

**SENATE
STATE OF MINNESOTA
EIGHTY-SEVENTH LEGISLATURE**

S.F. No. 331

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02/14/2011	243	Introduction and first reading Referred to Education
03/10/2011	460a	Comm report: Amended Comm report: No recommendation, re-referred to Health and Human Services
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1.1 A bill for an act
1.2 relating to child care; creating a child care scholarship finance system; providing
1.3 tax credits for training and retaining early education workers; improving quality
1.4 early childhood education programming; appropriating money; amending
1.5 Minnesota Statutes 2010, sections 119B.09, subdivision 5; 119B.13, subdivision
1.6 3a; 290.01, subdivisions 19a, 19c; proposing coding for new law in Minnesota
1.7 Statutes, chapter 290; proposing coding for new law as Minnesota Statutes,
1.8 chapter 119C.

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

1.10 **ARTICLE 1**

1.11 **EARLY CHILDHOOD EDUCATION ACCOUNTABILITY AND SCHOLARSHIPS**

1.12 Section 1. Minnesota Statutes 2010, section 119B.09, subdivision 5, is amended to read:

1.13 Subd. 5. **Provider choice.** Parents who reside in a Parent Aware Plus region as
1.14 defined in section 119C.03, subdivision 5, must choose a rated provider under section
1.15 119C.01, subdivision 7, for their three- and four-year-old children, unless a waiver is
1.16 granted by the commissioner. Parents who do not reside in a Parent Aware Plus region
1.17 may choose child care providers as defined under section 119B.011, subdivision 19, that
1.18 best meet the needs of their family. Counties shall make resources available to parents
1.19 in choosing quality child care services. Counties may require a parent to sign a release
1.20 stating their knowledge and responsibilities in choosing a legal provider described under
1.21 section 119B.011, subdivision 19. When a county knows that a particular provider is
1.22 unsafe, or that the circumstances of the child care arrangement chosen by the parent are
1.23 unsafe, the county may deny a child care subsidy. A county may not restrict access to a
1.24 general category of provider allowed under section 119B.011, subdivision 19.

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2.1 Sec. 2. Minnesota Statutes 2010, section 119B.13, subdivision 3a, is amended to read:

2.2 Subd. 3a. **Provider rate differential for accreditation.** (a) A family child care
2.3 provider or child care center shall be paid a 15 percent differential above the maximum
2.4 rate established in subdivision 1, up to the actual provider rate, if: (1) the provider or
2.5 center holds a current early childhood development credential or is accredited; or (2) the
2.6 provider is a Parent Aware rated four-star program under chapter 119C.

2.7 (b) For a family child care provider, early childhood development credential and
2.8 accreditation includes an individual who has earned a child development associate
2.9 degree, a child development associate credential, a diploma in child development from a
2.10 Minnesota state technical college, or a bachelor's or post baccalaureate degree in early
2.11 childhood education from an accredited college or university, or who is accredited by
2.12 the National Association for Family Child Care or the Competency Based Training
2.13 and Assessment Program. For a child care center, accreditation includes accreditation
2.14 by the National Association for the Education of Young Children, the Council on
2.15 Accreditation, the National Early Childhood Program Accreditation, the National
2.16 School-Age Care Association, or the National Head Start Association Program of
2.17 Excellence. For Montessori programs, accreditation includes the American Montessori
2.18 Society, Association of Montessori International-USA, or the National Center for
2.19 Montessori Education.

2.20 Sec. 3. **[119C.01] DEFINITIONS.**

2.21 Subdivision 1. **Definitions.** The terms defined in this section apply to this chapter.

2.22 Subd. 2. **Commissioner.** "Commissioner" means the commissioner of human
2.23 services.

2.24 Subd. 3. **Eligible program.** "Eligible program" means a licensed center-based
2.25 child care program under chapter 245A, or licensed family child care program under
2.26 chapter 245A.

2.27 Subd. 4. **Parent Aware.** "Parent Aware" means the voluntary evidence-based quality
2.28 rating and improvement system for early childhood education under section 119C.02.

2.29 Subd. 5. **Parent Aware Plus regions.** "Parent Aware Plus regions" means Parent
2.30 Aware regions as designated by the commissioner under section 119C.03, subdivision 5.

2.31 Subd. 6. **Parent Aware region.** "Parent Aware region" means a geographic area
2.32 approved by the commissioner under section 119C.03.

2.33 Subd. 7. **Rated program.** "Rated program" means an eligible program in a Parent
2.34 Aware region that receives one, two, three, or four stars.

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

3.1 Sec. 4. [119C.02] PARENT AWARE.

3.2 Subdivision 1. Department of Human Services; request for proposal. The
3.3 Department of Human Services must develop a request for proposal for an organization
3.4 to: (1) develop the methods used to verify, assess, and monitor program compliance
3.5 with the standards, including review of and action on applications; (2) conduct on-site
3.6 assessments, if applicable; (3) develop and maintain a data quality management system for
3.7 compiling all data used to calculate program ratings and related procedures for ensuring
3.8 data quality and integrity; and (4) coordinate a system for sharing ratings and related
3.9 quality information with the public. The commissioner must consult with the Minnesota
3.10 Early Learning Foundation to design the request for proposal. Eligible responders include
3.11 units of state and local governments, nonprofit organizations, research organizations, and
3.12 educational institutions. The commissioner shall issue a request for proposal by July 30,
3.13 2011. The commissioner shall issue a contract by October 31, 2011. The contract is valid
3.14 for three years. By July 30, 2014, and every three years thereafter, the commissioner
3.15 must consult with the Minnesota Early Learning Foundation or its designated successor
3.16 organization to review and update the request for proposal. The contract must be issued by
3.17 October 31 of that year and every three years thereafter. The Minnesota Early Learning
3.18 Foundation and its designated successor organization are consultants to the commissioner
3.19 on the request for proposal and are not eligible responders.

