

Senator Pogemiller introduced-

S.F. No. 3550: Referred to the Committee on Taxes.

1.1 A bill for an act
 1.2 relating to taxation; conforming certain provisions to federal law; increasing the
 1.3 standard deduction for married joint filers; modifying the alternative minimum
 1.4 tax; providing for taxation of certain compensation paid to nonresidents;
 1.5 modifying income tax rates; amending Minnesota Statutes 2004, sections 290.06,
 1.6 subdivision 2d; 290.091, subdivision 3; 290.17, subdivision 2; Minnesota
 1.7 Statutes 2005 Supplement, sections 289A.02, subdivision 7; 290.01, subdivisions
 1.8 19, 19a, 19b, 31; 290.06, subdivision 2c; 290.0675, subdivision 1; 290.091,
 1.9 subdivision 2; 290A.03, subdivision 15.

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

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

1.13 Subd. 7. **Internal Revenue Code.** Unless specifically defined otherwise, "Internal
 1.14 Revenue Code" means the Internal Revenue Code of 1986, as amended through April
 1.15 ~~15~~ December 31, 2005.

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

1.17 Sec. 2. Minnesota Statutes 2005 Supplement, section 290.01, subdivision 19, is
 1.18 amended to read:

1.19 Subd. 19. **Net income.** The term "net income" means the federal taxable income,
 1.20 as defined in section 63 of the Internal Revenue Code of 1986, as amended through the
 1.21 date named in this subdivision, incorporating the federal effective dates of changes to the
 1.22 Internal Revenue Code and any elections made by the taxpayer in accordance with the
 1.23 Internal Revenue Code in determining federal taxable income for federal income tax
 1.24 purposes, and with the modifications provided in subdivisions 19a to 19f.

2.1 In the case of a regulated investment company or a fund thereof, as defined in section
 2.2 851(a) or 851(g) of the Internal Revenue Code, federal taxable income means investment
 2.3 company taxable income as defined in section 852(b)(2) of the Internal Revenue Code,
 2.4 except that:

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

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

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

2.14 The net income of a real estate investment trust as defined and limited by section
 2.15 856(a), (b), and (c) of the Internal Revenue Code means the real estate investment trust
 2.16 taxable income as defined in section 857(b)(2) of the Internal Revenue Code.

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

2.20 The Internal Revenue Code of 1986, as amended through ~~April 15~~ December 31,
 2.21 2005, shall be in effect for taxable years beginning after December 31, 1996.

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

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

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

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

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

2.34 (ii) exempt-interest dividends as defined in section 852(b)(5) of the Internal Revenue
 2.35 Code, except the portion of the exempt-interest dividends derived from interest income

3.1 on obligations of the state of Minnesota or its political or governmental subdivisions,
3.2 municipalities, governmental agencies or instrumentalities, but only if the portion of the
3.3 exempt-interest dividends from such Minnesota sources paid to all shareholders represents
3.4 95 percent or more of the exempt-interest dividends that are paid by the regulated
3.5 investment company as defined in section 851(a) of the Internal Revenue Code, or the
3.6 fund of the regulated investment company as defined in section 851(g) of the Internal
3.7 Revenue Code, making the payment; and

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

3.11 (2) the amount of income or sales and use taxes paid or accrued within the taxable
3.12 year under this chapter and the amount of taxes based on net income paid or sales and
3.13 use taxes paid to any other state or to any province or territory of Canada, to the extent
3.14 allowed as a deduction under section 63(d) of the Internal Revenue Code, but the addition
3.15 may not be more than the amount by which the itemized deductions as allowed under
3.16 section 63(d) of the Internal Revenue Code exceeds the amount of the standard deduction
3.17 as defined in section 63(c) of the Internal Revenue Code minus the addition which would
3.18 have been required under clause (10) if the taxpayer had claimed the standard deduction.
3.19 For the purpose of this paragraph, the disallowance of itemized deductions under section
3.20 68 of the Internal Revenue Code of 1986, income or sales and use tax is the last itemized
3.21 deduction disallowed;

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

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

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

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

3.35 (7) 80 percent of the depreciation deduction allowed under section 168(k) of the
3.36 Internal Revenue Code. For purposes of this clause, if the taxpayer has an activity that

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

4.8 (8) 80 percent of the amount by which the deduction allowed by section 179 of the
 4.9 Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal
 4.10 Revenue Code of 1986, as amended through December 31, 2003;

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

4.13 (10) for tax years beginning after December 31, 2004, and before January 1, 2006,
 4.14 to the extent deducted in computing federal taxable income, the amount by which the
 4.15 standard deduction allowed under section 63(c) of the Internal Revenue Code exceeds the
 4.16 standard deduction allowable under section 63(c) of the Internal Revenue Code of 1986,
 4.17 as amended through December 31, 2003; and

4.18 (11) the exclusion allowed under section 139A of the Internal Revenue Code for
 4.19 federal subsidies for prescription drug plans.

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

4.22 Sec. 4. Minnesota Statutes 2005 Supplement, section 290.01, subdivision 19b, is
 4.23 amended to read:

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

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

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

4.32 (3) the amount paid to others, less the amount used to claim the credit allowed under
 4.33 section 290.0674, not to exceed \$1,625 for each qualifying child in grades kindergarten
 4.34 to 6 and \$2,500 for each qualifying child in grades 7 to 12, for tuition, textbooks, and
 4.35 transportation of each qualifying child in attending an elementary or secondary school

5.1 situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a
5.2 resident of this state may legally fulfill the state's compulsory attendance laws, which
5.3 is not operated for profit, and which adheres to the provisions of the Civil Rights Act
5.4 of 1964 and chapter 363A. For the purposes of this clause, "tuition" includes fees or
5.5 tuition as defined in section 290.0674, subdivision 1, clause (1). As used in this clause,
5.6 "textbooks" includes books and other instructional materials and equipment purchased
5.7 or leased for use in elementary and secondary schools in teaching only those subjects
5.8 legally and commonly taught in public elementary and secondary schools in this state.
5.9 Equipment expenses qualifying for deduction includes expenses as defined and limited in
5.10 section 290.0674, subdivision 1, clause (3). "Textbooks" does not include instructional
5.11 books and materials used in the teaching of religious tenets, doctrines, or worship, the
5.12 purpose of which is to instill such tenets, doctrines, or worship, nor does it include books
5.13 or materials for, or transportation to, extracurricular activities including sporting events,
5.14 musical or dramatic events, speech activities, driver's education, or similar programs. For
5.15 purposes of the subtraction provided by this clause, "qualifying child" has the meaning
5.16 given in section 32(c)(3) of the Internal Revenue Code;

