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SENATE

STATE OF MINNESOTA

EIGHTY-FOURTH LEGISLATURE

S.F. No. 3550

(SENATE AUTHORS: POGEMILLER)

DATE	D-PG	OFFICIAL STATUS
03/27/2006	4250	Introduction and first reading
03/27/2006		Referred to Taxes
04/03/2006		Committee report: To pass as amended
04/03/2006		Second reading

A bill for an act

relating to taxation; conforming certain provisions to federal law; increasing the standard deduction for married joint filers; modifying the alternative minimum tax; providing for taxation of certain compensation paid to nonresidents; conforming to federal tax code; adjusting tax liability for certain filers; requiring certain refunds; modifying income tax rates; appropriating money; amending Minnesota Statutes 2004, sections 290.06, subdivision 2d; 290.091, subdivision 3; 290.17, subdivision 2; Minnesota Statutes 2005 Supplement, sections 289A.02, subdivision 7; 290.01, subdivisions 19, 19a, 31; 290.06, subdivision 2c; 290.0675, subdivision 1; 290.091, subdivision 2; 290A.03, subdivision 15.

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

Section 1. Minnesota Statutes 2005 Supplement, section 289A.02, subdivision 7, is amended to read:

Subd. 7. **Internal Revenue Code.** Unless specifically defined otherwise, "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through ~~April 15~~ December 31, 2005.

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

Sec. 2. Minnesota Statutes 2005 Supplement, 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 ~~April 15~~ December 31, 2005, shall be in effect for taxable years beginning after December 31, 1996.

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 the day following final enactment.

Sec. 3. Minnesota Statutes 2005 Supplement, section 290.01, subdivision 19a, is amended to read:

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

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

(ii) exempt-interest dividends as defined in section 852(b)(5) of the Internal Revenue Code, except the portion of the exempt-interest dividends derived from interest income on obligations of the state of Minnesota or its political or governmental subdivisions, municipalities, governmental agencies or instrumentalities, but only if the portion of the exempt-interest dividends from such Minnesota sources paid to all shareholders represents 95 percent or more of the exempt-interest dividends that are paid by the regulated investment company as defined in section 851(a) of the Internal Revenue Code, or the fund of the regulated investment company as defined in section 851(g) of the Internal Revenue Code, making the payment; and

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

(2) the amount of income or sales and use taxes paid or accrued within the taxable year under this chapter and the amount of taxes based on net income paid or sales and use taxes paid to any other state or to any province or territory of Canada, to the extent allowed as a deduction under section 63(d) of the Internal Revenue Code, but the addition may not be more than the amount by which the itemized deductions as allowed under section 63(d) of the Internal Revenue Code~~ exceeds the amount of the standard deduction as defined in section 63(c) of the Internal Revenue Code minus the addition which would have been required under clause (10) if the taxpayer had claimed the standard deduction~~. For the purpose of this paragraph, the disallowance of itemized deductions under section 68 of the Internal Revenue Code of 1986, income or sales and use tax is the last itemized deduction disallowed;

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

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

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

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

(7) 80 percent of the depreciation deduction allowed under section 168(k) of the Internal Revenue Code. For purposes of this clause, if the taxpayer has an activity that

in the taxable year generates a deduction for depreciation under section 168(k) and the activity generates a loss for the taxable year that the taxpayer is not allowed to claim for the taxable year, "the depreciation allowed under section 168(k)" for the taxable year is limited to excess of the depreciation claimed by the activity under section 168(k) over the amount of the loss from the activity that is not allowed in the taxable year. In succeeding taxable years when the losses not allowed in the taxable year are allowed, the depreciation under section 168(k) is allowed;

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

(9) to the extent deducted in computing federal taxable income, the amount of the deduction allowable under section 199 of the Internal Revenue Code; <u>and</u>

~~(10) for tax years beginning after December 31, 2004, to the extent deducted in computing federal taxable income, the amount by which the standard deduction allowed under section 63(c) of the Internal Revenue Code exceeds the standard deduction allowable under section 63(c) of the Internal Revenue Code of 1986, as amended through December 31, 2003; and~~

~~(11)~~ <u>(10)</u> the exclusion allowed under section 139A of the Internal Revenue Code for federal subsidies for prescription drug plans.

<u>**EFFECTIVE DATE.** This section is effective for taxable years beginning after December 31, 2005.</u>

Sec. 4. Minnesota Statutes 2005 Supplement, 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 ~~April 15~~ <u>December 31</u>, 2005.

<u>**EFFECTIVE DATE.** This section is effective the day following final enactment, except the changes incorporated by federal changes are effective at the same times as the changes were effective for federal purposes.</u>

Sec. 5. Minnesota Statutes 2005 Supplement, section 290.06, subdivision 2c, is amended to read:

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

(1) On the first ~~$25,680~~ $29,980, 5.35 percent;

(2) On all over ~~$25,680~~ $29,980, but not over ~~$102,030~~ $119,100, 7.05 percent;

(3) On all over ~~$102,030~~ $119,100, but not over $270,000, 7.85 percent~~.~~; and

(4) On all over $270,000, 8.15 percent.

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

(b) The income taxes imposed by this chapter upon unmarried individuals must be computed by applying to taxable net income the following schedule of rates:

(1) On the first ~~$17,570~~ $20,510, 5.35 percent;

(2) On all over ~~$17,570~~ $20,510, but not over ~~$57,710~~ $67,360, 7.05 percent;

(3) On all over ~~$57,710~~ $67,360, but not over $180,000, 7.85 percent~~.~~; and

(4) On all over $180,000, 8.15 percent.

