

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

**S.F. No. 2002**

(SENATE AUTHORS: ORTMAN, Nelson, Limmer, Hann and Dahms)

DATE	D-PG	OFFICIAL STATUS
02/23/2012	3927	Introduction and first reading Referred to Taxes

1.1 A bill for an act  
1.2 relating to taxation; conforming to changes made in the Internal Revenue Code;  
1.3 issuing a refund; amending Minnesota Statutes 2011 Supplement, section 290.01,  
1.4 subdivision 19a.

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

1.6 Section 1. Minnesota Statutes 2011 Supplement, section 290.01, subdivision 19a,  
1.7 is amended to read:

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

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

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

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

1.18 (B) the portion of the exempt-interest dividends derived from interest income  
1.19 on obligations of the state of Minnesota or its political or governmental subdivisions,  
1.20 municipalities, governmental agencies or instrumentalities, but only if the portion of the  
1.21 exempt-interest dividends from such Minnesota sources paid to all shareholders represents  
1.22 95 percent or more of the exempt-interest dividends, including any dividends exempt  
1.23 under subitem (A), that are paid by the regulated investment company as defined in section

2.1 851(a) of the Internal Revenue Code, or the fund of the regulated investment company as  
2.2 defined in section 851(g) of the Internal Revenue Code, making the payment; and

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

2.6 (2) the amount of income, sales and use, motor vehicle sales, or excise taxes paid or  
2.7 accrued within the taxable year under this chapter and the amount of taxes based on net  
2.8 income paid, sales and use, motor vehicle sales, or excise taxes paid to any other state  
2.9 or to any province or territory of Canada, to the extent allowed as a deduction under  
2.10 section 63(d) of the Internal Revenue Code, but the addition may not be more than the  
2.11 amount by which the itemized deductions as allowed under section 63(d) of the Internal  
2.12 Revenue Code exceeds the amount of the standard deduction as defined in section 63(c) of  
2.13 the Internal Revenue Code, disregarding the amounts allowed under sections 63(c)(1)(C)  
2.14 and 63(c)(1)(E) of the Internal Revenue Code, minus any addition that would have been  
2.15 required under clause (21) if the taxpayer had claimed the standard deduction. For the  
2.16 purpose of this paragraph, the disallowance of itemized deductions under section 68 of  
2.17 the Internal Revenue Code of 1986, income, sales and use, motor vehicle sales, or excise  
2.18 taxes are the last itemized deductions disallowed;

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

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

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

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

2.32 (7) 80 percent of the depreciation deduction allowed under section 168(k) of the  
2.33 Internal Revenue Code. For purposes of this clause, if the taxpayer has an activity that  
2.34 in the taxable year generates a deduction for depreciation under section 168(k) and the  
2.35 activity generates a loss for the taxable year that the taxpayer is not allowed to claim for  
2.36 the taxable year, "the depreciation allowed under section 168(k)" for the taxable year is

**S.F. No. 2002, as introduced - 87th Legislative Session (2011-2012) [12-5294]**

3.1 limited to excess of the depreciation claimed by the activity under section 168(k) over the  
3.2 amount of the loss from the activity that is not allowed in the taxable year. In succeeding  
3.3 taxable years when the losses not allowed in the taxable year are allowed, the depreciation  
3.4 under section 168(k) is allowed;

3.5 (8) 80 percent of the amount by which the deduction allowed by section 179 of the  
3.6 Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal  
3.7 Revenue Code of 1986, as amended through December 31, 2003;

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

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

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

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

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

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

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

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

3.26 (17) the amount of unemployment compensation exempt from tax under section  
3.27 85(c) of the Internal Revenue Code;

3.28 (18) changes to federal taxable income attributable to a net operating loss that the  
3.29 taxpayer elected to carry back for more than two years for federal purposes but for which  
3.30 the losses can be carried back for only two years under section 290.095, subdivision  
3.31 11, paragraph (c);

3.32 (19) to the extent included in the computation of federal taxable income in taxable  
3.33 years beginning after December 31, 2010, the amount of disallowed itemized deductions,  
3.34 but the amount of disallowed itemized deductions plus the addition required under clause  
3.35 (2) may not be more than the amount by which the itemized deductions as allowed under  
3.36 section 63(d) of the Internal Revenue Code exceeds the amount of the standard deduction

**S.F. No. 2002, as introduced - 87th Legislative Session (2011-2012) [12-5294]**

4.1 as defined in section 63(c) of the Internal Revenue Code, disregarding the amounts  
4.2 allowed under sections 63(c)(1)(C) and 63(c)(1)(E) of the Internal Revenue Code, and  
4.3 reduced by any addition that would have been required under clause (21) if the taxpayer  
4.4 had claimed the standard deduction:

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

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

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

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

4.13 (A) such dollar amount, multiplied by

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

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

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

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

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

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

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

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

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

5.1 (A) \$150,000 in the case of a joint return or a surviving spouse;  
5.2 (B) \$125,000 in the case of a head of a household;  
5.3 (C) \$100,000 in the case of an individual who is not married and who is not a  
5.4 surviving spouse or head of a household; and

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

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

5.7 (A) such dollar amount, multiplied by

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

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

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

5.17 Sec. 2. **REFUND TO RETROACTIVELY CONFORM TO INTERNAL**  
5.18 **REVENUE CODE FOR THE INCREASED STANDARD DEDUCTION.**

5.19 For tax year 2011 only, the commissioner of revenue must calculate a refund in  
5.20 an amount equal to:

5.21 (1) for filers who claimed the standard deduction, the amount of extra tax paid  
5.22 attributable to the additions to taxable income under Minnesota Statutes, section 290.01,  
5.23 subdivision 19a, clause (21), resulting from changes to the standard deduction under Laws  
5.24 2011, First Special Session chapter 7, article 2, section 3;

5.25 (2) for filers who itemized, the amount of extra tax paid attributable to a lesser add  
5.26 back of state taxes resulting from changes to the standard deduction under Laws 2011,  
5.27 First Special Session chapter 7, article 2, section 3; or

5.28 (3) for recipients of the marriage credit, the amount of extra tax paid attributable to a  
5.29 smaller marriage credit resulting from changes under Laws 2011, First Special Session  
5.30 chapter 7, article 2, section 6.

5.31 The commissioner must remit the refund by December 31, 2013.

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