5.17 (4) income as provided under section 290.0802;

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

5.20 (6) to the extent not deducted in determining federal taxable income by an individual
5.21 who does not itemize deductions for federal income tax purposes for the taxable year, an
5.22 amount equal to 50 percent of the excess of charitable contributions over \$500 allowable
5.23 as a deduction for the taxable year under section 170(a) of the Internal Revenue Code and
5.24 under the provisions of Public Law 109-1;

5.25 (7) for taxable years beginning before January 1, 2008, the amount of the federal
5.26 small ethanol producer credit allowed under section 40(a)(3) of the Internal Revenue Code
5.27 which is included in gross income under section 87 of the Internal Revenue Code;

5.28 (8) for individuals who are allowed a federal foreign tax credit for taxes that do not
5.29 qualify for a credit under section 290.06, subdivision 22, an amount equal to the carryover
5.30 of subnational foreign taxes for the taxable year, but not to exceed the total subnational
5.31 foreign taxes reported in claiming the foreign tax credit. For purposes of this clause,
5.32 "federal foreign tax credit" means the credit allowed under section 27 of the Internal
5.33 Revenue Code, and "carryover of subnational foreign taxes" equals the carryover allowed
5.34 under section 904(c) of the Internal Revenue Code minus national level foreign taxes to
5.35 the extent they exceed the federal foreign tax credit;

6.1 (9) in each of the five tax years immediately following the tax year in which an
6.2 addition is required under subdivision 19a, clause (7), or 19c, clause (15), in the case
6.3 of a shareholder of a corporation that is an S corporation, an amount equal to one-fifth
6.4 of the delayed depreciation. For purposes of this clause, "delayed depreciation" means
6.5 the amount of the addition made by the taxpayer under subdivision 19a, clause (7), or
6.6 subdivision 19c, clause (15), in the case of a shareholder of an S corporation, minus the
6.7 positive value of any net operating loss under section 172 of the Internal Revenue Code
6.8 generated for the tax year of the addition. The resulting delayed depreciation cannot be
6.9 less than zero;

6.10 (10) job opportunity building zone income as provided under section 469.316;

6.11 (11) the amount of compensation paid to members of the Minnesota National Guard
6.12 or other reserve components of the United States military for active service performed
6.13 in Minnesota, excluding compensation for services performed under the Active Guard
6.14 Reserve (AGR) program. For purposes of this clause, "active service" means (i) state
6.15 active service as defined in section 190.05, subdivision 5a, clause (1); (ii) federally
6.16 funded state active service as defined in section 190.05, subdivision 5b; or (iii) federal
6.17 active service as defined in section 190.05, subdivision 5c, but "active service" excludes
6.18 services performed exclusively for purposes of basic combat training, advanced individual
6.19 training, annual training, and periodic inactive duty training; special training periodically
6.20 made available to reserve members; and service performed in accordance with section
6.21 190.08, subdivision 3;

6.22 (12) the amount of compensation paid to Minnesota residents who are members
6.23 of the armed forces of the United States or United Nations for active duty performed
6.24 outside Minnesota;

6.25 (13) an amount, not to exceed \$10,000, equal to qualified expenses related to a
6.26 qualified donor's donation, while living, of one or more of the qualified donor's organs
6.27 to another person for human organ transplantation. For purposes of this clause, "organ"
6.28 means all or part of an individual's liver, pancreas, kidney, intestine, lung, or bone marrow;
6.29 "human organ transplantation" means the medical procedure by which transfer of a human
6.30 organ is made from the body of one person to the body of another person; "qualified
6.31 expenses" means unreimbursed expenses for both the individual and the qualified donor
6.32 for (i) travel, (ii) lodging, and (iii) lost wages net of sick pay, except that such expenses
6.33 may be subtracted under this clause only once; and "qualified donor" means the individual
6.34 or the individual's dependent, as defined in section 152 of the Internal Revenue Code. An
6.35 individual may claim the subtraction in this clause for each instance of organ donation for
6.36 transplantation during the taxable year in which the qualified expenses occur;

7.1 (14) in each of the five tax years immediately following the tax year in which an
 7.2 addition is required under subdivision 19a, clause (8), or 19c, clause (16), in the case of a
 7.3 shareholder of a corporation that is an S corporation, an amount equal to one-fifth of the
 7.4 addition made by the taxpayer under subdivision 19a, clause (8), or 19c, clause (16), in the
 7.5 case of a shareholder of a corporation that is an S corporation, minus the positive value of
 7.6 any net operating loss under section 172 of the Internal Revenue Code generated for the
 7.7 tax year of the addition. If the net operating loss exceeds the addition for the tax year, a
 7.8 subtraction is not allowed under this clause;

7.9 (15) to the extent included in federal taxable income, compensation paid to a
 7.10 nonresident who is a service member as defined in United States Code, title 10, section
 7.11 101(a)(5), for military service as defined in the Service Member Civil Relief Act, Public
 7.12 Law 108-189, section 101(2); and

7.13 (16) international economic development zone income as provided under section
 7.14 469.325; and

7.15 (17) for tax years beginning after December 31, 2005, and before January 1, 2007,
 7.16 the amount included in taxable income for tax years beginning after December 31, 2004,
 7.17 and before January 1, 2006, if any, as required by section 290.01, subdivision 19a, clause
 7.18 (10).

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

7.21 Sec. 5. Minnesota Statutes 2005 Supplement, section 290.01, subdivision 31, is
 7.22 amended to read:

7.23 Subd. 31. **Internal Revenue Code.** Unless specifically defined otherwise, "Internal
 7.24 Revenue Code" means the Internal Revenue Code of 1986, as amended through April
 7.25 ~~15~~ December 31, 2005.

7.26 **EFFECTIVE DATE.** This section is effective the day following final enactment,
 7.27 except the changes incorporated by federal changes are effective at the same times as the
 7.28 changes were effective for federal purposes.

7.29 Sec. 6. Minnesota Statutes 2005 Supplement, section 290.06, subdivision 2c, is
 7.30 amended to read:

7.31 Subd. 2c. **Schedules of rates for individuals, estates, and trusts.** (a) The income
 7.32 taxes imposed by this chapter upon married individuals filing joint returns and surviving

8.1 spouses as defined in section 2(a) of the Internal Revenue Code must be computed by
8.2 applying to their taxable net income the following schedule of rates:

- 8.3 (1) On the first ~~\$25,680~~ \$29,980, 5.35 percent;
- 8.4 (2) On all over ~~\$25,680~~ \$29,980, but not over ~~\$102,030~~ \$119,100, 7.05 percent;
- 8.5 (3) On all over ~~\$102,030~~ \$119,100, but not over \$....., 7.85 percent; and
- 8.6 (4) On all over ~~\$270,000~~, ^{270,000} ~~....~~ ^{6.15} percent.