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

(1) On the first ~~$21,630~~ $25,250, 5.35 percent;

(2) On all over ~~$21,630~~ $25,250, but not over ~~$86,910~~ $101,450, 7.05 percent;

(3) On all over ~~$86,910~~ $101,450, but not over $229,500, 7.85 percent~~.~~; and

(4) On all over $229,500, 8.15 percent.

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

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

(1) the numerator is the individual's Minnesota source federal adjusted gross income as defined in section 62 of the Internal Revenue Code and increased by the additions required under section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), and (9),

and reduced by the Minnesota assignable portion of the subtraction for United States government interest under section 290.01, subdivision 19b, clause (1), and the subtractions under section 290.01, subdivision 19b, clauses (9), (10), (14), (15), and (16), after applying the allocation and assignability provisions of section 290.081, clause (a), or 290.17; and

(2) the denominator is the individual's federal adjusted gross income as defined in section 62 of the Internal Revenue Code of 1986, increased by the amounts specified in section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), and (9), and reduced by the amounts specified in section 290.01, subdivision 19b, clauses (1), (9), (10), (14), (15), and (16).

(f) If in a taxable year the taxable net income of a taxpayer exceeds the amount to which the rate of 8.15 percent applies, but the average of the taxpayer's taxable net income for that year and the preceding year does not exceed that threshold amount, the rate of 8.15 percent does not apply for that taxable year.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2005.

Sec. 6. Minnesota Statutes 2004, section 290.06, subdivision 2d, is amended to read:

Subd. 2d. **Inflation adjustment of brackets.** (a) For taxable years beginning after December 31, ~~2000~~ 2006, the minimum and maximum dollar amounts for each rate bracket for which a tax is imposed in subdivision 2c shall be adjusted for inflation by the percentage determined under paragraph (b). For the purpose of making the adjustment as provided in this subdivision all of the rate brackets provided in subdivision 2c shall be the rate brackets as they existed for taxable years beginning after December 31, ~~1999~~ 2005, and before January 1, ~~2001~~ 2007. The rate applicable to any rate bracket must not be changed. The dollar amounts setting forth the tax shall be adjusted to reflect the changes in the rate brackets. The rate brackets as adjusted must be rounded to the nearest $10 amount. If the rate bracket ends in $5, it must be rounded up to the nearest $10 amount.

(b) The commissioner shall adjust the rate brackets and by the percentage determined pursuant to the provisions of section 1(f) of the Internal Revenue Code, except that in section 1(f)(3)(B) the word ~~"1999"~~ "2005" shall be substituted for the word "1992." For 2001, the commissioner shall then determine the percent change from the 12 months ending on August 31, ~~1999~~ 2005, to the 12 months ending on August 31, ~~2000~~ 2006, and in each subsequent year, from the 12 months ending on August 31, ~~1999~~ 2005, to the 12 months ending on August 31 of the year preceding the taxable year. The determination of the commissioner pursuant to this subdivision shall not be considered a "rule" and shall not be subject to the Administrative Procedure Act contained in chapter 14.

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

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2005.

Sec. 7. Minnesota Statutes 2005 Supplement, section 290.0675, subdivision 1, is amended to read:

Subdivision 1. **Definitions.** (a) For purposes of this section the following terms have the meanings given.

(b) "Earned income" means the sum of the following, to the extent included in Minnesota taxable income:

(1) earned income as defined in section 32(c)(2) of the Internal Revenue Code;

(2) income received from a retirement pension, profit-sharing, stock bonus, or annuity plan; and

(3) Social Security benefits as defined in section 86(d)(1) of the Internal Revenue Code.

(c) "Taxable income" means net income as defined in section 290.01, subdivision 19.

(d) "Earned income of lesser-earning spouse" means the earned income of the spouse with the lesser amount of earned income as defined in paragraph (b) for the taxable year minus the sum of (i) the amount for one exemption under section 151(d) of the Internal Revenue Code and (ii) one-half the amount of the standard deduction under section 63(c)(2)(A) and (4) of the Internal Revenue Code ~~minus one-half of any addition required under section 290.01, subdivision 19a, clause (10), and one-half of the addition which would have been required under section 290.01, subdivision 19a, clause (10), if the taxpayer had claimed the standard deduction~~.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2005.

Sec. 8. Minnesota Statutes 2005 Supplement, section 290.091, subdivision 2, is amended to read:

Subd. 2. **Definitions.** For purposes of the tax imposed by this section, the following terms have the meanings given:

(a) "Alternative minimum taxable income" means the sum of the following for the taxable year:

(1) the taxpayer's federal alternative minimum taxable income as defined in section 55(b)(2) of the Internal Revenue Code;

(2) the taxpayer's itemized deductions allowed in computing federal alternative minimum taxable income, but excluding:

(i) the charitable contribution deduction under section 170 of the Internal Revenue Code:

(A) for taxable years beginning before January 1, 2006, to the extent that the deduction exceeds 1.0 percent of adjusted gross income;

(B) for taxable years beginning after December 31, 2005, to the full extent of the deduction.

