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State of Minnesota HOUSE OF REPRESENTATIVES

EIGHTY-FIFTH SESSION

HOUSE FILE No. 304

January 25, 2007

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The bill was read for the first time and referred to the Committee on Taxes

A bill for an act

1.1 relating to taxation; providing for budget reserves; changing calculation of the
1.2 school operating capital levy; changing the residential homestead market value
1.3 credit; imposing levy limits; conforming certain tax provisions to changes in the
1.4 Internal Revenue Code; excluding compensation and certain pension income for
1.5 service in the armed forces; providing dairy investment and regional investment
1.6 credits; increasing the maximum homeowners' property tax refunds; changing
1.7 the income and franchise tax income apportionment formula; providing a direct
1.8 sales tax exemption for small business and certain other capital equipment
1.9 purchases; exempting certain transportation purchases from the sales tax;
1.10 exempting certain sales of construction materials from the sales tax; extending
1.11 the period of job opportunity building zone benefits in certain cases; changing
1.12 certain aids to local governments; amending Minnesota Statutes 2006, sections
1.13 16A.152, subdivisions 1b, 2; 126C.10, subdivision 13a; 273.1384, subdivision
1.14 1; 275.70, subdivisions 3, 5, by adding a subdivision; 275.71, subdivisions 1,
1.15 2, 4, 5; 289A.02, subdivision 7; 290.01, subdivisions 19, 19b, 31; 290.06, by
1.16 adding subdivisions; 290.091, subdivision 2; 290.191, subdivision 2; 290A.03,
1.17 subdivision 15; 290A.04, subdivision 2; 291.005, subdivision 1; 297A.68,
1.18 subdivision 5; 297A.70, subdivision 2; 297A.71, by adding subdivisions;
1.19 297A.75, subdivisions 1, 3; 469.312, subdivision 5; 477A.013, subdivision 9,
1.20 by adding a subdivision; 477A.03, subdivision 2a.

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

ARTICLE 1

GOVERNOR'S INITIATIVES

1.25 Section 1. Minnesota Statutes 2006, section 16A.152, subdivision 1b, is amended to
1.26 read:

1.27 Subd. 1b. Budget reserve increase. On July 1, ~~2003~~ 2007, the commissioner of
1.28 finance shall transfer ~~\$300,000,000~~ \$47,000,000 to the budget reserve account in the
1.29 general fund. ~~On July 1, 2004, the commissioner of finance shall transfer \$296,000,000 to~~

2.1 ~~the budget reserve account in the general fund.~~ The amounts necessary for this purpose
2.2 are appropriated from the general fund.

2.3 Sec. 2. Minnesota Statutes 2006, section 16A.152, subdivision 2, is amended to read:

2.4 Subd. 2. **Reserve goal; additional revenues; priority.** ~~(a)~~ If on the basis of
2.5 a forecast of general fund revenues and expenditures, the commissioner of finance
2.6 determines that there will be a positive unrestricted budgetary general fund balance at the
2.7 close of the biennium that exceeds \$125,000,000, the commissioner of finance ~~must~~
2.8 ~~allocate money~~ shall transfer up to \$50,000,000 to the following accounts and purposes in
2.9 priority order:

2.10 (1) the cash flow account established in subdivision 1 until that account reaches
2.11 \$350,000,000;

2.12 (2) the budget reserve account established in subdivision 1a until that account
2.13 reaches ~~\$653,000,000~~; an amount equal to five percent of forecast general fund spending
2.14 for the second year of the biennium.

2.15 ~~(3) the amount necessary to increase the aid payment schedule for school district~~
2.16 ~~aids and credits payments in section 127A.45 to not more than 90 percent rounded to the~~
2.17 ~~nearest tenth of a percent without exceeding the amount available and with any remaining~~
2.18 ~~funds deposited in the budget reserve; and~~

2.19 ~~(4) the amount necessary to restore all or a portion of the net aid reductions under~~
2.20 ~~section 127A.441 and to reduce the property tax revenue recognition shift under section~~
2.21 ~~123B.75, subdivision 5, paragraph (c), and Laws 2003, First Special Session chapter 9,~~
2.22 ~~article 5, section 34, as amended by Laws 2003, First Special Session chapter 23, section~~
2.23 ~~20, by the same amount.~~