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

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

- 8.12 (1) On the first ~~\$17,570~~ \$20,510, 5.35 percent;
- 8.13 (2) On all over ~~\$17,570~~ \$20,510, but not over ~~\$57,710~~ \$67,360, 7.05 percent;
- 8.14 (3) On all over ~~\$57,710~~ \$67,360, but not over \$180,000, 7.85 percent; and
- 8.15 (4) On all over \$180,000, ^{8.15} percent.

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

- 8.19 (1) On the first ~~\$21,630~~ \$25,250, 5.35 percent;
- 8.20 (2) On all over ~~\$21,630~~ \$25,250, but not over ~~\$86,910~~ \$101,450, 7.05 percent;
- 8.21 (3) On all over ~~\$86,910~~ \$101,450, but not over \$229,500, 7.85 percent; and
- 8.22 (4) On all over \$229,500, ^{8.15} percent.

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

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

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

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

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

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

9.1 Sec. 7. Minnesota Statutes 2004, section 290.06, subdivision 2d, is amended to read:

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

9.23 (b) The commissioner shall adjust the rate brackets and by the percentage determined
9.24 pursuant to the provisions of section 1(f) of the Internal Revenue Code, except that in
9.25 section 1(f)(3)(B) the word "~~1999~~" "2005" shall be substituted for the word "1992." For
9.26 2001, the commissioner shall then determine the percent change from the 12 months
9.27 ending on August 31, ~~1999~~ 2005, to the 12 months ending on August 31, ~~2000~~ 2006, and
9.28 in each subsequent year, from the 12 months ending on August 31, ~~1999~~ 2005, to the 12
9.29 months ending on August 31 of the year preceding the taxable year. The determination of
9.30 the commissioner pursuant to this subdivision shall not be considered a "rule" and shall
9.31 not be subject to the Administrative Procedure Act contained in chapter 14.

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

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

10.3 Sec. 8. Minnesota Statutes 2005 Supplement, section 290.0675, subdivision 1, is
 10.4 amended to read:

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

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

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

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

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

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

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

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

10.25 Sec. 9. Minnesota Statutes 2005 Supplement, section 290.091, subdivision 2, is
 10.26 amended to read:

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

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

10.31 (1) the taxpayer's federal alternative minimum taxable income as defined in section
 10.32 55(b)(2) of the Internal Revenue Code;

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

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

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

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

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

11.9 (ii) the medical expense deduction;

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

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

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

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

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

11.23 (6) the amount of addition required by section 290.01, subdivision 19a, clauses
11.24 (7), (8), and (9);

11.25 less the sum of the amounts determined under the following:

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

11.27 (2) an overpayment of state income tax as provided by section 290.01, subdivision
11.28 19b, clause (2), to the extent included in federal alternative minimum taxable income;

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

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

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

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

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

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

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

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

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

12.13 Sec. 10. Minnesota Statutes 2004, section 290.091, subdivision 3, is amended to read:

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

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

12.26 (c) For taxable years beginning after December 31, 2006, the exemption amounts in
12.27 paragraph (a) and the income amounts in paragraph (b), must be adjusted for inflation.
12.28 The commissioner shall make the inflation adjustments in accordance with section 1(f) of
12.29 the Internal Revenue Code, except that for the purposes of this subdivision, the percentage
12.30 increase must be determined from the year starting September 1, 2005, and ending August
12.31 31, 2006, as the base year for adjusting for inflation for the tax year beginning after
12.32 December 31, 2006. The determination of the commissioner under this subdivision is not
12.33 a rule under the Administrative Procedure Act.

EFFECTIVE DATE. This section is effective for taxable years beginning after

December 31, 2005.

Sec. 11. 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.

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

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

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

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

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

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

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

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

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

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

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

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

15.1 Sec. 12. Minnesota Statutes 2005 Supplement, section 290A.03, subdivision 15,
15.2 is amended to read:

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

15.5 **EFFECTIVE DATE.** This section is effective for property taxes payable on or after
15.6 December 31, 2006, and rent paid on or after December 31, 2005.

adopted
3/27/06

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

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

1.3 Page 4, strike lines 13 to 17

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

1.5 Page 4, delete section 4

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

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

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

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

1.10 Page 10, line 20, strike the old language

1.11 Page 15, after line 6, insert:

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

1.13 For taxable years beginning after December 31, 2004, and before December 31,
1.14 2006, the definition of "net income" in Minnesota Statutes, section 290.01, subdivision 19,
1.15 must be interpreted by the Department of Revenue to conform to the position taken by
1.16 the Internal Revenue Service in Revenue Notice 2005-68.

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

1.18 For taxable years beginning after December 31, 2004, and before January 1, 2006,
1.19 the liability for tax under Minnesota Statutes, chapter 290, must be determined as if the
1.20 addition to federal taxable income under Minnesota Statutes 2005 Supplement, section
1.21 290.01, subdivision 19a, clause (10), did not apply.

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

1.23 Sec. 14. REFUNDS.

1.24 The commissioner of revenue must review individual income tax returns that may be
1.25 subject to section 13 and adjust the tax liability accordingly. If the tax paid for the taxable
1.26 year beginning after December 31, 2004, and before January 1, 2006, by any taxpayer
1.27 under Minnesota Statutes, chapter 290, as amended through December 31, 2005, to the
1.28 commissioner of revenue is greater than the tax liability determined under section 13, the
1.29 commissioner must pay the taxpayer a refund of the difference. If the tax paid for that
1.30 taxable year by any taxpayer under Minnesota Statutes, chapter 290, as amended through
1.31 December 31, 2005, is less than the tax liability determined under section 13, no additional
1.32 payment is required of the taxpayer. Notwithstanding Minnesota Statutes, section 270.76,
1.33 refunds issued under this section are not subject to accrual of interest.

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

2.2 Sec. 15. **APPROPRIATION.**

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

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

2.11 Renumber the sections in sequence and correct the internal references

2.12 Amend the title accordingly

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and Fiscal Analysis**

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Senate

State of Minnesota

S.F. No. 3550 - Tax Modifications (as proposed to be amended by author)

Author: Senator Lawrence Pogemiller

Prepared by: Michelle Allen, Senate Counsel (651/296-0558)

Date: March 29, 2006

Sections 1, 2, 5 and 12. Federal Update. These changes bring Minnesota's income and property tax laws into conformity with recent federal law changes through December 31, 2005. Currently, Minnesota law incorporates federal law only through April 15, 2005. Specifically, these sections will incorporate the federal enactments of The Energy Tax Incentives Act of 2005, The Katrina Emergency Tax Relief Act of 2005, and The Gulf Opportunity Zone Act of 2005.