For purposes of this clause, "adjusted gross income" has the meaning given in section 62 of the Internal Revenue Code;

(ii) the medical expense deduction;

(iii) the casualty, theft, and disaster loss deduction; and

(iv) the impairment-related work expenses of a disabled person;

(3) for depletion allowances computed under section 613A(c) of the Internal Revenue Code, with respect to each property (as defined in section 614 of the Internal Revenue Code), to the extent not included in federal alternative minimum taxable income, the excess of the deduction for depletion allowable under section 611 of the Internal Revenue Code for the taxable year over the adjusted basis of the property at the end of the taxable year (determined without regard to the depletion deduction for the taxable year);

(4) to the extent not included in federal alternative minimum taxable income, the amount of the tax preference for intangible drilling cost under section 57(a)(2) of the Internal Revenue Code determined without regard to subparagraph (E);

(5) to the extent not included in federal alternative minimum taxable income, the amount of interest income as provided by section 290.01, subdivision 19a, clause (1); and

(6) the amount of addition required by section 290.01, subdivision 19a, clauses (7), (8), and (9);

less the sum of the amounts determined under the following:

(1) interest income as defined in section 290.01, subdivision 19b, clause (1);

(2) an overpayment of state income tax as provided by section 290.01, subdivision 19b, clause (2), to the extent included in federal alternative minimum taxable income;

(3) the amount of investment interest paid or accrued within the taxable year on indebtedness to the extent that the amount does not exceed net investment income, as defined in section 163(d)(4) of the Internal Revenue Code. Interest does not include amounts deducted in computing federal adjusted gross income; ~~and~~

(4) amounts subtracted from federal taxable income as provided by section 290.01, subdivision 19b, clauses (9) to (16); and

(5) the amount of the exemption allowed the taxpayer under section 151(c) of the Internal Revenue Code.

In the case of an estate or trust, alternative minimum taxable income must be computed as provided in section 59(c) of the Internal Revenue Code.

(b) "Investment interest" means investment interest as defined in section 163(d)(3) of the Internal Revenue Code.

(c) "Tentative minimum tax" equals 6.4 percent of alternative minimum taxable income after subtracting the exemption amount determined under subdivision 3.

(d) "Regular tax" means the tax that would be imposed under this chapter (without regard to this section and section 290.032), reduced by the sum of the nonrefundable credits allowed under this chapter.

(e) "Net minimum tax" means the minimum tax imposed by this section.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2005.

Sec. 9. Minnesota Statutes 2004, section 290.091, subdivision 3, is amended to read:

Subd. 3. **Exemption amount.** (a) For purposes of computing the alternative minimum tax, the exemption amount is ~~the exemption determined under section 55(d) of the Internal Revenue Code, as amended through December 31, 1992, except that alternative minimum taxable income as determined under this section must be substituted in the computation of the phase out under section 55(d)(3)~~ $67,250 for married individuals filing joint returns; $33,625 for married individuals filing separate returns; and $50,435 for single individuals or head of household filers.

(b) The exemption amount determined under this subdivision is reduced by an amount equal to 25 percent of the amount by which the alternative minimum income exceeds $252,160 for married individuals filing joint returns; $126,080 for married individuals filing separate returns; and $189,120 for single individuals and head of household filers.

(c) For taxable years beginning after December 31, 2006, the exemption amounts in paragraph (a) and the income amounts in paragraph (b), must be adjusted for inflation. The commissioner shall make the inflation adjustments in accordance with section 1(f) of the Internal Revenue Code, except that for the purposes of this subdivision, the percentage increase must be determined from the year starting September 1, 2005, and ending August 31, 2006, as the base year for adjusting for inflation for the tax year beginning after

December 31, 2006. The determination of the commissioner under this subdivision is not a rule under the Administrative Procedure Act.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2005.

Sec. 10. Minnesota Statutes 2004, section 290.17, subdivision 2, is amended to read:

Subd. 2. **Income not derived from conduct of a trade or business.** The income of a taxpayer subject to the allocation rules that is not derived from the conduct of a trade or business must be assigned in accordance with paragraphs (a) to (f):

(a)(1) Subject to paragraphs (a)(2)~~,~~ and (a)(3), ~~and (a)(4),~~ income from wages as defined in section 3401(a) and (f) of the Internal Revenue Code is assigned to this state if, and to the extent that, the work of the employee is performed within it; all other income from such sources is treated as income from sources without this state.

Severance pay shall be considered income from labor or personal or professional services.

(2) In the case of an individual who is a nonresident of Minnesota and who is an athlete or entertainer, income from compensation for labor or personal services performed within this state shall be determined in the following manner:

(i) The amount of income to be assigned to Minnesota for an individual who is a nonresident salaried athletic team employee shall be determined by using a fraction in which the denominator contains the total number of days in which the individual is under a duty to perform for the employer, and the numerator is the total number of those days spent in Minnesota. For purposes of this paragraph, off-season training activities, unless conducted at the team's facilities as part of a team imposed program, are not included in the total number of duty days. Bonuses earned as a result of play during the regular season or for participation in championship, play-off, or all-star games must be allocated under the formula. Signing bonuses are not subject to allocation under the formula if they are not conditional on playing any games for the team, are payable separately from any other compensation, and are nonrefundable; and

(ii) The amount of income to be assigned to Minnesota for an individual who is a nonresident, and who is an athlete or entertainer not listed in clause (i), for that person's athletic or entertainment performance in Minnesota shall be determined by assigning to this state all income from performances or athletic contests in this state.

(3) For purposes of this section, amounts received by a nonresident as "retirement income" as defined in section (b)(1) of the State Income Taxation of Pension Income Act, Public Law 104-95, are not considered income derived from carrying on a trade

or business or from wages or other compensation for work an employee performed in Minnesota, and are not taxable under this chapter.