3.20 Subd. 2. Criteria; measure. (a) Parent Aware must use quality ratings shown to
3.21 be linked to improving children's school readiness outcomes and must evaluate, at a
3.22 minimum, how programs perform in the following areas:

- 3.23 (1) family partnerships;
3.24 (2) tracking learning;
3.25 (3) teacher training and education; and
3.26 (4) teaching materials and strategies.

3.27 (b) The commissioner, in coordination with the commissioner of education, must
3.28 establish and regularly update the standards and indicators that determine program quality
3.29 for the quality rating system. In fiscal year 2012 and later, the commissioner must use
3.30 the Minnesota quality rating system tool in use in fiscal year 2011, the results of the
3.31 evaluations of that quality rating system, and the recommendations in the report required
3.32 under section 124D.142.

3.33 (c) Ratings must be indicated using stars. Four stars is the best possible rating. No
3.34 stars means the program has not been rated.

3.35 Subd. 3. Rated programs. At least twice each year, beginning June 30, 2012, the
3.36 contract entity awarded the contract in subdivision 1 must submit a list of rated programs

4.1 to the commissioner. The list of rated programs serves as the commissioner's rating. The
4.2 commissioner's decision is final.

4.3 Subd. 4. **Evaluation.** The commissioner shall contract with an independent private
4.4 organization to use private funds to evaluate the Parent Aware quality rating system if
4.5 sufficient private funding is available. The evaluation must incorporate rating levels and
4.6 outcome-based data reflecting child progress toward school readiness. The evaluation
4.7 must also include recommendations on continued monitoring and improvement of the
4.8 correlation between rating levels and outcome-based child progress toward school
4.9 readiness. The commissioner shall make available to the independent private organization
4.10 any data requested by the organization consistent with chapter 13 and at no cost to the
4.11 organization.

4.12 Sec. 5. **[119C.03] SELECTION PROCESS FOR PARENT AWARE REGIONS.**

4.13 Subdivision 1. **Designation of Parent Aware regions.** For the purposes of this
4.14 section, Parent Aware regions are the economic development regions as designated by the
4.15 governor under section 462.385.

4.16 Subd. 2. **Application process.** The commissioner shall develop an application
4.17 process to select new Parent Aware regions using the following criteria:

4.18 (1) the percentage of preschool-aged children who are from families with income
4.19 equal to or less than 47 percent of the state median income;

4.20 (2) the region's demonstrated efforts to use existing public and private resources to
4.21 improve program quality in alignment with Parent Aware quality standards;

4.22 (3) the level of community support, especially support of the counties and local
4.23 representatives of child care centers and licensed family child care homes; and

4.24 (4) the demonstration of quality improvement support from local nonprofits and
4.25 foundations.

4.26 Subd. 3. **Application preparation.** A resource and referral organization under
4.27 section 119B.19 must prepare and submit the application for their region for approval
4.28 under subdivision 4 to become a Parent Aware region in coordination with local partners.

4.29 Subd. 4. **Region approval.** The commissioner shall develop an application process
4.30 by December 1, 2011. A region may apply beginning February 1, 2012, to become a
4.31 Parent Aware region. Economic development regions 9, 10, and 11 are automatically
4.32 approved as Parent Aware regions beginning in fiscal year 2012. The commissioner shall
4.33 approve the first Parent Aware region by June 30, 2012, and shall approve all regions as
4.34 Parent Aware regions by June 30, 2015.

5.1 Subd. 5. **Parent Aware Plus regions; commissioner approval.** The commissioner
5.2 must designate a Parent Aware region as a Parent Aware Plus region when there is a
5.3 sufficient number of programs rated for each program type. The commissioner must
5.4 also consider, at a minimum, the following criteria when designating Parent Aware Plus
5.5 regions: (1) the distribution of rated programs by eligible program type within a region;
5.6 (2) the amount of funding available for scholarships in the region; and (3) the distribution
5.7 of the population of low-income preschool-aged children in the region. The commissioner
5.8 must also designate Hennepin County, the city of St. Paul, Blue Earth County, and
5.9 Nicollet County as Parent Aware Plus regions beginning in fiscal year 2012 and allow
5.10 those regions to continue using the existing model of the Parent Aware quality rating
5.11 system in fiscal year 2012. For the purposes of provider choice under section 119B.09,
5.12 subdivision 5, Parent Aware Plus regions would not be implemented prior to January 1 of
5.13 the year in which the region is approved as a Parent Aware Plus region.