Section 3. Acceleration of Marriage Penalty Elimination. This section eliminates the addition for the difference between the federal and state standard deductions for married joint filers beginning in taxable year 2006. Thus, the standard deduction for married joint filers would be 200 percent of the standard deduction for single filers.

Section 4. Deleted by amendment.

Sections 6 and 7. Inflation Adjustments and Income Tax Bracket Changes. These sections adjust the current tax brackets for inflation and add a fourth tax bracket of 8.15 percent for incomes that exceed \$270,000 for married joint filers, \$180,000 for unmarried filers, and \$229,500 for unmarried head of household filers.

Section 8. Elimination of Marriage Penalty Credit. This section removes the marriage penalty credit for earned income credit calculations as it is no longer necessary starting in taxable year 2006.

Section 9. Alternative Minimum Tax Deduction for Dependents. This section allows a deduction from the alternative minimum tax equal to the amount of federal exemption for dependents.

Section 10. Alternative Minimum Tax Exemptions. This section changes the exemption amount for computing the alternative minimum tax to the following: \$67,250 for married individuals filing a joint return; \$33,625 for married individuals filing separate returns; and \$50,435 for single or head of household filers. This provision also adds a 25 percent reduction for alternative minimum income that exceeds \$252,160 for married joint filers; \$128,080 for married separate filers; and \$189,120 for single and head of household filers. These exemptions are adjusted for inflation.

Section 11. Deferred Compensation. The current law allows a recipient to exclude from income compensation that was received while a nonresident even though the income was earned while the recipient was a resident. This section will require that compensation earned while a resident is included as taxable income even when the recipient is a nonresident when it is received.

Section 13 (as added by author's amendment). Retroactive Application of Marriage Penalty Conformity. Section 13 would retroactively eliminate for taxable year 2005, the addition for the difference between the federal and state standard deductions for married joint filers.

Sections 14 and 15. (as added by author's amendment). Refunds and Appropriation. Section 14 requires the commissioner of revenue to review returns that may be subject to liability under section 13, and adjust the tax liability accordingly. Section 14 also provides for refunds in cases where the amount of tax liability already paid is greater than the adjusted tax liability. In cases where the tax already paid is less than the adjusted tax liability, the taxpayer is not required to make additional payment. Section 15 appropriates funds from the Tax Relief Account to issue the refunds and pay for the administrative costs associated with issuing the refunds.

MJA:dv

MINNESOTA - REVENUE

**INDIVIDUAL INCOME TAX
Conform to Federal Standard
Deduction for Married Filers, AMT
Modifications, New Top Rate &
Bracket, Repeal Exclusion of
Deferred Compensation for Non
Residents, and Federal Update**

March 30, 2006

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of S.F. 3550 (Pogemiller), As Proposed to be Amended (SCS3550A-2)

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

EXPLANATION OF THE BILL

Conform to Federal Standard Deduction for Married Filers

The proposal is to conform to the federal change in the standard deduction contained in the Working Families Tax Relief Act of 2004. This provision defines the standard deduction for a married couple filing a joint return to be equal to twice the amount of the standard deduction for single filers, and the standard deduction for married persons filing separate returns to be equal to that for single filers. These definitions would apply beginning in 2006 instead of being phased in, as current law provides.

	Standard Deduction:	
	Married-Joint as a Percent of Single	
	Current Law	Proposed
Tax Year 2006	184%	200%
Tax Year 2007	187%	200%
Tax Year 2008	190%	200%
Tax Year 2009	200%	200%

Number of Taxpayers: About 419,300 married taxpayers in 2006 experience a tax decrease of \$74.

Conform to Federal Standard Deduction for Married Filers Retroactive to Tax Year 2005

The proposal requires the Department of Revenue to retroactively adjust the 2005 tax returns for those married-joint standard deduction filers who added back \$1,300 to federal taxable income (\$650 for married-separate), and for married itemizers who would have a smaller add-back of state income taxes deducted on their federal tax returns. Those taxpayers whose marriage credit was greater owing to the difference between the federal and state deductions are held harmless

Number of Taxpayers: About 441,000 married taxpayers in 2005 experience a tax decrease of \$75.

Alternative Minimum Tax (AMT) Exemption Amounts

For tax year 2006 the proposal would increase the AMT exemption from \$40,000 to \$67,250 for married joint filers, from \$20,000 to \$33,625 for married separate filers, and from \$30,000 to \$50,435 for single and head of household filers. In addition, the proposal increases the phase-out threshold from \$150,000 to \$252,160 for married joint filers, from \$75,000 to \$126,080 for married separate filers, and from \$112,500 to \$189,120 for single and head of household filers. The exemption amounts and phase-out thresholds are adjusted for inflation starting with tax year 2007. The following tables show exemption and phase-out threshold amounts under current law, the proposal for 2006, and adjusted for inflation for tax years 2007 and 2008.

Current Law

Filing Status	Exemption	Phase-Out Begins	Phase-Out Ends
Married Joint	\$40,000	\$150,000	\$310,000
Married Separate	\$20,000	\$75,000	\$155,000
Single	\$30,000	\$112,500	\$232,500
Head of Household	\$30,000	\$112,500	\$232,500

**Proposal
 Tax Year 2006**

Filing Status	Exemption	Phase-Out Begins	Phase-Out Ends
Married Joint	\$67,250	\$252,160	\$521,160
Married Separate	\$33,625	\$126,080	\$260,580
Single	\$50,435	\$189,120	\$390,860
Head of Household	\$50,435	\$189,120	\$390,860

**Proposal
 Tax Year 2007**

Filing Status	Exemption	Phase-Out Begins	Phase-Out Ends
Married Joint	\$69,250	\$259,670	\$536,670
Married Separate	\$34,630	\$129,830	\$268,350
Single	\$51,940	\$194,750	\$402,510
Head of Household	\$51,940	\$194,750	\$402,510

**Proposal
 Tax Year 2008**

Filing Status	Exemption	Phase-Out Begins	Phase-Out Ends
Married Joint	\$70,470	\$264,240	\$546,120
Married Separate	\$35,240	\$132,120	\$273,080
Single	\$52,850	\$198,180	\$409,580
Head of Household	\$52,850	\$198,180	\$409,580

Number of Taxpayers: For tax year 2006, an estimated 44,700 returns would receive a reduction in the Minnesota alternative minimum tax of an average of \$640 per tax return, including 41,900 returns which would no longer be subject to the AMT.