~~(4) Wages, otherwise assigned to this state under clause (1) and not qualifying under clause (3), are not taxable under this chapter if the following conditions are met:~~

~~(i) the recipient was not a resident of this state for any part of the taxable year in which the wages were received; and~~

~~(ii) the wages are for work performed while the recipient was a resident of this state.~~

(b) Income or gains from tangible property located in this state that is not employed in the business of the recipient of the income or gains must be assigned to this state.

(c) Income or gains from intangible personal property not employed in the business of the recipient of the income or gains must be assigned to this state if the recipient of the income or gains is a resident of this state or is a resident trust or estate.

Gain on the sale of a partnership interest is allocable to this state in the ratio of the original cost of partnership tangible property in this state to the original cost of partnership tangible property everywhere, determined at the time of the sale. If more than 50 percent of the value of the partnership's assets consists of intangibles, gain or loss from the sale of the partnership interest is allocated to this state in accordance with the sales factor of the partnership for its first full tax period immediately preceding the tax period of the partnership during which the partnership interest was sold.

Gain on the sale of goodwill or income from a covenant not to compete that is connected with a business operating all or partially in Minnesota is allocated to this state to the extent that the income from the business in the year preceding the year of sale was assignable to Minnesota under subdivision 3.

When an employer pays an employee for a covenant not to compete, the income allocated to this state is in the ratio of the employee's service in Minnesota in the calendar year preceding leaving the employment of the employer over the total services performed by the employee for the employer in that year.

(d) Income from winnings on a bet made by an individual while in Minnesota is assigned to this state. In this paragraph, "bet" has the meaning given in section 609.75, subdivision 2, as limited by section 609.75, subdivision 3, clauses (1), (2), and (3).

(e) All items of gross income not covered in paragraphs (a) to (d) and not part of the taxpayer's income from a trade or business shall be assigned to the taxpayer's domicile.

(f) For the purposes of this section, working as an employee shall not be considered to be conducting a trade or business.

<u>**EFFECTIVE DATE.** This section is effective for taxable years beginning after December 31, 2005.</u>

Sec. 11. Minnesota Statutes 2005 Supplement, section 290A.03, subdivision 15, is amended to read:

Subd. 15. **Internal Revenue Code.** "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through ~~April 15~~ December 31, 2005.

EFFECTIVE DATE. This section is effective for property taxes payable on or after December 31, 2005, and rent paid on or after December 31, 2004.

Sec. 12. **NET INCOME; FEDERAL CONFORMITY.**

For taxable years beginning after December 31, 2004, and before December 31, 2006, the definition of "net income" in Minnesota Statutes, section 290.01, subdivision 19, must be interpreted by the Department of Revenue to conform to the position taken by the Internal Revenue Service in Revenue Notice 2005-68.

Sec. 13. **MARRIED JOINT FILERS; TAXABLE YEAR 2005.**

For taxable years beginning after December 31, 2004, and before January 1, 2006, the liability for tax under Minnesota Statutes, chapter 290, must be determined as if the addition to federal taxable income under Minnesota Statutes 2005 Supplement, section 290.01, subdivision 19a, clause (10), did not apply.

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

Sec. 14. **REFUNDS.**

The commissioner of revenue must review individual income tax returns that may be subject to section 13 and adjust the tax liability accordingly. If the tax paid for the taxable year beginning after December 31, 2004, and before January 1, 2006, by any taxpayer under Minnesota Statutes, chapter 290, as amended through December 31, 2005, to the commissioner of revenue is greater than the tax liability determined under section 13, the commissioner must pay the taxpayer a refund of the difference. If the tax paid for that taxable year by any taxpayer under Minnesota Statutes, chapter 290, as amended through December 31, 2005, is less than the tax liability determined under section 13, no additional payment is required of the taxpayer. The refunds issued under this section are not subject to accrual of interest.

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

Sec. 15. **APPROPRIATION.**

The amount necessary to issue refunds under section 14 and the administrative costs associated with the issuance of refunds is appropriated from the Tax Relief Account under Minnesota Statutes, section 16A.1522, subdivision 4, to the commissioner of revenue. Notwithstanding Minnesota Statutes, section 16A.285, the commissioner of revenue may not use this appropriation for any purpose other than administering the refunds under section 13. This is a onetime appropriation and may not be added to the agency's budget base.

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

Adopted 3/31/06

Senator .... moves to amend S.F. No. 3550 as follows:

Page 3, line 16, strike everything after "Code"

Page 3, strike line 17

Page 3, line 18, strike everything before the period

Page 15, line 6, delete "2006" and insert "2005" and delete the second "2005" and insert "2004"

Senator .... moves to amend S.F. No. 3550 as follows:

Page 9, after line 9, insert:"

(f) If in a taxable year the taxable net income of a taxpayer exceeds the amount to which the rate of 8.15 percent applies, but the average of the taxpayer's taxable net income for that year and the preceding year does not exceed that threshold amount, the rate of 8.15 percent does not apply for that taxable year~~,~~. ~~and the maximum rate for any taxable income of that taxpayer is 7.85 percent.~~"

#1 3/31/06

Handout #1

Taxpayer 2005
Prior Lake, MN 55372

Married filing joint taxpayers had a combined salary of $87,000. The adjusted gross income was $87,000. They have two children, ages seven and one. After deductions and credits they paid no federal or federal alternative minimum tax (AMT).

Minnesota resulted in a regular tax of $1,089. In addition, due to the disallowance of the residence mortgage interest, taxes, and miscellaneous deductions, a Minnesota AMT of $1,586 also resulted. Therefore, the total Minnesota tax was $2,675.