2.24 ~~(b) The amounts necessary to meet the requirements of this section are appropriated~~
2.25 ~~from the general fund within two weeks after the forecast is released or, in the case of~~
2.26 ~~transfers under paragraph (a), clauses (3) and (4), as necessary to meet the appropriations~~
2.27 ~~schedules otherwise established in statute.~~

2.28 ~~(c) To the extent that a positive unrestricted budgetary general fund balance is~~
2.29 ~~projected, appropriations under this section must be made before section 16A.1522 takes~~
2.30 ~~effect.~~

2.31 ~~(d) The commissioner of finance shall certify the total dollar amount of the~~
2.32 ~~reductions under paragraph (a), clauses (3) and (4), to the commissioner of education. The~~
2.33 ~~commissioner of education shall increase the aid payment percentage and reduce the~~
2.34 ~~property tax shift percentage by these amounts and apply those reductions to the current~~
2.35 ~~fiscal year and thereafter.~~

3.1 Sec. 3. Minnesota Statutes 2006, section 126C.10, subdivision 13a, is amended to read:

3.2 Subd. 13a. **Operating capital levy.** To obtain operating capital revenue for fiscal
 3.3 year 2007 and later, a district may levy an amount not more than the product of its
 3.4 operating capital revenue for the fiscal year times the lesser of one or the ratio of its
 3.5 adjusted net tax capacity per adjusted marginal cost pupil unit to the operating capital
 3.6 equalizing factor. The operating capital equalizing factor equals ~~\$22,222 for fiscal year~~
 3.7 ~~2006, and~~ \$10,700 for fiscal year ~~2007~~ 2008 and \$17,590 for fiscal year 2009 and later.

3.8 **EFFECTIVE DATE.** This section is effective for revenue for fiscal year 2009.

3.9 Sec. 4. Minnesota Statutes 2006, section 273.1384, subdivision 1, is amended to read:

3.10 Subdivision 1. **Residential homestead market value credit.** Each county auditor
 3.11 shall determine a homestead credit for each class 1a, 1b, and 2a homestead property within
 3.12 the county equal to 0.4 percent of the first \$76,000 of market value of the property minus
 3.13 .09 percent of the market value in excess of ~~\$76,000~~ \$118,000. The credit amount may
 3.14 not be less than zero. In the case of an agricultural or resort homestead, only the market
 3.15 value of the house, garage, and immediately surrounding one acre of land is eligible in
 3.16 determining the property's homestead credit. In the case of a property that is classified as
 3.17 part homestead and part nonhomestead, (i) the credit shall apply only to the homestead
 3.18 portion of the property, but (ii) if a portion of a property is classified as nonhomestead
 3.19 solely because not all the owners occupy the property, not all the owners have qualifying
 3.20 relatives occupying the property, or solely because not all the spouses of owners occupy
 3.21 the property, the credit amount shall be initially computed as if that nonhomestead portion
 3.22 were also in the homestead class and then prorated to the owner-occupant's percentage
 3.23 of ownership. For the purpose of this section, when an owner-occupant's spouse does
 3.24 not occupy the property, the percentage of ownership for the owner-occupant spouse is
 3.25 one-half of the couple's ownership percentage.

3.26 **EFFECTIVE DATE.** This section is effective for taxes payable in 2008 and
 3.27 thereafter.

3.28 Sec. 5. Minnesota Statutes 2006, section 275.70, subdivision 3, is amended to read:

3.29 Subd. 3. **Local governmental unit.** "Local governmental unit" means a county,
 3.30 or a statutory or home rule charter city with a population greater than 2,500 for which
 3.31 more than 33 percent of the county's or city's levy plus aid base including special levies
 3.32 consists of aid.

4.1 **EFFECTIVE DATE.** This section is effective for taxes payable in 2008 and
4.2 thereafter.

4.3 Sec. 6. Minnesota Statutes 2006, section 275.70, subdivision 5, is amended to read:

4.4 Subd. 5. **Special levies.** "Special levies" means those portions of ad valorem taxes
4.5 levied by a local governmental unit for the following purposes or in the following manner:

4.6 (1) to pay the costs of the principal and interest on bonded indebtedness or to
4.7 reimburse for the amount of liquor store revenues used to pay the principal and interest
4.8 due on municipal liquor store bonds in the year preceding the year for which the levy
4.9 limit is calculated;

4.10 (2) to pay the costs of principal and interest on certificates of indebtedness issued for
4.11 any corporate purpose except for the following:

4.12 (i) tax anticipation or aid anticipation certificates of indebtedness;

4.13 (ii) certificates of indebtedness issued under sections 298.28 and 298.282;