Dependent Exemption Deduction from Alternative Minimum Taxable Income (AMTI)

This proposal would allow a dependent exemption deduction from AMTI equal to the federal dependent exemption for each dependent starting in tax year 2006.

Number of Taxpayers: For tax year 2006, an estimated 34,800 returns would receive a reduction in the Minnesota alternative minimum tax of an average of \$360 per tax return, including 22,000 returns which would no longer be subject to the AMT.

All AMT Components together

This includes all the above AMT components combined. It includes the proposed exemption and phase-out levels and the dependent exemption from AMTI.

Number of Taxpayers: For tax year 2006, an estimated 44,800 returns would receive a reduction in the Minnesota alternative minimum tax of an average of \$654 per tax return, including 42,600 returns which would no longer be subject to the AMT.

Individual Income Tax Rates and Brackets

The proposal adds a new top bracket at a rate of 8.15% starting in tax year 2006. The top bracket starts at \$270,000 for married-joint filers \$135,000 for married-separate filers, \$180,000 for single filers, and \$229,500 for head-of-household filers. The brackets are adjusted yearly for inflation with tax year 2006 set as the new base. These changes are presented in the following tables:

	Tax Year 2006							
	Current Law			Proposed Law				
Married Joint	5.35%	\$ 0	-	\$29,980	5.35%	\$ 0	-	\$29,980
	7.05	29,981	-	119,100	7.05	29,981	-	119,100
	7.85	Over		119,100	7.85	119,101	-	270,000
					8.15	Over		270,000
Married Separate	5.35%	\$ 0	-	\$14,990	5.35%	\$ 0	-	\$14,990
	7.05	14,891	-	59,550	7.05	14,991	-	59,550
	7.85	Over		59,550	7.85	59,551	-	135,000
					8.15	Over		135,000
Single	5.35%	\$ 0	-	\$20,510	5.35%	\$ 0	-	\$20,510
	7.05	20,511	-	67,360	7.05	20,511	-	67,360
	7.85	Over		67,360	7.85	67,361	-	180,000
					8.15	Over		180,000
Head of Household	5.35%	\$ 0	-	\$25,250	5.35%	\$ 0	-	\$25,250
	7.05	25,251	-	101,450	7.05	25,251	-	101,450
	7.85	Over		101,450	7.85	101,451	-	229,500
					8.15	Over		229,500

Number of Taxpayers: Approximately 41,900 taxpayers would receive an average tax increase of \$1,162 in tax year 2006.

Repeal Exclusion of Deferred Compensation for Nonresidents

Under current law, there is an exemption from the individual income tax for wage income that was earned while the taxpayer was a resident but is received in a year that the taxpayer was a nonresident for the full year. The bill would eliminate this exemption.

REVENUE ANALYSIS DETAIL

Conformity to Federal Standard Deduction for Married Filers

- Simulation results are obtained using the House Income Tax Simulation (HITS 5.4) model. The simulations assume the same economic conditions used by the Minnesota Department of Finance for the forecast published in February 2006. The model uses a stratified sample of 2003 individual income tax returns compiled by the Minnesota Department of Revenue.
- For conforming to the federal standard deduction component of the proposal, all of tax year 2006 was allocated to FY 2007, and tax years 2007 and 2008 were allocated 50/50 to fiscal years.
- For the retroactive conformity to the federal standard deduction to tax year 2005, all the revenue impacts were allocated to fiscal year 2007 since costs would be paid out of the tax relief fund in fiscal year 2007. The HITS model was used to model the revenue impact for those married-joint standard deduction filers who added back \$1,300 to federal taxable income (\$650 for married-separate), and for married itemizers who would have a smaller add-back of state income taxes deducted on their federal tax returns.

Alternative Minimum Tax Modifications

- Simulation results are obtained using the House Income Tax Simulation (HITS 5.4) model.
- Tax year impact is allocated to the following fiscal year.

New Top Rate of 8.15% & Bracket

- Simulation results are obtained using the House Income Tax Simulation (HITS 5.4) model.
- In allocating the tax year impacts to fiscal years, a standard rule of thumb formula was applied.

Repeal Exclusion of Deferred Compensation for Nonresidents

- The estimates are based on information that was developed following the Minnesota Supreme Court decision in *Victor C. Benda v. James Girard in His Capacity as Commissioner of Revenue, et al.*
- Amended returns filed in response to the court case were the primary source of information, supplemented with a sample of 1997 individual income tax returns of nonresidents.
- Annual growth of 6% was assumed.
- Tax year impact was allocated to the following fiscal year.

Federal Update: The Energy Tax Incentives Act of 2005, The Katrina Emergency Tax Relief Act of 2005, The Gulf Opportunity Zone Act of 2005

- The estimates are based on the estimates for the federal legislation prepared by the Joint Committee on Taxation.
- If both the individual income and corporate franchise taxes would be affected, the federal estimates were divided between the two taxes.
- The federal estimates were apportioned to Minnesota based on a measure appropriate to the provision. For the Katrina Emergency Tax Relief and the Gulf Opportunity Zone Acts, the estimates were further adjusted to reflect the extent to which Minnesota taxpayers would likely be affected by the provision. No adjustment was made for provisions not limited to the hurricane disaster areas: suspending the limitations for qualified charitable contributions by individuals and extending the enhanced deduction for the contributions of food inventory and book inventory.
- Federal and state marginal rates were applied, and the estimates were converted from federal fiscal years to state fiscal years.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

**SF 3550, Author's Amendment:
IMPACT OF MARRIED STANDARD DEDUCTION CONFORMITY, AMT REFORM,
AND CHANGE IN INCOME TAX BRACKETS & RATE, TAX YEAR 2006**