#2 3/31/06

Handout #2

LISA BASKFIELD, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

March 30, 2006

Geno Fraginto
Minnesota Society of CPAs

RE: Examples of our tax clients subject to Minnesota AMT

Dear Geno:

Below are some of our clients who paid Minnesota AMT tax in 2004 or 2005. As you can see, our clients are not high income taxpayers. They are subject to a bad tax policy by Minnesota called AMT tax. Each year, more and more of our clients are paying Minnesota AMT tax. The main AMT items affecting our client base is the no deduction for mortgage interest and the exemption amount not being increased. Please note none of these clients pay Federal AMT tax.

Client 1:
Husband and wife with 9 children. The wife does not work out of the house.
Federal gross income $62,480.
Federal taxable income **$2,976.**
Minnesota AMT tax $1,331.
The cause of the AMT tax – no mortgage interest allowed and Minnesota exemption amount for AMT is too low.

Client 2:
Husband and wife with 4 children. The wife does not work out of the house.
Federal gross income $87,626
Federal taxable income **$38,029**
Minnesota AMT tax $568
The cause of the AMT tax – no mortgage interest allowed and the Minnesota exemption amount for AMT is too low.

Client 3:
Husband and wife with 1 child.
Husband employed and wife has S corporation business.
Federal gross income $92,837
Federal taxable income **$46,962**
Minnesota AMT tax $258
The cause of the AMT tax – no mortgage interest allowed and the Minnesota exemption amount for AMT is too low.

If you have any questions, please feel free to contact me.

Sincerely,
Lisa Baskfield, CPA

21025 Commerce Blvd. * Suite 700 * Rogers, MN 55374
763-497-0864/Phone * 763-497-0745/Fax

#3 3/31/06

Handout #3

Analysis of S.F. 3550 (Pogemiller), With Author's Amendment (SCS3550A-2)

(000's)	F.Y. 2006	F.Y. 2007	2006-07 Biennium	F.Y. 2008	F.Y. 2009	2008-09 Biennium
	Fund Impact					
Federal Standard Deduction for Married Filers						
Tax Years 2006 - 2008	$ -	$ (28,700)	$(28,700)	$(14,800)	$ (6,500)	$(21,300)
Retroactive to Tax Year 2005	0	-33,200	-33,200	0	0	0
Increase AMT Exemption Amounts and						
Thresholds (1/1/06)	0	-28,500	-28,500	-33,100	-37,600	-70,700
Dependent Exemption from AMTI (1/1/06)	0	-12,500	-12,500	-14,800	-16,600	-31,400
New Top Rate of 8.15% & Bracket (1/1/06)	0	65,400	65,400	54,900	56,400	111,300
Interaction with AMT & Rate Increase	0	11,800	11,800	14,100	15,900	30,000
Repeal Exclusion of Deferred			0			0
Compensation for Nonresidents (1/1/06)	0	2,100	2,100	2,200	2,400	4,600
Federal Update						
The Energy Tax Incentives Act of 2005						
Individual Income Tax	-560	-60	-620	0	40	40
Corporate Franchise Tax	-40	-1,900	-1,940	-3,000	-3,740	-6,740
Total	-600	-1,960	-2,560	-3,000	-3,700	-6,700
The Katrina Emergency Tax Relief Act of 2005			0			0
Individual Income Tax	-3,885	90	-3,795	65	0	65
Corporate Franchise Tax	-320	-120	-440	-10	0	-10
Total	-4,205	-30	-4,235	55	0	55
The Gulf Opportunity Zone Act of 2005			0			0
Individual Income Tax	-85	-140	-225	-50	10	-40
Corporate Franchise Tax	-300	-410	-710	-200	-20	-220
Total	-385	-550	-935	-250	-10	-260
General Fund Subtotal	$ (5,190)	$ (26,140)	$(31,330)	$ 5,305	$ 10,290	$ 15,595
Tax Relief Account	$ -	$ 33,200	33,200	$ -	$ -	$ -
Administrative Cost			Unknown			
Net Total	$ (5,190)	$ 7,060	$ 1,870	$ 5,305	$ 10,290	$ 15,595

M.J. Hedstrom 3/31/2006

#4 3/31/06

Federation of Tax Administrators Survey of State Individual In

Handout #4

STATE INDIVIDUAL INCOME TAXES

(Tax rates for tax year 2006 -- as of January 1, 2006)

