the purposes of this clause, "tuition" includes fees or
8.35 tuition as defined in section 290.0674, subdivision 1, clause (1). As used in this clause,

9.1 "textbooks" includes books and other instructional materials and equipment purchased
9.2 or leased for use in elementary and secondary schools in teaching only those subjects
9.3 legally and commonly taught in public elementary and secondary schools in this state.
9.4 Equipment expenses qualifying for deduction includes expenses as defined and limited in
9.5 section 290.0674, subdivision 1, clause (3). "Textbooks" does not include instructional
9.6 books and materials used in the teaching of religious tenets, doctrines, or worship, the
9.7 purpose of which is to instill such tenets, doctrines, or worship, nor does it include books
9.8 or materials for, or transportation to, extracurricular activities including sporting events,
9.9 musical or dramatic events, speech activities, driver's education, or similar programs. No
9.10 deduction is permitted for any expense the taxpayer incurred in using the taxpayer's or
9.11 the qualifying child's vehicle to provide such transportation for a qualifying child. For
9.12 purposes of the subtraction provided by this clause, "qualifying child" has the meaning
9.13 given in section 32(c)(3) of the Internal Revenue Code;

9.14 (4) income as provided under section 290.0802;

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

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

9.23 (7) for individuals who are allowed a federal foreign tax credit for taxes that do not
9.24 qualify for a credit under section 290.06, subdivision 22, an amount equal to the carryover
9.25 of subnational foreign taxes for the taxable year, but not to exceed the total subnational
9.26 foreign taxes reported in claiming the foreign tax credit. For purposes of this clause,
9.27 "federal foreign tax credit" means the credit allowed under section 27 of the Internal
9.28 Revenue Code, and "carryover of subnational foreign taxes" equals the carryover allowed
9.29 under section 904(c) of the Internal Revenue Code minus national level foreign taxes to
9.30 the extent they exceed the federal foreign tax credit;

9.31 (8) in each of the five tax years immediately following the tax year in which an
9.32 addition is required under subdivision 19a, clause (7), or 19c, clause (15), in the case
9.33 of a shareholder of a corporation that is an S corporation, an amount equal to one-fifth
9.34 of the delayed depreciation. For purposes of this clause, "delayed depreciation" means
9.35 the amount of the addition made by the taxpayer under subdivision 19a, clause (7), or
9.36 subdivision 19c, clause (15), in the case of a shareholder of an S corporation, minus the

10.1 positive value of any net operating loss under section 172 of the Internal Revenue Code
10.2 generated for the tax year of the addition. The resulting delayed depreciation cannot be
10.3 less than zero;

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

10.5 (10) to the extent included in federal taxable income, the amount of compensation
10.6 paid to members of the Minnesota National Guard or other reserve components of the
10.7 United States military for active service, excluding compensation for services performed
10.8 under the Active Guard Reserve (AGR) program. For purposes of this clause, "active
10.9 service" means (i) state active service as defined in section 190.05, subdivision 5a, clause
10.10 (1); or (ii) federally funded state active service as defined in section 190.05, subdivision
10.11 5b, but "active service" excludes service performed in accordance with section 190.08,
10.12 subdivision 3;

10.13 (11) to the extent included in federal taxable income, the amount of compensation
10.14 paid to Minnesota residents who are members of the armed forces of the United States
10.15 or United Nations for active duty performed under United States Code, title 10; or the
10.16 authority of the United Nations;

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

10.29 (13) in each of the five tax years immediately following the tax year in which an
10.30 addition is required under subdivision 19a, clause (8), or 19c, clause (16), in the case of a
10.31 shareholder of a corporation that is an S corporation, an amount equal to one-fifth of the
10.32 addition made by the taxpayer under subdivision 19a, clause (8), or 19c, clause (16), in the
10.33 case of a shareholder of a corporation that is an S corporation, minus the positive value of
10.34 any net operating loss under section 172 of the Internal Revenue Code generated for the
10.35 tax year of the addition. If the net operating loss exceeds the addition for the tax year, a
10.36 subtraction is not allowed under this clause;

11.1 (14) to the extent included in the federal taxable income of a nonresident of
 11.2 Minnesota, compensation paid to a service member as defined in United States Code, title
 11.3 10, section 101(a)(5), for military service as defined in the Servicemembers Civil Relief
 11.4 Act, Public Law 108-189, section 101(2);

11.5 (15) international economic development zone income as provided under section
 11.6 469.325;

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

11.11 (17) to the extent included in federal taxable income, discharge of indebtedness
 11.12 income resulting from reacquisition of business indebtedness included in federal taxable
 11.13 income under section 108(i) of the Internal Revenue Code. This subtraction applies only
 11.14 to the extent that the income was included in net income in a prior year as a result of the
 11.15 addition under section 290.01, subdivision 19a, clause (16); ~~and~~

11.16 (18) the amount of the net operating loss allowed under section 290.095, subdivision
 11.17 11, paragraph (c);

11.18 (19) for individuals who itemize deductions for purposes of determining federal
 11.19 taxable income, the amount equal to the charitable contribution deduction as defined under
 11.20 section 170 of the Internal Revenue Code;

11.21 (20) for individuals who itemize deductions for purposes of determining federal
 11.22 taxable income, the amount equal to the home mortgage interest deduction as defined
 11.23 under section 163 of the Internal Revenue Code; and

11.24 (21) \$30,000 for married individuals filing joint returns; \$15,000 for married
 11.25 individuals filing separate returns; \$20,530 for unmarried individuals; and \$25,260 for
 11.26 unmarried individuals qualifying as head of household as defined in section 2(b) of the
 11.27 Internal Revenue Code.