Baseline: Current law TY2006

Alternative: SF 3550, Author's Amendment

3/28/2006; 14:19

**Table I. NUMBER OF RETURNS, DOLLAR AMOUNTS & CHANGE BY INCOME LEVEL
MN Tax After All Credits**

Both Filing Statuses		Number of Returns				Amounts (in \$1,000's)			
		Base	Alt.	Chg	%Chg	Base	Alt.	Chg	%Chg
9999	Or Less	110,813	110,810	-3	0.0	-20,220	-20,511	-291	-1.4
10000	19999	275,744	274,189	-1,555	-0.6	-325	-639	-314	****
20000	29999	278,678	278,145	-533	-0.2	104,264	102,378	-1,886	-1.8
30000	49999	461,806	460,794	-1,012	-0.2	587,790	581,867	-5,923	-1.0
50000	74999	396,016	395,019	-997	-0.3	927,432	916,517	-10,915	-1.2
75000	99999	252,519	252,303	-216	-0.1	914,992	906,058	-8,934	-1.0
100000	124999	130,159	130,159	0	0.0	663,823	658,023	-5,800	-0.9
125000	149999	64,889	64,889	0	0.0	418,117	415,043	-3,074	-0.7
150000	249999	84,949	84,949	0	0.0	826,009	818,549	-7,460	-0.9
250000	499999	34,200	34,200	0	0.0	651,653	651,635	-18	0.0
500000	Or More	20,608	20,608	0	0.0	1 352,722	1,395,295	42,573	3.1
All Incomes		2,110,380	2,106,064	-4 316	-0.2	6,426,257	6,424,215	-2042	0.0

**Table II. INCREASES AND DECREASES BY \$ AMOUNT OF CHANGE
MN Tax After All Credits
Both Filing Statuses**

(No Change: 1 836 041 or 75.3%)

\$ of Change	INCREASES						DECREASES					
	Tax Returns		\$ of Increase		% Cum %		Tax Returns		\$ of Decrease		% Cum %	
	Number	%	\$1,000	%	Cum %	Number	%	\$1,000	%	Cum %	Number	%
1 25	76,947	3.2	494	1.0	1.0	30,645	1.3	447	0.9	0.9		
26 50	2,220	0.1	80	0.2	1.2	184,610	7.6	8,115	16.4	17.3		
51 100	3,847	0.2	286	0.6	1.8	218,308	9.0	12,977	26.2	43.4		
101 250	7,229	0.3	1,233	2.6	4.4	21,398	0.9	3,586	7.2	50.7		
251 500	6,734	0.3	2,441	5.1	9.5	15,893	0.7	5,671	11.4	62.1		
501 750	3,730	0.2	2,309	4.9	14.4	8,168	0.3	5,100	10.3	72.4		
751 1000	2,805	0.1	2,463	5.2	19.6	4,616	0.2	4,056	8.2	80.6		
1001 +	9,090	0.4	8,249	80.4	100.0	6,682	0.3	9,645	19.4	100.0		
Total Chg	112,603	4.6	47,555	****		490,320	20.1	49,597	****			

**SF 3550, Author's Amendment, continued, page 2:
IMPACT OF MARRIED STANDARD DEDUCTION CONFORMITY, AMT REFORM,
AND CHANGE IN INCOME TAX BRACKETS & RATE, TAX YEAR 2006**

Baseline: Current law TY2006

Alternative: SF 3550, Author's Amendment

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**Table III. INCREASES AND DECREASES BY INCOME LEVEL
Both Filing Statuses**

(No Change: 1836041 or 75.3%)

Income Category	INCREASES					DECREASES				
	Tax Returns		\$ of Increase			Tax Returns		\$ of Decrease		
	Number	%	\$1,000	%	Cum %	Number	%	\$1,000	%	Cum %
9999 Or Less	0	0.0	0	0.0	0.0	685	0.0	291	0.6	0.6
10000 19999	0	0.0	0	0.0	0.0	9,408	0.4	312	0.6	1.2
20000 29999	0	0.0	0	0.0	0.0	43,004	1.8	1,885	3.8	5.0
30000 49999	0	0.0	0	0.0	0.0	116,000	4.8	5,922	11.9	17.0
50000 74999	16,599	0.7	116	0.2	0.2	146,939	6.0	11,033	22.2	39.2
75000 99999	26,043	1.1	181	0.4	0.6	87,197	3.6	9,114	18.4	57.6
100000 124999	9,624	0.4	65	0.1	0.8	38,470	1.6	5,865	11.8	69.4
125000 149999	3,932	0.2	24	0.1	0.8	16,031	0.7	3,098	6.2	75.7
150000 249999	16,864	0.7	216	0.5	1.3	25,264	1.0	7,676	15.5	91.1
250000 499999	19,423	0.8	4,104	8.6	9.9	7,096	0.3	4,122	8.3	99.4
500000 Or More	20,116	0.8	42,850	90.1	100.0	228	0.0	276	0.6	100.0
All Incomes	112,602	4.6	47,556	****		490,320	20.1	49594	****	

**Table IV. EFFECTIVE TAX RATE BY INCOME LEVEL
INCOME BASE FEDERAL ADJUSTED GROSS INCOME**

Both Filing Statuses	Number of Returns				Effective Tax Rate			
	Base	Alt.	Chg	%Chg	Base	Alt.	Chg	%Chg
9999 Or Less	378,551	378,551	0	0.0	-3.98	-4.04	-0.06	1.44
10000 19999	315,543	315,543	0	0.0	-0.01	-0.01	-0.01	96.62
20000 29999	290,153	290,153	0	0.0	1.48	1.45	-0.03	-1.81
30000 49999	468,650	468,650	0	0.0	3.23	3.20	-0.03	-1.01
50000 74999	397,204	397,204	0	0.0	3.86	3.81	-0.05	-1.18
75000 99999	252,912	252,912	0	0.0	4.26	4.22	-0.04	-0.98
100000 124999	130,293	130,293	0	0.0	4.68	4.64	-0.04	-0.87
125000 149999	65,145	65,145	0	0.0	4.90	4.86	-0.04	-0.74
150000 249999	85,126	85,126	0	0.0	5.52	5.47	-0.05	-0.90
250000 499999	34,273	34,273	0	0.0	6.31	6.31	0.00	0.00
500000 Or More	20,726	20,726	0	0.0	6.74	6.95	0.21	3.15
All Incomes	2,438,574	2,438,574	0	0.0	4.46	4.46	0.00	-0.03

SF 3550 Married Standard Deduction Conformity

FEDERAL AND MINNESOTA STANDARD DEDUCTION, JOINT RETURN

Current law and Proposal TY 2005-2009

Tax Year	Federal Standard Deduction	Minnesota Standard Deduction	Minnesota Add-back Current Law	SF 3550 Proposed
2005	\$ 10,000	\$ 8,700	\$ 1,300	\$0
2006	10,300	9,450	850	\$0
2007	10,600	9,900	700	\$0
2008	10,800	10,250	550	\$0
2009	11,000	11,000	\$0	\$0

TAX DECREASES BY AMOUNT OF CHANGE

Both Filing Statuses, Tax Year 2005

Returns with No Change: 1,903,306 or 78.6%

\$ of Tax Reduction	Tax Returns		\$ of Decrease	
	Number	%	\$1,000	%
\$ 1-25	21,484	0.9	\$ 279	0.9
26-50	31,734	1.3	1,174	3.6
51-100	371,894	15.4	29,593	90.6
101-250	15,072	0.6	1,586	4.9
251-500	55	0	15	0
501-750	0	0	0	0
751-1,000	0	0	0	0
1,001 +	0	0	0	0
Total Chg	440,239	18.2	\$ 32,647	****

No change in marriage penalty credit: 79,090 returns, - \$701,000 tax revenue.