	---Tax Rates---		# of	--Income Brackets--		---Personal Exemption---			Federal Tax
State	**Low**	**High**	**Brackets**	**Low**	**High**	**Single**	**Married**	**Child.**	**Ded.**
ALABAMA	2.0 -	5.0	3	500 (b) -	3,000 (b)	1,500	3,000	300	*
ALASKA	No State Income Tax								
ARIZONA	2.87 -	5.04	5	10,000 (b) -	150,000 (b)	2,100	4,200	2,300	
ARKANSAS (a)	1.0 -	7.0(e)	6	3,399 -	28,500	20 (c)	40 (c)	20 (c)	
CALIFORNIA (a)	1.0 -	9.3(x)	6	6,319 (b) -	41,477 (b)	87 (c)	174 (c)	272 (c)	
COLORADO	4.63		1	-----Flat rate-----		-----------None-----------			
CONNECTICUT	3.0 -	5.0	2	10,000 (b) -	10,000 (b)	12,750 (f)	24,500 (f)	0	
DELAWARE	2.2 -	5.95	6	5,000 -	60,000	110 (c)	220 (c)	110 (c)	
FLORIDA	No State Income Tax								
GEORGIA	1.0 -	6.0	6	750(g) -	7,000(g)	2,700	5,400	3,000	
HAWAII	1.4 -	8.25	9	2,000 (b) -	40,000 (b)	1,040	2,080	1,040	
IDAHO (a)	1.6 -	7.8	8	1,159(h) -	23,(h)	3,300 (d)	6,600 (d)	3,300 (d)	
ILLINOIS	3.0		1	-----Flat rate-----		2,000	4,000	2,000	
INDIANA	3.4		1	-----Flat rate-----		1,000	2,000	1,000	
IOWA (a)	0.36 -	8.98	9	1,269 -	57,106	40 (c)	80 (c)	40 (c)	*
KANSAS	3.5 -	6.45	3	15,000(b) -	30,000(b)	2,250	4,500	2,250	
KENTUCKY	2.0 -	6.0	6	3,000 -	75,000	20 (c)	40 (c)	20 (c)	
LOUISIANA	2.0 -	6.0	3	12,500 (b) -	25,000 (b)	4,500(i)	9,000(i)	1,000(i)	*
MAINE (a)	2.0 -	8.5	4	4,550 (b) -	18,250 (b)	2,850	5,700	2,850	
MARYLAND	2.0 -	4.75	4	1,000 -	3,000	2,400	4,800	2,400	
MASSACHUSETTS (a)	5.3		1	-----Flat rate-----		3,575	7,150	1,000	
MICHIGAN (a)	3.9		1	-----Flat rate-----		3,100	6,200	3,100	
MINNESOTA (a)	5.35 -	7.85	3	20,510(j) -	67,360(j)	3,300 (d)	6,600 (d)	3,300 (d)	
MISSISSIPPI	3.0 -	5.0	3	5,000 -	10,000	6,000	12,000	1,500	
MISSOURI	1.5 -	6.0	10	1,000 -	9,000	2,100	4,200	1,200	* (s)
MONTANA (a)	1.0 -	6.9	7	2,300 -	13,900	1,900	3,800	1,900	* (s)
NEBRASKA (a)	2.56 -	6.84	4	2,400(k) -	26,500(k)	103 (c)	206 (c)	103 (c)	
NEVADA	No State Income Tax								
NEW HAMPSHIRE	State Income Tax is Limited to Dividends and Interest Income Only.								
NEW JERSEY	1.4 -	8.97	6	20,000(l) -	500,000(l)	1,000	2,000	1,500	
NEW MEXICO	1.7 -	5.3	4	5,500(m) -	16,000(m)	3,300 (d)	6,600 (d)	3,300 (d)	
NEW YORK	4.0 -	6.85	5	8,000(n) -	500,000(n)	0	0	1,000	
NORTH CAROLINA (o)	6.0 -	8.25	4	12,750(o) -	120,000(o)	3,300 (d)	6,600 (d)	3,300 (d)	
NORTH DAKOTA	2.1 -	5.54(p)	5	29,700(p) -	326,450(p)	3,300 (d)	6,600 (d)	3,300 (d)	
OHIO (a)	0.712 -	7.185	9	5,000 -	200,000	1,300 (q)	2,600 (q)	1,300 (q)	
OKLAHOMA	0.5 -	6.25 (r)	8	1,000(b) -	10,000(b)	1,000	2,000	1,000	* (r)
OREGON (a)	5.0 -	9.0	3	2,650(b) -	6,550(b)	159 (c)	318 (c)	159 (c)	* (s)
PENNSYLVANIA	3.07		1	-----Flat rate-----		-----------None-----------			
RHODE ISLAND	25.0% Federal tax liability (t)				---	---	---	---	
SOUTH CAROLINA (a)	2.5 -	7.0	6	2,570 -	12,850	3,300 (d)	6,600 (d)	3,300 (d)	
SOUTH DAKOTA	No State Income Tax								
TENNESSEE	State Income Tax is Limited to Dividends and Interest Income Only.								
TEXAS	No State Income Tax								
UTAH	2.30 -	7.0	6	863 (b) -	4,313 (b)	2,475 (d)	4,950 (d)	2,475 (d)	* (u)
VERMONT (a)	3.6 -	9.5	5	29,900 (v)	326,450(v)	3,300(d)	6,600(d)	3,300(d)	
VIRGINIA	2.0 -	5.75	4	3,000 -	17,000	900	1,800	900	
WASHINGTON	No State Income Tax								
WEST VIRGINIA	3.0 -	6.5	5	10,000 -	60,000	2,000	4,000	2,000	
WISCONSIN	4.6 -	6.75	4	8,840(w) -	132,580(w)	700	1,400	400	

WYOMING	No State Income Tax						
DIST. OF COLUMBIA	4.5 - 9.0	)	3	10,000 - 30,000	1,370	2,740	1,370