5.14 Sec. 6. **[119C.04] EARLY CHILDHOOD EDUCATION SCHOLARSHIPS.**

5.15 Subdivision 1. **Early childhood education scholarship locations.** In fiscal year
5.16 2012 and later, the commissioner shall make scholarships available in the Parent Aware
5.17 Plus regions. In fiscal year 2013 and later, the commissioner shall establish additional
5.18 locations where early childhood education scholarships may be used to pay for services
5.19 provided by rated programs. The additional early childhood education scholarship
5.20 locations must be located in Parent Aware Plus regions. The commissioner may assign
5.21 duties as described in subdivisions 5 and 7 to approved Parent Aware Plus regions,
5.22 as appropriate.

5.23 Subd. 2. **Scholarship eligibility.** (a) All children whose parents or legal guardians
5.24 meet the eligibility requirements of paragraph (b) are eligible to receive early childhood
5.25 education scholarships under this section.

5.26 (b) A parent or legal guardian is eligible for an early childhood education scholarship
5.27 if the parent or legal guardian has a child three or four years of age on September 1,
5.28 beginning in calendar year 2011; lives in one of the early childhood education scholarship
5.29 locations according to subdivision 1; and has income equal to or less than 47 percent of
5.30 the state median income in the current calendar year.

5.31 Subd. 3. **Eligibility determination.** (a) The commissioner of human services shall
5.32 develop a simple application process that families may use to apply for early childhood
5.33 education scholarships based on the criteria in subdivision 2.

6.1 (b) For the purpose of establishing eligibility for the early childhood education
6.2 scholarship, the commissioners of education and human services shall accept a
6.3 self-declaration from parents or legal guardians.

6.4 (c) The commissioner shall also accept children identified in other public funding
6.5 eligibility processes, including the Free and Reduced-Price Lunch Program, National
6.6 School Lunch Act, United States Code, title 42, section 1751, part 210; Head Start under
6.7 federal Improving Head Start for School Readiness Act of 2007; Minnesota family
6.8 investment program under chapter 256J; and child care assistance programs under chapter
6.9 119B.

6.10 Subd. 4. **Scholarship value.** For fiscal year 2012 and later, the early childhood
6.11 education scholarship is equal to \$4,000 each year for each eligible child according to
6.12 subdivision 2.

6.13 Subd. 5. **Scholarship use.** (a) The early childhood education scholarship must be
6.14 used during the 13 months after July 1, 2011, and each year thereafter by the parent or
6.15 legal guardian on behalf of their child for services designed to promote school readiness at
6.16 a rated program in a Parent Aware Plus region. A parent or legal guardian may use the
6.17 early childhood education scholarship to pay fees or charges associated with their eligible
6.18 child's education at a rated program, according to subdivision 6.

6.19 (b) To maintain an eligible child's early childhood education scholarship, a parent or
6.20 legal guardian must begin to use the scholarship within six months following the receipt
6.21 of the scholarship or October 1.

6.22 (c) For the purpose of dividing the early childhood education scholarship between
6.23 two or more rated programs, a parent or legal guardian may reduce the early childhood
6.24 education scholarship value paid to an individual rated program. The commissioner must
6.25 determine a method to allow a parent or legal guardian to reduce or divide an early
6.26 childhood education scholarship.

6.27 Subd. 6. **Quality standard; transition.** (a) A rated program is eligible to receive
6.28 early childhood education scholarships if the program has received a three- or four-star
6.29 rating under Parent Aware under section 119C.02 and is located in a Parent Aware Plus
6.30 region. An eligible program must agree to accept early childhood education scholarships
6.31 to pay for services.

6.32 (b) Notwithstanding paragraph (a), for the first two fiscal years after a Parent
6.33 Aware region has become a Parent Aware Plus region, a rated program located in the
6.34 Parent Aware Plus region is eligible to receive early childhood education scholarships
6.35 to pay for its services if the program has received a one-star or better rating under the
6.36 Parent Aware rating system. An eligible program must agree to accept early childhood

7.1 education scholarships to pay for services. This paragraph does not apply to the Parent
7.2 Aware Plus regions located in the city of Saint Paul, Hennepin County, Nicollet County,
7.3 and Blue Earth County.

7.4 Subd. 7. **Redeeming a scholarship.** (a) A rated program that has received an early
7.5 childhood education scholarship on behalf of an eligible child to pay for services must
7.6 remit the scholarship in a manner determined by the commissioner.

7.7 (b) The commissioner must pay rated programs the value of the early childhood
7.8 education scholarship within 30 days of receiving the scholarship from a program.

7.9 (c) The commissioner must determine a method for paying rated programs if a parent
7.10 or legal guardian has divided or reduced a scholarship under subdivision 5, paragraph (c).

7.11 Subd. 8. **Earned income calculation.** Scholarships paid to providers on behalf
7.12 of eligible parents must not be counted as earned income for the purposes of medical
7.13 assistance, MinnesotaCare, MFIP, diversionary work program, child care assistance, or
7.14 Head Start programs. Scholarships paid to providers on behalf of eligible parents must
7.15 not be considered child care funds for the purposes of the child care assistance program
7.16 under chapter 119B.