4.14 (iii) certificates of indebtedness used to fund current expenses or to pay the costs of
4.15 extraordinary expenditures that result from a public emergency; or

4.16 (iv) certificates of indebtedness used to fund an insufficiency in tax receipts or
4.17 an insufficiency in other revenue sources;

4.18 (3) to provide for the bonded indebtedness portion of payments made to another
4.19 political subdivision of the state of Minnesota;

4.20 (4) to fund payments made to the Minnesota State Armory Building Commission
4.21 under section 193.145, subdivision 2, to retire the principal and interest on armory
4.22 construction bonds;

4.23 (5) property taxes approved by voters which are levied against the referendum
4.24 market value as provided under section 275.61;

4.25 (6) to fund matching requirements needed to qualify for federal or state grants or
4.26 programs to the extent that either (i) the matching requirement exceeds the matching
4.27 requirement in calendar year ~~2001~~ 2007, or (ii) it is a new matching requirement that
4.28 did not exist prior to ~~2002~~ 2008;

4.29 (7) to pay the expenses reasonably and necessarily incurred in preparing for or
4.30 repairing the effects of natural disaster including the occurrence or threat of widespread
4.31 or severe damage, injury, or loss of life or property resulting from natural causes, in
4.32 accordance with standards formulated by the Emergency Services Division of the state
4.33 Department of Public Safety, as allowed by the commissioner of revenue under section
4.34 275.74, subdivision 2;

5.1 (8) pay amounts required to correct an error in the levy certified to the county
5.2 auditor by a city or county in a levy year, but only to the extent that when added to the
5.3 preceding year's levy it is not in excess of an applicable statutory, special law or charter
5.4 limitation, or the limitation imposed on the governmental subdivision by sections 275.70
5.5 to 275.74 in the preceding levy year;

5.6 (9) to pay an abatement under section 469.1815;

5.7 (10) to pay any costs attributable to increases in the employer contribution rates
5.8 under chapter 353 that are effective after June 30, ~~2001~~ 2006;

5.9 (11) to pay the operating or maintenance costs of a county jail as authorized in
5.10 section 641.01 or 641.262, or of a correctional facility as defined in section 241.021,
5.11 subdivision 1, paragraph (f), to the extent that the county can demonstrate to the
5.12 commissioner of revenue that the amount has been included in the county budget as
5.13 a direct result of a rule, minimum requirement, minimum standard, or directive of the
5.14 Department of Corrections, or to pay the operating or maintenance costs of a regional jail
5.15 as authorized in section 641.262. For purposes of this clause, a district court order is
5.16 not a rule, minimum requirement, minimum standard, or directive of the Department of
5.17 Corrections. If the county utilizes this special levy, except to pay operating or maintenance
5.18 costs of a new regional jail facility under sections 641.262 to 641.264 which will not
5.19 replace an existing jail facility, any amount levied by the county in the previous levy year
5.20 for the purposes specified under this clause and included in the county's previous year's
5.21 levy limitation computed under section 275.71, shall be deducted from the levy limit
5.22 base under section 275.71, subdivision 2, when determining the county's current year
5.23 levy limitation. The county shall provide the necessary information to the commissioner
5.24 of revenue for making this determination;

5.25 (12) to pay for operation of a lake improvement district, as authorized under section
5.26 103B.555. If the county utilizes this special levy, any amount levied by the county in the
5.27 previous levy year for the purposes specified under this clause and included in the county's
5.28 previous year's levy limitation computed under section 275.71 shall be deducted from
5.29 the levy limit base under section 275.71, subdivision 2, when determining the county's
5.30 current year levy limitation. The county shall provide the necessary information to the
5.31 commissioner of revenue for making this determination;

5.32 (13) to repay a state or federal loan used to fund the direct or indirect required
5.33 spending by the local government due to a state or federal transportation project or other
5.34 state or federal capital project. This authority may only be used if the project is not a
5.35 local government initiative;

6.1 (14) to pay for court administration costs as required under section 273.1398,
 6.2 subdivision 4b, less the ~~(i)~~ county's share of transferred fines and fees collected by the
 6.3 district courts in the county for in the prior calendar year 2001 and ~~(ii) the aid amount~~
 6.4 ~~certified to be paid to the county in 2004 under section 273.1398, subdivision 4c; however,~~
 6.5 ~~for taxes levied to pay for these costs in the year in which the court financing is transferred~~
 6.6 ~~to the state, the amount under this clause is limited to the amount of aid the county is~~
 6.7 ~~certified to receive under section 273.1398, subdivision 4a;~~