Source: The Federation of Tax Administrators from various sources.
(a) 15 states have statutory provision for automatic adjustment of tax brackets, personal exemption or standard deductions to the rate of inflation. Massachusetts, Michigan, Nebraska and Ohio indexes the personal exemption amounts only.
(b) For joint returns, the taxes are twice the tax imposed on half the income.
(c) tax credits.
(d) These states allow personal exemption or standard deductions as provided in the IRC. Utah allows a personal exemption equal to three-fourths the federal exemptions.
(e) A special tax table is available for low income taxpayers reducing their tax payments.
(f) Combined personal exemptions and standard deduction. An additional tax credit is allowed ranging from 75% to 0% based on state adjusted gross income. Exemption amounts are phased out for higher income taxpayers until they are eliminated for households earning over $56,500.
(g) The tax brackets reported are for single individuals. For married households filing separately, the same rates apply to income brackets ranging from $500 to $5,000; and the income brackets range from $1,000 to $10,000 for joint filers.
(h) For joint returns, the tax is twice the tax imposed on half the income. A $10 filing tax is charge for each return and a $15 credit is allowed for each exemption.
(i) Combined personal exemption and standard deduction.
(j) The tax brackets reported are for single individual. For married couples filing jointly, the same rates apply for income under $29,980 to over $119,100.
(k) The tax brackets reported are for single individual. For married couples filing jointly, the same rates apply for income under $4,000 to over $46,750.
(l) The tax brackets reported are for single individuals. For married couples filing jointly, the tax rates range from 1.4% to 8.97% (with 7 income brackets) applying to income brackets from $20,000 to over $500,000.
(m) The tax brackets reported are for single individuals. For married couples filing jointly, the same rates apply for income under $8,000 to over $24,000. Married households filing separately pay the tax imposed on half the income.
(n) The tax brackets reported are for single individuals. For married taxpayers, the same rates apply to income brackets ranging from $16,000 to $20,000.
(o) The tax brackets reported are for single individuals. For married taxpayers, the same rates apply to income brackets ranging from $21,250 to $200,000. Lower exemption amounts allowed for high income taxpayers. Tax rate scheduled to decrease after tax year 2007.
(p) The tax brackets reported are for single individuals. For married taxpayers, the same rates apply to income brackets ranging from $49,600 to $326,450. An additional $300 personal exemption is allowed for joint returns or unmarried head of households.
(q) Plus an additional $20 per exemption tax credit.
(r) The rate range reported is for single persons not deducting federal income tax. For married persons filing jointly, the same rates apply to income brackets that are twice the dollar amounts. Separate schedules, with rates ranging from 0.5% to 10%, apply to taxpayers deducting federal income taxes.
(s) Deduction is limited to $10,000 for joint returns and $5,000 for individuals in Missouri and Montana, and to $5,000 in Oregon.
(t) Federal Tax Liability prior to the enactment of Economic Growth and Tax Relief Act of 2001.
(u) One half of the federal income taxes are deductible.
(v) The tax brackets reported are for single individuals. For married couples filing jointly, the same rates apply for income under $49,650 to over $326,450.
(w) The tax brackets reported are for single individuals. For married taxpayers, the same rates apply to income brackets ranging from $11,780 to $176,770. An additional $250 exemption is provided for each taxpayer or spouse age 65 or over.
(x) An additional 1% tax is imposed on taxable income over $1 million.

STATE PERSONAL INCOME TAXES: FEDERAL STARTING POINTS

(as of January 1, 2006)

STATE	Relation to Internal Revenue Code	Tax Base
ALABAMA	---	---
ALASKA	no state income tax	
ARIZONA	1/1/05	federal adjusted gross income
ARKANSAS	---	---
CALIFORNIA	1/1/05	federal adjusted gross income
COLORADO	Current	federal taxable income
CONNECTICUT	Current	federal adjusted gross income
DELAWARE	Current	federal adjusted gross income
FLORIDA	no state income tax	
GEORGIA	1/1/05	federal adjusted gross income
HAWAII	12/31/04	federal taxable income
IDAHO	1/1/05	federal taxable income
ILLINOIS	Current	federal adjusted gross income
INDIANA	1/1/05	federal adjusted gross income
IOWA	1/31/05	federal adjusted gross income
KANSAS	Current	federal adjusted gross income
KENTUCKY	12/31/04	federal adjusted gross income
LOUISIANA	Current	federal adjusted gross income
MAINE	5/28/03	federal adjusted gross income
MARYLAND	Current	federal adjusted gross income
MASSACHUSETTS	Current	federal adjusted gross income
MICHIGAN	Current (a)	federal adjusted gross income
MINNESOTA	3/15/02	federal taxable income
MISSISSIPPI	---	---
MISSOURI	Current	federal adjusted gross income
MONTANA	Current	federal adjusted gross income
NEBRASKA	4/15/04	federal adjusted gross income
NEVADA	no state income tax	
NEW HAMPSHIRE	on interest & dividends only	
NEW JERSEY	---	---
NEW MEXICO	Current	federal adjusted gross income
NEW YORK	Current	federal adjusted gross income
NORTH CAROLINA	1/1/05	federal taxable income
NORTH DAKOTA	Current	federal taxable income
OHIO	Current	federal adjusted gross income
OKLAHOMA	Current	federal adjusted gross income
OREGON	Current	federal taxable income
PENNSYLVANIA	---	---
RHODE ISLAND	6/3/01	federal adjusted gross income
SOUTH CAROLINA	12/31/02	federal taxable income
SOUTH DAKOTA	no state income tax	
TENNESSEE	on interest & dividends only	
TEXAS	no state income tax	

STATE	Relation to Internal Revenue Code	Tax Base
UTAH	Current	federal taxable income
VERMONT	1/1/02	federal taxable income
VIRGINIA	1/7/05	federal adjusted gross income
WASHINGTON	no state income tax	
WEST VIRGINIA	1/104	federal adjusted gross income
WISCONSIN	12/31/02	federal adjusted gross income
WYOMING	no state income tax	
DIST. OF COLUMBIA	Current	federal adjusted gross income

Source: Compiled by the Federation of Tax Administrators from various sources.

Key:

"---" Means state does not employ a federal starting point.

"Current" indicates state has adopted IRC as currently in effect. Dates indicate state has adopted IRC as ammended to that date.