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

7.18 Sec. 7. **PROGRAMMATIC STREAMLINING.**

7.19 By January 15, 2013, the commissioner of human services shall report to the
7.20 legislative committees having jurisdiction over early childhood education and child care
7.21 on a framework for incorporating the existing state programs that provide access to early
7.22 learning and care programming into a single scholarship program that funds access to
7.23 high-quality early learning and care programs for low-income children in Minnesota.
7.24 The report must also identify barriers and impediments to applying federal child care
7.25 assistance and Head Start program funds in the form of a scholarship, under Minnesota
7.26 Statutes, section 119C.04. As part of the framework, the commissioner must also take
7.27 into consideration efforts for simplifying the application and management procedures
7.28 for participating families and providers.

7.29 Sec. 8. **CHILD CARE DEVELOPMENT FUNDS; PARENT AWARE.**

7.30 The commissioner of human services shall direct \$..... in federal child care
7.31 development funds in fiscal years 2012 and 2013 for the purpose of implementing Parent
7.32 Aware under Minnesota Statutes, sections 119C.01 to 119C.03. Of this amount, in fiscal
7.33 year 2012, \$....., and in fiscal year 2013, \$....., are appropriated to help eligible programs

8.1 prepare for and participate in Parent Aware. The commissioner shall ensure that funds are
8.2 expended according to federal child care development fund regulations.

8.3 **Sec. 9. WAIVER PROCESS RELATED TO CHILD CARE PROVIDER**
8.4 **CHOICE.**

8.5 The commissioner of human services shall develop a simple waiver process related
8.6 to Minnesota Statutes, section 119B.09, subdivision 5, that requires the parent or guardian
8.7 to submit notice of a preferred alternative child arrangement.

8.8 **Sec. 10. APPROPRIATIONS.**

8.9 Subdivision 1. **Department of Human Services.** The sums indicated in this section
8.10 are appropriated from the general fund to the Department of Human Services for the
8.11 fiscal years designated.

8.12 Subd. 2. **Early childhood education scholarships.** For grants to early childhood
8.13 education scholarships under Minnesota Statutes, section 119C.04:

8.14 \$ 8,000,000 2012

8.15 \$ 9,000,000 2013

8.16 In fiscal year 2012, this appropriation is for early childhood scholarships in Parent
8.17 Aware Plus regions. In fiscal year 2013 and later, the appropriation is for scholarship
8.18 grants to fund eligible early childhood care and education programs located in Parent
8.19 Aware Plus regions that have received early childhood education scholarships from
8.20 eligible parents or legal guardians under Minnesota Statutes, section 119C.04, subdivision
8.21 2. The appropriation is available until expended. This appropriation is part of the base
8.22 budget for subsequent fiscal years.

8.23 Each year, if this appropriation is insufficient to provide early childhood education
8.24 scholarships to all eligible children, the Department of Human Services shall make
8.25 scholarships available on a first-come, first-served basis.

8.26 **ARTICLE 2**

8.27 **TAX CREDITS**

8.28 **Section 1.** Minnesota Statutes 2010, section 290.01, subdivision 19a, is amended to
8.29 read:

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

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

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

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

9.9 (B) the portion of the exempt-interest dividends derived from interest income
9.10 on obligations of the state of Minnesota or its political or governmental subdivisions,
9.11 municipalities, governmental agencies or instrumentalities, but only if the portion of the
9.12 exempt-interest dividends from such Minnesota sources paid to all shareholders represents
9.13 95 percent or more of the exempt-interest dividends, including any dividends exempt
9.14 under subitem (A), that are paid by the regulated investment company as defined in section
9.15 851(a) of the Internal Revenue Code, or the fund of the regulated investment company as
9.16 defined in section 851(g) of the Internal Revenue Code, making the payment; and

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

9.20 (2) the amount of income, sales and use, motor vehicle sales, or excise taxes paid
9.21 or accrued within the taxable year under this chapter and the amount of taxes based on
9.22 net income paid, sales and use, motor vehicle sales, or excise taxes paid to any other
9.23 state or to any province or territory of Canada, to the extent allowed as a deduction
9.24 under section 63(d) of the Internal Revenue Code, but the addition may not be more
9.25 than the amount by which the itemized deductions as allowed under section 63(d) of
9.26 the Internal Revenue Code exceeds the amount of the standard deduction as defined in
9.27 section 63(c) of the Internal Revenue Code, disregarding the amounts allowed under
9.28 sections 63(c)(1)(C) and 63(c)(1)(E) of the Internal Revenue Code. For the purpose of
9.29 this paragraph, the disallowance of itemized deductions under section 68 of the Internal
9.30 Revenue Code of 1986, income, sales and use, motor vehicle sales, or excise taxes are
9.31 the last itemized deductions disallowed;

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

9.34 (4) the amount of income taxes paid or accrued within the taxable year under this
9.35 chapter and taxes based on net income paid to any other state or any province or territory
9.36 of Canada, to the extent allowed as a deduction in determining federal adjusted gross

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10.1 income. For the purpose of this paragraph, income taxes do not include the taxes imposed
10.2 by sections 290.0922, subdivision 1, paragraph (b), 290.9727, 290.9728, and 290.9729;

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

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

10.9 (7) 80 percent of the depreciation deduction allowed under section 168(k) of the
10.10 Internal Revenue Code. For purposes of this clause, if the taxpayer has an activity that
10.11 in the taxable year generates a deduction for depreciation under section 168(k) and the
10.12 activity generates a loss for the taxable year that the taxpayer is not allowed to claim for
10.13 the taxable year, "the depreciation allowed under section 168(k)" for the taxable year is
10.14 limited to excess of the depreciation claimed by the activity under section 168(k) over the
10.15 amount of the loss from the activity that is not allowed in the taxable year. In succeeding
10.16 taxable years when the losses not allowed in the taxable year are allowed, the depreciation
10.17 under section 168(k) is allowed;