6.8 (15) to fund a police or firefighters relief association as required under section 69.77
 6.9 to the extent that the required amount exceeds the amount levied for this purpose in ~~2001~~
 6.10 the prior year;

6.11 (16) for purposes of a storm sewer improvement district under section 444.20; ~~and~~

6.12 (17) to pay for the maintenance and support of a city or county society for the
 6.13 prevention of cruelty to animals under section 343.11. If the city or county uses this special
 6.14 levy, any amount levied by the city or county in the previous levy year for the purposes
 6.15 specified in this clause and included in the city's or county's previous year's levy limit
 6.16 computed under section 275.71, must be deducted from the levy limit base under section
 6.17 275.71, subdivision 2, in determining the city's or county's current year levy limit; and

6.18 (18) to pay the increase in unreimbursed targeted case management costs over the
 6.19 unreimbursed costs for 2006.

6.20 **EFFECTIVE DATE.** This section is effective for taxes payable in 2008 and
 6.21 thereafter.

6.22 Sec. 7. Minnesota Statutes 2006, section 275.70, is amended by adding a subdivision
 6.23 to read:

6.24 Subd. 7. **Levy year.** A reference in sections 275.70 to 275.74 to a "levy year," or a
 6.25 year in which taxes are levied, refers to the year in which property tax levies are certified
 6.26 under section 275.07 for taxes payable in the following year.

6.27 **EFFECTIVE DATE.** This section is effective for taxes payable in 2008 and
 6.28 thereafter.

6.29 Sec. 8. Minnesota Statutes 2006, section 275.71, subdivision 1, is amended to read:

6.30 Subdivision 1. **Limit on levies.** Notwithstanding any other provision of law or
 6.31 municipal charter to the contrary which authorize ad valorem taxes in excess of the limits
 6.32 established by sections 275.70 to 275.74, the provisions of ~~this section~~ sections 275.70

7.1 to 275.74 apply to local governmental units for all purposes other than those for which
 7.2 special levies and special assessments are made.

7.3 **EFFECTIVE DATE.** This section is effective for taxes payable in 2008 and
 7.4 thereafter.

7.5 Sec. 9. Minnesota Statutes 2006, section 275.71, subdivision 2, is amended to read:

7.6 Subd. 2. **Levy limit base.** The levy limit base for a local governmental unit for taxes
 7.7 levied in ~~2003~~ 2007 and thereafter is equal to ~~its adjusted levy limit base in the previous~~
 7.8 ~~year; (i) the amount it levied in the prior year; plus (ii) the sum of the aids it was certified to~~
 7.9 ~~receive in the current year under sections 298.28, 298.282, and 477A.011 to 477A.03, plus~~
 7.10 ~~any state aid for federally unreimbursed targeted case management costs, subject to any~~
 7.11 ~~adjustments under section 275.72; plus any aid amounts received in 2003 under section~~
 7.12 ~~273.138 or 273.166, minus the difference between its levy limit under subdivision 5 for~~
 7.13 ~~taxes levied in 2002 and the amount it actually levied under that subdivision in that year;~~
 7.14 ~~and certified property tax replacement aid payable in 2003 under section 174.242; less (iii)~~
 7.15 ~~the amount it levied in the prior year as special levies. For taxes levied in 2007, the amount~~
 7.16 ~~under clause (iii) may include amounts that could have been levied as special levies.~~

7.17 **EFFECTIVE DATE.** This section is effective for taxes payable in 2008 and
 7.18 thereafter.

7.19 Sec. 10. Minnesota Statutes 2006, section 275.71, subdivision 4, is amended to read:

7.20 Subd. 4. **Adjusted levy limit base.** ~~(a) For taxes levied in 2003~~ 2007 and thereafter,
 7.21 ~~the adjusted levy limit base for a local government unit is equal to the levy limit base~~
 7.22 ~~computed under subdivisions~~ subdivision 2 and 3 or section 275.72, ~~reduced by 40 percent~~
 7.23 ~~of the difference between (1) the sum of 2003 certified aid payments, under sections~~
 7.24 ~~273.138, 273.1398 except for amounts certified under subdivision 4a, paragraph (b);~~
 7.25 ~~273.166, 477A.011 to 477A.03, 477A.06, and 477A.07, before any reduction under Laws~~
 7.26 ~~2003, First Special Session chapter 21, articles 5 and 6, and (2) the sum of the aids paid~~
 7.27 ~~in 2004 under those same sections, after any reductions in 2004 under Laws 2003, First~~
 7.28 ~~Special Session chapter 21, articles 5 and 6.~~