11.28 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 11.29 December 31, 2011.

11.30 Sec. 5. Minnesota Statutes 2011 Supplement, section 290.06, subdivision 2c, is
 11.31 amended to read:

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

12.1 (1) On the first ~~\$25,680~~ \$17,290, 5.35 percent;

12.2 (2) On all over ~~\$25,680~~ \$17,290, but not over ~~\$102,030~~ \$68,710, 7.05 percent;

12.3 (3) On all over ~~\$102,030~~ \$68,710, 7.85 percent.

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

12.7 (b) The income taxes imposed by this chapter upon unmarried individuals, married
12.8 individuals filing joint returns, married individuals filing separate returns, and unmarried
12.9 individuals qualifying as head of household as defined in section 2(b) of the Internal
12.10 Revenue Code, must be computed by applying to taxable net income ~~the following~~
12.11 ~~schedule of rates:~~ a rate of seven percent.

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

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

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

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

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

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

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

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

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

12.32 (1) the numerator is the individual's Minnesota source federal adjusted gross income
12.33 as defined in section 62 of the Internal Revenue Code and increased by the additions
12.34 required under section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), (9), (12),
12.35 (13), and (16) to (18), and reduced by the Minnesota assignable portion of the subtraction
12.36 for United States government interest under section 290.01, subdivision 19b, clause (1),

13.1 and the subtractions under section 290.01, subdivision 19b, clauses (8), (9), (13), (14),
 13.2 (15), ~~and (17), and (18)~~ to (21), after applying the allocation and assignability provisions
 13.3 of section 290.081, clause (a), or 290.17; and

13.4 (2) the denominator is the individual's federal adjusted gross income as defined in
 13.5 section 62 of the Internal Revenue Code of 1986, increased by the amounts specified in
 13.6 section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), (9), (12), (13), and (16) to
 13.7 (18), and reduced by the amounts specified in section 290.01, subdivision 19b, clauses
 13.8 (1), (8), (9), (13), (14), (15), (17), and (18).

13.9 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 13.10 December 31, 2011.

13.11 Sec. 6. Minnesota Statutes 2010, section 290.06, subdivision 2d, is amended to read:

13.12 Subd. 2d. **Inflation adjustment of brackets.** (a) For taxable years beginning after
 13.13 December 31, ~~2000~~ 2012, the minimum and maximum dollar amounts for each rate
 13.14 bracket for which a tax is imposed in subdivision 2c shall be adjusted for inflation by the
 13.15 percentage determined under paragraph (b). For the purpose of making the adjustment as
 13.16 provided in this subdivision all of the rate brackets provided in subdivision 2c shall be the
 13.17 rate brackets as they existed for taxable years beginning after December 31, ~~1999~~ 2011,
 13.18 and before January 1, ~~2001~~ 2013. The rate applicable to any rate bracket must not be
 13.19 changed. The dollar amounts setting forth the tax shall be adjusted to reflect the changes
 13.20 in the rate brackets. The rate brackets as adjusted must be rounded to the nearest \$10
 13.21 amount. If the rate bracket ends in \$5, it must be rounded up to the nearest \$10 amount.

13.22 (b) The commissioner shall adjust the rate brackets and by the percentage determined
 13.23 pursuant to the provisions of section 1(f) of the Internal Revenue Code, except that in
 13.24 section 1(f)(3)(B) the word "~~1999~~" "2011" shall be substituted for the word "1992." For
 13.25 ~~2001~~ 2013, the commissioner shall then determine the percent change from the 12 months
 13.26 ending on August 31, ~~1999~~ 2011, to the 12 months ending on August 31, ~~2000~~ 2012, and
 13.27 in each subsequent year, from the 12 months ending on August 31, ~~1999~~ 2011, to the 12
 13.28 months ending on August 31 of the year preceding the taxable year. The determination of
 13.29 the commissioner pursuant to this subdivision shall not be considered a "rule" and shall
 13.30 not be subject to the Administrative Procedure Act contained in chapter 14.

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

13.33 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 13.34 December 31, 2012.

14.1 Sec. 7. **REVISOR'S INSTRUCTION.**

14.2 The revisor of statutes shall identify and correct internal cross-references in
14.3 Minnesota Statutes affected by amendments in sections 1 to 6. The revisor may make
14.4 changes necessary to correct the punctuation, grammar, or structure of the remaining text
14.5 and preserve its meaning.

14.6 **EFFECTIVE DATE.** The changes to cross-references, language, or both in this
14.7 section are effective for taxable years beginning after December 31, 2011.