10.18 (8) 80 percent of the amount by which the deduction allowed by section 179 of the
10.19 Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal
10.20 Revenue Code of 1986, as amended through December 31, 2003;

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

10.23 (10) the exclusion allowed under section 139A of the Internal Revenue Code for
10.24 federal subsidies for prescription drug plans;

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

10.26 (12) the amount deducted for qualified tuition and related expenses under section
10.27 222 of the Internal Revenue Code, to the extent deducted from gross income;

10.28 (13) the amount deducted for certain expenses of elementary and secondary school
10.29 teachers under section 62(a)(2)(D) of the Internal Revenue Code, to the extent deducted
10.30 from gross income;

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

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

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

11.1 (17) the amount of unemployment compensation exempt from tax under section
11.2 85(c) of the Internal Revenue Code;

11.3 (18) the amount of the deduction under section 170 of the Internal Revenue Code
11.4 that represents contributions that qualify for an early childhood education access to quality
11.5 tax credit under section 290.0694; and

11.6 (19) the amount of the deduction under section 170 of the Internal Revenue
11.7 Code that represents contributions that qualify for an early childhood education quality
11.8 improvement credit under section 290.0695.

11.9 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
11.10 December 31, 2010.

11.11 Sec. 2. Minnesota Statutes 2010, section 290.01, subdivision 19c, is amended to read:

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

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

11.19 (2) interest not subject to federal tax upon obligations of: the United States, its
11.20 possessions, its agencies, or its instrumentalities; the state of Minnesota or any other
11.21 state, any of its political or governmental subdivisions, any of its municipalities, or any
11.22 of its governmental agencies or instrumentalities; the District of Columbia; or Indian
11.23 tribal governments;

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

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

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

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

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

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12.1 (8) the exempt foreign trade income of a foreign sales corporation under sections
12.2 921(a) and 291 of the Internal Revenue Code;

12.3 (9) the amount of percentage depletion deducted under sections 611 through 614 and
12.4 291 of the Internal Revenue Code;

12.5 (10) for certified pollution control facilities placed in service in a taxable year
12.6 beginning before December 31, 1986, and for which amortization deductions were elected
12.7 under section 169 of the Internal Revenue Code of 1954, as amended through December
12.8 31, 1985, the amount of the amortization deduction allowed in computing federal taxable
12.9 income for those facilities;

12.10 (11) the amount of any deemed dividend from a foreign operating corporation
12.11 determined pursuant to section 290.17, subdivision 4, paragraph (g). The deemed dividend
12.12 shall be reduced by the amount of the addition to income required by clauses (20), (21),
12.13 (22), and (23);

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

12.17 (13) the amount of net income excluded under section 114 of the Internal Revenue
12.18 Code;

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

12.22 (15) 80 percent of the depreciation deduction allowed under section 168(k)(1)(A)
12.23 and (k)(4)(A) of the Internal Revenue Code. For purposes of this clause, if the taxpayer
12.24 has an activity that in the taxable year generates a deduction for depreciation under
12.25 section 168(k)(1)(A) and (k)(4)(A) and the activity generates a loss for the taxable year
12.26 that the taxpayer is not allowed to claim for the taxable year, "the depreciation allowed
12.27 under section 168(k)(1)(A) and (k)(4)(A)" for the taxable year is limited to excess of the
12.28 depreciation claimed by the activity under section 168(k)(1)(A) and (k)(4)(A) over the
12.29 amount of the loss from the activity that is not allowed in the taxable year. In succeeding
12.30 taxable years when the losses not allowed in the taxable year are allowed, the depreciation
12.31 under section 168(k)(1)(A) and (k)(4)(A) is allowed;

12.32 (16) 80 percent of the amount by which the deduction allowed by section 179 of the
12.33 Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal
12.34 Revenue Code of 1986, as amended through December 31, 2003;

12.35 (17) to the extent deducted in computing federal taxable income, the amount of the
12.36 deduction allowable under section 199 of the Internal Revenue Code;

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13.1 (18) the exclusion allowed under section 139A of the Internal Revenue Code for
13.2 federal subsidies for prescription drug plans;

13.3 (19) the amount of expenses disallowed under section 290.10, subdivision 2;

13.4 (20) an amount equal to the interest and intangible expenses, losses, and costs paid,
13.5 accrued, or incurred by any member of the taxpayer's unitary group to or for the benefit
13.6 of a corporation that is a member of the taxpayer's unitary business group that qualifies
13.7 as a foreign operating corporation. For purposes of this clause, intangible expenses and
13.8 costs include:

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

13.12 (ii) losses incurred, directly or indirectly, from factoring transactions or discounting
13.13 transactions;

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

13.15 (iv) licensing fees; and

13.16 (v) other similar expenses and costs.

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

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

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

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

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

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

13.33 (iv) licensing fees; and

13.34 (v) other similar income.

