A bill for an act

relating to taxation; conforming to federal tax rules for public safety retiree pensions; authorizing pension funds to withhold and pay insurance premiums; amending Minnesota Statutes 2006, sections 290.01, subdivisions 19, 31; 356.87.

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

Section 1. Minnesota Statutes 2006, section 290.01, subdivision 19, is amended to read:

Subd. 19. **Net income.** 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 subdivisions 19a to 19f.

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.

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.

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.

The Internal Revenue Code of 1986, as amended through May 18, 2006, shall be in effect for taxable years beginning after December 31, 1996, and section 485 of Public Law 109-28, the Pension Protection Act of 2006, is in effect for taxable years beginning after December 31, 2006.

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

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2006.

Sec. 2. Minnesota Statutes 2006, 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 May 18, 2006, and as amended by section 485 of Public Law 109-28, the Pension Protection Act of 2006.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2006.

Sec. 3. Minnesota Statutes 2006, section 356.87, is amended to read:

356.87 HEALTH INSURANCE WITHHOLDING.

Subdivision. 1. **Public employees insurance program withholding.** (a) Upon authorization of a person entitled to receive a retirement annuity, disability benefit or survivor benefit, the executive director of a public pension fund enumerated in section 356.20, subdivision 2, shall withhold health insurance premium amounts from the retirement annuity, disability benefit or survivor benefit, and shall pay the premium amounts to the public employees insurance program.

(b) The public employees insurance program shall reimburse a public pension fund for the administrative expense of withholding the premium amounts and shall assume liability for the failure of a public pension fund to properly withhold the premium amounts.

Subd. 2. **Public safety retiree insurance withholding.** (a) For purposes of this subdivision, "governing board" means the governing board or body that has been assigned the chief policy-making powers and management duties of the applicable pension plan.

(b) For a pension plan covered under section 356.20, subdivision 2, that provides monthly annuity payments, the governing board may direct the plan's chief administrative officer to withhold health, accident, and long-term care insurance premiums from the retirement annuity or disability benefit and to transmit the amount to an approved insurance provider specified by the eligible person. A governing board which agrees to participate may revise or revoke that decision at a later date if the board provides reasonable notice to the applicable parties.

(c) An eligible person is a person who:

(1) is a retiree or disabilitant from a participating plan;

(2) was a public safety officer as defined in United States Code, title 42, section 3796b;

(3) terminated service as a public safety officer due to disability or attainment of normal retirement age and commences receipt of an annuity without any period of deferral; and

(4) satisfies any other requirements to have all or a portion of the health, accident, or long-term care insurance premiums excluded from income for taxation purposes, as specified in the Pension Protection Act of 2006, section 845.

(d) An approved insurance provider is:

(1) any regulated, licensed insurance company;

(2) a fraternal or any other organization sponsoring a regulated, licensed insurance program; or

(3) an employer-sponsored insurance program, whether directly through the employer or a third-party administrator.

(e) An eligible person may elect to have the applicable plan administrator withhold and transmit the insurance amounts described in paragraph (b). The eligible person must make this election on a form prescribed by the chief administrative officer of the applicable plan.

(f) A pension fund and the plan fiduciaries which authorize or administer withholding of insurance premiums under this subdivision is not liable for failure to properly withhold or transmit the premium amounts.

EFFECTIVE DATE. This section is effective January 1, 2007.