INCREASES AND DECREASES BY INCOME LEVEL

Married Standard Deduction Conformity Tax Year 2005

Both Filing Statuses. (No change: 1903,306 or 78.6%)

FAGI Income Category	Tax Returns		\$ of Decrease		Avg. \$ Amt.
	Number	%	\$1,000	%	
\$ 9999 Or Less	789	0	\$ 21	0.1	\$26.62
10000 - 19999	13,453	0.6	694	2.1	\$51.59
20000 - 29999	47,756	2	3,091	9.5	\$64.72
30000 - 49999	116,087	4.8	7,895	24.2	\$68.01
50000 - 74999	135,659	5.6	10,698	32.8	\$78.86
75000 - 99999	71,126	2.9	5,684	17.4	\$79.91
100000 124999	24,444	1	1,904	5.8	\$77.89
125000 149999	9,486	0.4	808	2.5	\$85.18
150000 249999	11,857	0.5	1,029	3.2	\$86.78
250000 499999	4,742	0.2	421	1.3	\$88.78
500000 Or More	4,832	0.2	395	1.2	\$81.75
All Incomes	440,233	18.2	\$ 32,640	***	\$74.14

SF 3550 AMT Provisions Compared to Current Law

1. AMT Exemption Levels*

	Married Joint		Single or HOH		Married Separate	
	Current Law	SF 3550	Current Law	SF 3550	Current Law	SF 3550
Tax Year 2006	\$ 40,000	\$ 67,250	\$ 30,000	\$ 50,435	\$ 20,000	\$ 33,625
Tax Year 2007	40,000	69,250	30,000	51,940	20,000	34,625
Tax Year 2008	40,000	70,470	30,000	52,850	20,000	35,235
Tax Year 2009	40,000	71,860	30,000	53,890	20,000	35,930

2. Start of Exemption Phaseout**

	Married Joint		Single or HOH		Married Separate	
	Current Law	SF 3550	Current Law	SF 3550	Current Law	SF 3550
Tax Year 2006	\$ 150,000	\$252,160	\$ 112,500	\$ 189,120	\$ 75,000	\$ 126,080
Tax Year 2007	150,000	259,670	112,500	194,760	75,000	129,835
Tax Year 2008	150,000	264,250	112,500	198,180	75,000	132,125
Tax Year 2009	150,000	269,470	112,500	202,090	75,000	134,735

**AMT exemption amounts and exemption phaseout floor amounts are indexed for inflation, TY 2007 and after.

3. Allow Dependent Exemptions

\$ Amt. per Dependent

	Current Law	SF 3550
Tax Year 2006	-	\$ 3,250
Tax Year 2007	-	3,300
Tax Year 2008	-	3,350
Tax Year 2009	-	3,500

IMPACT ON NUMBER OF AMT RETURNS AND IMPACT ON AMT REVENUE TY 2006

SF 3550 AMT PROPOSAL (assuming current law tax rates*)	AMT Filers	Percent change	AMT Dollars (\$1000s)	Percent change
Current Law Number of Filers	45,003	***	\$ 36,599	***
Reduction in filers for provisions separately:				
a. Change exemption to \$67,250/ \$33,625/ \$50,435 and raise start of exemption phaseout, indexed	(44,627)	-93%	(28,563)	-78%
b. Add dependent exemption, \$3,250 indexed	(22,014)	-49%	(12,546)	-34%
Reduction for provisions combined (with interaction effect)	(41,872)	-93%	(28,563)	-78%
Remaining filers with AMT liability, combined provisions	3,131	7%	\$ 8,036	22%

*With higher rates, even fewer taxpayers would be subject to the AMT and AMT revenues would be lower.

SF 3550 Tax Rate Provisions (in Isolation) Compared to Current Law

1. Tax Rates and Brackets	Minnesota Taxable Income							
	Married Joint		Married Separate		Single		Head of Household	
Tax Year 2006	Current Law	SF 3550	Current Law	SF 3550	Current Law	SF 3550	Current Law	SF 3550
Bracket 1, 5.35%, \$1 MTTI to:	\$ 29,980	Same	\$ 14,990	Same	\$ 20,510	Same	\$ 25,250	Same
Bracket 2, 7.05%,	119,100	Same	59,550	Same	67,360	Same	101,450	Same
Bracket 3, 7.85%	>119,100	>119,100 to:	>59,550 -	>59,550 to:	>67,360 -	>67,360 to:	>101,450	>101,450 to:
Bracket 4, 8.15%	NA	>270,000	NA	>135,000	NA	>180,000	NA	>229,500

2. Net Change in Tax Revenue after all credits, by income

Dollars in thousands

Income Group Federal Adjusted Gross Income (FAGI)	All Filers	Married Jt Only	All Other Filers
\$ 9,999 or Less	\$ -	\$ -	\$ -
10,000 - 19,999	\$ -	\$ -	\$ -
20,000 - 29,999	\$ -	\$ -	\$ -
30,000 - 49,999	\$ -	\$ -	\$ -
50,000 - 74,999	\$ -	\$ -	\$ -
75,000 - 99,999	\$ -	\$ -	\$ -
100,000 - 124,999	\$ -	\$ -	\$ -
125,000 - 149,999	\$ -	\$ -	\$ -
150,000 - 249,999	\$ 173	\$ -	\$ 173
250,000 - 499,999	\$ 4,285	\$ 3,121	\$ 1,164
500,000 or More	\$ 43,070	\$ 36,608	\$ 6,462
All Incomes	\$ 47,528	\$ 39,729	\$ 7,799

All Filing Statuses

No Change: 2,396,912 returns or 98.3%

AMT: 1,069 returns have a reduction in AMT liability, totalling \$293,000.