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

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

14.8 (22) the dividends attributable to the income of a foreign operating corporation that
14.9 is a member of the taxpayer's unitary group in an amount that is equal to the dividends
14.10 paid deduction of a real estate investment trust under section 561(a) of the Internal
14.11 Revenue Code for amounts paid or accrued by the real estate investment trust to the
14.12 foreign operating corporation;

14.13 (23) the income of a foreign operating corporation that is a member of the taxpayer's
14.14 unitary group in an amount that is equal to gains derived from the sale of real or personal
14.15 property located in the United States;

14.16 (24) the additional amount allowed as a deduction for donation of computer
14.17 technology and equipment under section 170(e)(6) of the Internal Revenue Code, to the
14.18 extent deducted from taxable income; ~~and~~

14.19 (25) discharge of indebtedness income resulting from reacquisition of business
14.20 indebtedness and deferred under section 108(i) of the Internal Revenue Code;

14.21 (26) the amount of the deduction under section 170 of the Internal Revenue Code
14.22 that represents contributions that qualify for an early childhood education access to quality
14.23 tax credit under section 290.0694; and

14.24 (27) the amount of the deduction under section 170 of the Internal Revenue
14.25 Code that represents contributions that qualify for an early childhood education quality
14.26 improvement credit under section 290.0695.

14.27 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
14.28 December 31, 2010.

14.29 **Sec. 3. [290.0693] EARLY CHILDHOOD TRAIN AND RETAIN CREDIT.**

14.30 **Subdivision 1. Statement of intent.** The purpose of the early childhood train
14.31 and retain credit is to encourage and reward early childhood education professionals
14.32 for furthering their education and providing continuity of instruction to Minnesota's
14.33 children. The success of the credit must be measured by comparing the number of early
14.34 childhood education professionals claiming the credit at the various point levels in the

15.1 first year the credit is allowed with the number claiming the credit at the various point
15.2 levels in following years.

15.3 Subd. 2. **Credit allowed.** (a) An individual who is an eligible early childhood
15.4 education professional is allowed a credit against the tax imposed by this chapter as
15.5 follows:

<u>Early education experience points</u>	<u>Credit amount</u>
<u>1 to 2</u>	<u>\$500</u>
<u>3 to 5</u>	<u>\$1,000</u>
<u>6 to 7</u>	<u>\$1,500</u>
<u>8 to 10</u>	<u>\$2,500</u>
<u>11 to 12</u>	<u>\$3,000</u>

15.12 (b) For taxable year 2011, the maximum aggregate credits must not exceed \$500,000
15.13 per taxable year. For taxable years beginning after December 31, 2011, the maximum
15.14 aggregate credits must not exceed \$1,000,000 per taxable year.

15.15 (c) For a nonresident or part-year resident, the credit must be allocated based on the
15.16 percentage calculated under section 290.06, subdivision 2c, paragraph (e).

15.17 Subd. 3. **Definitions.** (a) For purposes of this section, the following terms have
15.18 the meanings given.

15.19 (b) "Early education experience points" means the eligible early childhood education
15.20 professional's points registered with the Minnesota Center for Professional Development
15.21 Registry.

15.22 (c) "Eligible early childhood education professional" means an individual who:

15.23 (1) is registered with the Minnesota Center for Professional Development Registry;

15.24 (2) is employed at a quality program;

15.25 (3) works directly with children who have not yet enrolled in kindergarten or first
15.26 grade; and

15.27 (4) has been employed at the same program for at least 20 hours per week for at least
15.28 12 months during the tax year.

15.29 (d) "Quality program" means a program rated using the quality rating and
15.30 improvement system tool established by the guidelines under chapter 119C.

15.31 Subd. 4. **Application for credit certificates.** For taxable years beginning after
15.32 December 31, 2010, a taxpayer must apply to the commissioner for an early childhood
15.33 train and retain tax credit certificate. The credit certificates under this section must be
15.34 made available on a first-come, first-served basis until the maximum statewide credit
15.35 amount has been reached. The commissioner must not issue a tax credit certificate for an
15.36 amount greater than the limits under subdivision 2.

16.1 Subd. 5. **Credit refundable.** If the amount of credit an individual is eligible to
16.2 receive under this section exceeds the claimant's tax liability under this chapter, the
16.3 commissioner shall refund the excess to the claimant.

16.4 Subd. 6. **Appropriation.** An amount sufficient to pay the refunds required by this
16.5 section is appropriated to the commissioner from the general fund.

16.6 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
16.7 December 31, 2010.

16.8 Sec. 4. **[290.0694] EARLY CHILDHOOD EDUCATION ACCESS TO QUALITY**
16.9 **TAX CREDIT.**

16.10 Subdivision 1. **Statement of intent.** The purpose of the early childhood education
16.11 access to quality tax credit is to increase the amount of private contributions available to
16.12 provide low-income children in Minnesota with access to high-quality early childhood
16.13 education programs. The success of the credit must be measured by determining the
16.14 total amount of private contributions that are made to provide early childhood education
16.15 scholarships and are eligible for the credit under this section.

16.16 Subd. 2. **Definitions.** (a) For purposes of this section, the following terms have
16.17 the meanings given.

16.18 (b) "Early childhood education access to quality donation" means a donation to a
16.19 qualified early childhood education program.