"(a)" means "or 1/1/99, taxpayer's option."

ROLL CALL VOTE

Date: 3/31/06

Senator Tomassoni requested a **Roll Call Vote** on:

1. ____ **adoption** of ________________ amendment

2. ✓ **passage** of S. F. No. 3550

3. ____ **adoption** of ________________ motion ________________

SENATOR	YES	NO	PASS	ABSENT
Pogemiller	✓			
Bakk	✓			
Belanger		✓		
Betzold	✓			
Johnson		✓		
Limmer		✓		
Marty	✓			
McGinn				✓
Moua				✓
Ortman	✓			
Skoe	✓			
Tomassoni	✓			
TOTALS	7	3		2

There being 7 ***Yes* votes and** 3 ***No* votes the Motion:**

Prevailed ✓

Did Not Prevail ______

FORM 6A

COMMITTEE REPORT - *WITH* AMENDMENTS

Committee on Taxes

S **.F. No.** 3550

______ Resolution

______ Re-referred (<u>from</u> another committee)

Amendments:

A-2

A-3

A-4, as amended

pg 8, line 5, delete "......" and insert "270,000"

Committee recommendation:

X And when so amended the bill do pass.

______ And when so amended the bill do pass and be placed on the Consent Calendar.

______ And when so amended the bill do pass and be re-referred to the Committee on

________________________________.

No recommendation: And when so amended the bill be
______ (re-referred to the Committee on ______________________)
OR _____ (reported to the Senate).

3/31/06 (date of committee recommendation)

Senator Pogemiller from the Committee on Taxes, to which was referred

S.F. No. 3550: A bill for an act relating to taxation; conforming certain provisions to federal law; increasing the standard deduction for married joint filers; modifying the alternative minimum tax; providing for taxation of certain compensation paid to nonresidents; modifying income tax rates; amending Minnesota Statutes 2004, sections 290.06, subdivision 2d; 290.091, subdivision 3; 290.17, subdivision 2; Minnesota Statutes 2005 Supplement, sections 289A.02, subdivision 7; 290.01, subdivisions 19, 19a, 19b, 31; 290.06, subdivision 2c; 290.0675, subdivision 1; 290.091, subdivision 2; 290A.03, subdivision 15.

Reports the same back with the recommendation that the bill be amended as follows:

Page 3, line 16, strike everything after "Code"

Page 3, strike line 17

Page 3, line 18, strike everything before the period

Page 4, line 12, after the semicolon, insert "and"

Page 4, strike lines 13 to 17

Page 4, line 18, strike "(11)" and insert "(10)"

Page 4, delete section 4

Page 8, line 5, delete "$......." and insert "$270,000"

Page 8, line 6, delete "...." and insert "8.15"

Page 8, line 15, delete "...." and insert "8.15"

Page 8, line 22, delete "...." and insert "8.15"

Page 9, after line 9, insert:

"(f) If in a taxable year the taxable net income of a taxpayer exceeds the amount to which the rate of 8.15 percent applies, but the average of the taxpayer's taxable net income for that year and the preceding year does not exceed that threshold amount, the rate of 8.15 percent does not apply for that taxable year."

Page 10, line 19, strike everything after "Code"

Page 10, line 20, strike the old language

Page 15, line 6, delete "2006" and insert "2005" and delete "2005" and insert "2004"

Page 15, after line 6, insert:

"Sec. 12. **NET INCOME; FEDERAL CONFORMITY.**

For taxable years beginning after December 31, 2004, and before December 31, 2006, the definition of "net income" in Minnesota Statutes, section 290.01, subdivision 19, must be interpreted by the Department of Revenue to conform to the position taken by the Internal Revenue Service in Revenue Notice 2005-68.

Sec. 13. **MARRIED JOINT FILERS; TAXABLE YEAR 2005.**

For taxable years beginning after December 31, 2004, and before January 1, 2006, the liability for tax under Minnesota Statutes, chapter 290, must be determined as if the addition to federal taxable income under Minnesota Statutes 2005 Supplement, section 290.01, subdivision 19a, clause (10), did not apply.

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

Sec. 14. **REFUNDS.**

The commissioner of revenue must review individual income tax returns that may be subject to section 13 and adjust the tax liability accordingly. If the tax paid for the taxable year beginning after December 31, 2004, and before January 1, 2006, by any taxpayer under Minnesota Statutes, chapter 290, as amended through December 31, 2005, to the commissioner of revenue is greater than the tax liability determined under section 13, the commissioner must pay the taxpayer a refund of the difference. If the tax paid for that taxable year by any taxpayer under Minnesota Statutes, chapter 290, as amended through December 31, 2005, is less than the tax liability determined under section 13, no additional payment is required of the taxpayer. The refunds issued under this section are not subject to accrual of interest.

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

Sec. 15. **APPROPRIATION.**

The amount necessary to issue refunds under section 14 and the administrative costs associated with the issuance of refunds is appropriated from the Tax Relief Account under Minnesota Statutes, section 16A.1522, subdivision 4, to the commissioner of revenue. Notwithstanding Minnesota Statutes, section 16A.285, the commissioner of revenue may not use this appropriation for any purpose other than administering the refunds under section 13. This is a onetime appropriation and may not be added to the agency's budget base.

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

Renumber the sections in sequence

Amend the title accordingly

And when so amended the bill do pass. Amendments adopted. Report adopted.

....
(Committee Chair)

March 31, 2006 ....4/3/06....................
(Date of Committee recommendation)