**Impact of Tax Rate & Bracket Proposal, Isolated from all other changes
SF 3550, Author's Amendment**

Baseline: Current law TY 2006

Alternative: New bracket & 8.15% Rate TY 2006

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**INCREASES AND DECREASES BY INCOME LEVEL
MN TAX AFTER ALL CREDITS**

Both Filing Statuses

(No Change: 2,396,912 or 98.3%)

FAGI Income Category	INCREASES				DECREASES			
	Tax Returns Number	%	\$ of Increase \$1,000	% Cum %	Tax Returns Number	%	\$ of Decrease \$1,000	% Cum %
\$ 9999 Or Less	0	0.0	\$ 0	0.0	0	0.0	\$ 0	0.0
10000 19999	0	0.0	0	0.0	0	0.0	0	0.0
20000 29999	0	0.0	0	0.0	0	0.0	0	0.0
30000 49999	0	0.0	0	0.0	0	0.0	0	0.0
50000 74999	0	0.0	0	0.0	0	0.0	0	0.0
75000 99999	0	0.0	0	0.0	0	0.0	0	0.0
100000 124999	3	0.0	0	0.0	0	0.0	0	0.0
125000 149999	0	0.0	0	0.0	0	0.0	0	0.0
150000 249999	2,369	0.1	172	0.4	0	0.0	0	0.0
250000 499999	19,389	0.8	4,292	9.0	146	0.0	7	**** 100.0
500000 Or More	20,177	0.8	43,070	90.6	0	0.0	0	0.0 100.0
All Incomes	41937	1.7	47534	****	146	0.0	7	****

Impact on Effective Tax Rates

Both Filing Statuses

Income Category	Number of Returns				Effective Tax Rate			
	Base	Alt.	Chg	%Chg	Base	Alt.	Chg	%Chg
9999 Or Less	378,551	378,551	0	0.0	-3.98	-3.98	0.00	0.00
10000 19999	315,543	315,543	0	0.0	-0.01	-0.01	0.00	0.00
20000 29999	290,153	290,153	0	0.0	1.48	1.48	0.00	0.00
30000 49999	468,650	468,650	0	0.0	3.23	3.23	0.00	0.00
50000 74999	397,204	397,204	0	0.0	3.86	3.86	0.00	0.00
75000 99999	252,912	252,912	0	0.0	4.26	4.26	0.00	0.00
100000 124999	130,293	130,293	0	0.0	4.68	4.68	0.00	0.00
125000 149999	65,145	65,145	0	0.0	4.90	4.90	0.00	0.00
150000 249999	85,126	85,126	0	0.0	5.52	5.52	0.00	0.02
250000 499999	34,273	34,273	0	0.0	6.31	6.36	0.04	0.66
500000 Or More	20,726	20,726	0	0.0	6.74	6.96	0.21	3.18
All Incomes	2,438,574	2,438,574	0	0.0	4.46	4.50	0.03	0.74

Note: Income is FAGI.

M1 MINNESOTA REVENUE 2005 Individual Income Tax

200511

Please print and leave unused boxes blank. **DO NOT USE STAPLES** on anything you submit.

Your first name and initial _____ **Last name** _____ **Your Social Security number** _____

If a joint return, spouse's first name and initial _____ **Last name** _____ **Spouse's Social Security number** _____

Mark an X if a foreign address: **Current home address (street, apartment number, route)** _____ **Your date of birth (mm/dd/yyyy)** _____

City _____ **State** _____ **Zip code** _____ **Spouse's date of birth** _____

2005 federal filing status (mark an X in one oval box):

(1) Single (2) Married filing joint (3) Married filing separate: Enter spouse's name and Social Security number here _____

(4) Head of Household (5) Qualifying widow(er)

State Elections Campaign Fund If you want \$5 to go to help candidates for state offices pay campaign expenses; you may each enter the code number for the party of your choice. This will not increase your tax or reduce your refund.

Political party and code number:

Democratic Farmer-Labor .. 11	Republican	14
Green	General Campaign	
Independence	Fund	15

Code number for you: _____ **Code number for spouse:** _____

From your federal return (for line references see instructions, page 9), enter the amount of:

A Wages, salaries, tips, etc.: _____ **B IRA, Pensions and annuities:** _____ **C Unemployment:** _____ **D Federal adjusted gross income:** _____

If a negative number, mark an X in oval box.

1 Federal taxable income (from line 43 of federal Form 1040, line 27 of Form 1040A, or line 6 of Form 1040EZ) **1** _____, _____, _____, _____, _____ 00

2 State income tax or sales tax addition. If you itemized deductions on federal Form 1040, complete the worksheet on page 9 of the instructions. **2** _____, _____, _____, _____, _____ 00

3 If you took the standard deduction on your federal return, enter \$1,300 if married filing joint or qualifying widow(er), or \$650 if married filing separate. Otherwise, skip this line. **3** _____, _____, _____, _____, _____ 00

4 Other additions to your income, including non-Minnesota bond interest (see instructions, page 10, and enclose Schedule M1M) **4** _____, _____, _____, _____, _____ 00

5 Add lines 1 through 4 (if a negative number, mark an X in the oval box as indicated) **5** _____, _____, _____, _____, _____ 00

6 State income tax refund from line 10 of your federal Form 1040 **6** _____, _____, _____, _____, _____ 00

7 Net interest or mutual fund dividends from U.S. bonds (see instructions, page 10) **7** _____, _____, _____, _____, _____ 00

8 Education expenses you paid for your qualifying children in grades K-12 (see instructions, page 10). Enter the name and grade of each child: **8** _____, _____, _____, _____, _____ 00

9 If you did not itemize deductions on your federal return and your charitable contributions were more than \$500, see instructions, page 12

10 Subtraction for federal bonus depreciation added back to Minnesota taxable income in 2001, 2002, 2003 and/or 2004 (see instructions, page 12) **10** _____, _____, _____, _____, _____ 00

11 Job Opportunity Building Zone (JOBZ) business and investment income exemptions (enclose Schedule JOBZ) **11** _____, _____, _____, _____, _____ 00

12 Other subtractions (see instructions, page 12, and enclose Schedule M1M) **12** _____, _____, _____, _____, _____ 00

13 Total subtractions. Add lines 6 through 12 **13** _____, _____, _____, _____, _____ 00

14 Minnesota taxable income. Subtract line 13 from line 5 (if result is zero or less, leave blank) **14** _____, _____, _____, _____, _____ 00

15 Tax from the table on pages 22-27 of the M1 instructions **15** _____, _____, _____, _____, _____ 00

16 Alternative minimum tax (enclose Schedule M1MT) **16** _____, _____, _____, _____, _____ 00

17 Add lines 15 and 16 **17** _____, _____, _____, _____, _____ 00

Please print

Fund Filing status

Federal

Minnesota withholding

Do not send in W-2s. Complete and enclose Schedule M1M to claim

Tax before credits