16.20 (c) "Qualified early childhood education program" means a program operated
16.21 in Minnesota that:

16.22 (1) has been rated using the quality rating and improvement system tool established
16.23 by the guidelines under chapter 119C; and

16.24 (2) accepts early childhood education access to quality donations under this section
16.25 as payment of tuition for a qualified student who is enrolled in the program.

16.26 (d) "Qualified student" means a student who:

16.27 (1) has not attained the age of seven years and become subject to the requirements of
16.28 section 120A.22, subdivision 5;

16.29 (2) has reached age three or four by September 1;

16.30 (3) is a Minnesota resident; and

16.31 (4) is a member of a household whose total annual income during the year, without
16.32 consideration of the benefits under this program, is equal to or less than 47 percent of the
16.33 state median income in the current calendar year.

16.34 Subd. 3. **Credit allowed.** (a) An individual or corporate taxpayer is allowed a
16.35 credit against the tax due under this chapter equal to 75 percent of the amount donated to

17.1 a qualified early childhood education program during the taxable year. For taxable year
17.2 2011, the maximum aggregate credits must not exceed \$500,000 per taxable year. For
17.3 taxable years beginning after December 31, 2011, the maximum aggregate credits must
17.4 not exceed \$1,000,000 per taxable year.

17.5 (b) A taxpayer must provide a copy of the receipt provided by the qualified early
17.6 childhood education program when claiming the credit for the donation.

17.7 Subd. 4. **Application for credit certificates.** For taxable years beginning after
17.8 December 31, 2010, a taxpayer must apply to the commissioner for an early childhood
17.9 education access to quality tax credit certificate. The credit certificates under this section
17.10 must be made available on a first-come, first-served basis until the maximum statewide
17.11 credit amount has been reached. The commissioner must not issue a tax credit certificate
17.12 for an amount greater than the limits under subdivision 3.

17.13 Subd. 5. **Responsibilities of qualified early childhood education programs.** (a)
17.14 Each qualified early childhood education program that receives donations directly from
17.15 taxpayers under this section must:

17.16 (1) notify the commissioner of its intent to participate in this program;

17.17 (2) demonstrate that it meets the definition of a qualified early childhood education
17.18 program in subdivision 2, paragraph (c);

17.19 (3) provide a receipt or verification on a form approved by the commissioner to
17.20 taxpayers for donations;

17.21 (4) conduct criminal background checks on all of its employees and board members
17.22 and exclude from employment or governance any individuals that might reasonably pose a
17.23 risk to the appropriate use of contributed funds;

17.24 (5) demonstrate its financial accountability by submitting a financial information
17.25 report for the organization that complies with uniform financial accounting standards
17.26 established by the commissioner;

17.27 (6) demonstrate its financial viability, if it is to receive donations of \$150,000 or
17.28 more during the school year, by filing financial information with the commissioner prior
17.29 to September 1 of each year that demonstrates the financial viability of the qualified
17.30 early childhood education program; and

17.31 (7) use amounts received as donations to provide scholarships to qualified students
17.32 within one year of the date of receiving the donation.

17.33 (b) A qualified early childhood education program that receives donations directly
17.34 from taxpayers under this program must report to the commissioner by June 1 of each year
17.35 the following information regarding donations received and scholarships awarded in the
17.36 previous calendar year:

18.1 (1) the total number and total dollar amount of donations from taxpayers received
18.2 during the previous calendar year; and

18.3 (2) the total number and total dollar amount of scholarships awarded to qualified
18.4 students during the previous calendar year.

18.5 (c) If the commissioner decides to bar a qualified early childhood education program
18.6 from the program for failure to comply with the requirements in paragraph (a), the
18.7 qualified early childhood education program must notify taxpayers who have donated to
18.8 the qualified early childhood education program in writing within 30 days.

18.9 Subd. 6. Responsibilities of commissioner. (a) The commissioner must prescribe a
18.10 standardized format for a receipt to be issued by a qualified early childhood education
18.11 program to a taxpayer to indicate the value of a donation received.

18.12 (b) The commissioner must prescribe a standardized format for qualified early
18.13 childhood education programs to report the information required under subdivision 5.

18.14 (c) The commissioner must post on the department's Web site the names and
18.15 addresses of qualified early childhood education programs and regularly update the names
18.16 and addresses of any qualified early childhood education programs that have been barred
18.17 from participating in the program.

18.18 (d) The commissioner must conduct either a financial review or audit of a qualified
18.19 early childhood education program upon finding evidence of fraud or intentional
18.20 misreporting.

18.21 (e) The commissioner must bar a qualified early childhood education program from
18.22 participating in the program if the commissioner establishes that the qualified early
18.23 childhood education program has intentionally and substantially failed to comply with
18.24 the requirements in subdivision 5. If the commissioner determines that a qualified early
18.25 childhood education program should be barred from the program, the commissioner
18.26 must notify the qualified early childhood education program within 60 days of that
18.27 determination.

18.28 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
18.29 December 31, 2010.

18.30 Sec. 5. [290.0695] EARLY CHILDHOOD EDUCATION QUALITY
18.31 IMPROVEMENT CREDIT.

18.32 Subdivision 1. Statement of intent. The purpose of the early childhood education
18.33 quality improvement credit is to encourage contributions that result in improvements to
18.34 the quality of programming provided by eligible early childhood education providers.
18.35 The success of the credit must be measured by determining amounts spent as a result of

19.1 contributions qualifying for the credit to improve the quality of programming provided by
19.2 eligible early childhood education providers.

19.3 Subd. 2. **Definitions.** (a) For purposes of this section, the following terms have
19.4 the meanings given.

19.5 (b) "Eligible early childhood education provider" means a provider who operates a
19.6 program in an area in Minnesota in which the quality rating and improvement system tool
19.7 established by the guidelines under chapter 119C is in use for the taxable year.

19.8 (c) "Resource and referral agency" means an agency that is designated by the
19.9 Department of Human Services to provide child care resource and referral services.

19.10 Subd. 3. **Credit allowed.** (a) An individual or corporate taxpayer is allowed a
19.11 credit against the tax due under this chapter equal to 75 percent of the amount donated to
19.12 an eligible early childhood education provider or a resource and referral agency during
19.13 the taxable year. For a taxpayer to be eligible for the credit, donations to eligible early
19.14 childhood education providers must be used to improve program quality in ways that
19.15 are consistent with the standards set by the quality rating and improvement system, and
19.16 donations to resource and referral agencies must be used to provide early childhood
19.17 education providers with direct quality improvement services that are consistent with the
19.18 standards set by the quality rating and improvement system.

19.19 (b) For taxable year 2011, the maximum aggregate credits must not exceed \$500,000
19.20 per taxable year. For taxable years beginning after December 31, 2011, the maximum
19.21 aggregate credits must not exceed \$1,000,000 per taxable year.

19.22 (c) A taxpayer must provide a copy of the receipt provided by the eligible early
19.23 childhood education provider or resource and referral agency when claiming the credit for
19.24 the donation.

19.25 Subd. 4. **Application for credit certificates.** For taxable years beginning
19.26 after December 31, 2010, and before January 1, 2013, a taxpayer must apply to the
19.27 commissioner for an early childhood education quality improvement tax credit certificate.
19.28 The credit certificates under this section must be made available on a first-come,
19.29 first-served basis until the maximum statewide credit amount has been reached. The
19.30 commissioner must not issue a tax credit certificate for an amount greater than the limits
19.31 under subdivision 3.

19.32 Subd. 5. **Responsibilities of eligible early childhood education providers and**
19.33 **resource and referral agencies.** (a) Each eligible early childhood education provider
19.34 and resource and referral agency that receives contributions directly from taxpayers
19.35 under this section must:

19.36 (1) notify the commissioner of its intent to participate in this program;

20.1 (2) demonstrate to the commissioner that it meets the requirements of this section;

20.2 (3) provide a receipt or verification on a form approved by the commissioner to
20.3 taxpayers for contributions made to the eligible early childhood education provider
20.4 or resource and referral agency;

20.5 (4) conduct criminal background checks on all of its employees and board members
20.6 and exclude from employment or governance any individuals that might reasonably pose a
20.7 risk to the appropriate use of contributed funds;

20.8 (5) demonstrate its financial accountability by submitting a financial information
20.9 report for the organization that complies with uniform financial accounting standards
20.10 established by the commissioner;

20.11 (6) demonstrate its financial viability, if it is to receive donations of \$150,000 or
20.12 more during the school year, by filing financial information with the commissioner prior
20.13 to September 1 of each year that demonstrates the financial viability of the qualified
20.14 foundation; and

20.15 (7) use amounts received as donations to improve program quality, in the case of
20.16 eligible early childhood education providers, or to provide quality improvement services,
20.17 in the case of resource and referral agencies, within one year of the date of receiving
20.18 the donation.

20.19 (b) If the commissioner decides to bar an eligible early childhood education
20.20 provider or a resource and referral agency from the program for failure to comply with
20.21 the requirements in paragraph (a), the provider or agency must notify taxpayers who
20.22 have donated to the eligible early childhood provider or resource and referral agency in
20.23 writing within 30 days.

20.24 **Subd. 6. Responsibilities of commissioner.** (a) The commissioner must prescribe a
20.25 standardized format for a receipt to be issued by an eligible early childhood education
20.26 provider or a resource and referral agency to a taxpayer to indicate the value of a
20.27 contribution received.

20.28 (b) The commissioner must prescribe a standardized format for eligible early
20.29 childhood education providers or resource and referral agencies to report the information
20.30 required under subdivision 5.

20.31 (c) The commissioner must post on the department's Web site the names and
20.32 addresses of eligible early childhood education providers and resource and referral
20.33 agencies and regularly update the names and addresses of any eligible early childhood
20.34 education providers or resource and referral agencies that have been barred from
20.35 participating in the program.

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21.1 (d) The commissioner must conduct either a financial review or audit of an eligible
21.2 early childhood education provider or a resource and referral agency upon finding
21.3 evidence of fraud or intentional misreporting.

21.4 (e) The commissioner must bar an eligible early childhood education provider or
21.5 a resource and referral agency from participating in the program if the commissioner
21.6 establishes that the provider or agency has intentionally and substantially failed to comply
21.7 with the requirements in subdivision 5. If the commissioner determines that a provider or
21.8 agency should be barred from the program, the commissioner must notify the provider or
21.9 agency within 60 days of that determination.

21.10 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
21.11 December 31, 2010.

APPENDIX
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