7.29 ~~(b) For taxes levied in 2003 only, the adjusted levy limit base is increased by 60~~
 7.30 ~~percent of the difference between a jurisdiction's market value credit in 2003 before any~~
 7.31 ~~reductions under Laws 2003, First Special Session chapter 21, articles 5 and 6, and its~~
 7.32 ~~market value credit in 2004 after reductions in Laws 2003, First Special Session chapter~~
 7.33 ~~21, articles 5 and 6. for that government unit for the same levy year, multiplied by:~~

8.1 (1) 100 percent plus a percentage equal to the percentage growth in the implicit
 8.2 price deflator; and

8.3 (2) 100 percent plus a percentage equal to the percentage increase in the number of
 8.4 households, if any, for the most recent 12-month period for which data is available.

8.5 **EFFECTIVE DATE.** This section is effective for taxes payable in 2008 and
 8.6 thereafter.

8.7 Sec. 11. Minnesota Statutes 2006, section 275.71, subdivision 5, is amended to read:

8.8 Subd. 5. **Property tax levy limit.** For taxes levied in ~~2003~~ 2007 and thereafter, the
 8.9 property tax levy limit for a local governmental unit is equal to its adjusted levy limit base
 8.10 determined under subdivision 4 plus any additional levy authorized under section 275.73,
 8.11 which is levied against net tax capacity, reduced by the sum of

8.12 (i) the total amount of aids and reimbursements that the local governmental unit is
 8.13 certified to receive under sections 477A.011 to 477A.014, ~~except for the increases in city~~
 8.14 ~~aid bases in calendar year 2002 under section 477A.011, subdivision 36, paragraphs~~
 8.15 ~~(l), (n), and (o) 477A.03,~~

8.16 ~~(ii) homestead and agricultural aids it is certified to receive under section 273.1398;~~

8.17 ~~(iii)~~ (ii) taconite aids under sections 298.28 and 298.282 including any aid which
 8.18 was required to be placed in a special fund for expenditure in the next succeeding year,

8.19 ~~(iv) temporary court aid under section 273.1398, subdivision 4a, and~~

8.20 ~~(v)~~ (iii) estimated payments to the local governmental unit under section 272.029,
 8.21 adjusted for any error in estimation in the preceding year, and

8.22 (iv) state aid for targeted case management costs.

8.23 **EFFECTIVE DATE.** This section is effective for taxes payable in 2008 and
 8.24 thereafter.

8.25 Sec. 12. Minnesota Statutes 2006, section 290.01, subdivision 19b, is amended to read:

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

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

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

9.1 (3) the amount paid to others, less the amount used to claim the credit allowed under
9.2 section 290.0674, not to exceed \$1,625 for each qualifying child in grades kindergarten
9.3 to 6 and \$2,500 for each qualifying child in grades 7 to 12, for tuition, textbooks, and
9.4 transportation of each qualifying child in attending an elementary or secondary school
9.5 situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a
9.6 resident of this state may legally fulfill the state's compulsory attendance laws, which
9.7 is not operated for profit, and which adheres to the provisions of the Civil Rights Act
9.8 of 1964 and chapter 363A. For the purposes of this clause, "tuition" includes fees or
9.9 tuition as defined in section 290.0674, subdivision 1, clause (1). As used in this clause,
9.10 "textbooks" includes books and other instructional materials and equipment purchased
9.11 or leased for use in elementary and secondary schools in teaching only those subjects
9.12 legally and commonly taught in public elementary and secondary schools in this state.
9.13 Equipment expenses qualifying for deduction includes expenses as defined and limited in
9.14 section 290.0674, subdivision 1, clause (3). "Textbooks" does not include instructional
9.15 books and materials used in the teaching of religious tenets, doctrines, or worship, the
9.16 purpose of which is to instill such tenets, doctrines, or worship, nor does it include books
9.17 or materials for, or transportation to, extracurricular activities including sporting events,
9.18 musical or dramatic events, speech activities, driver's education, or similar programs. For
9.19 purposes of the subtraction provided by this clause, "qualifying child" has the meaning
9.20 given in section 32(c)(3) of the Internal Revenue Code;

9.21 (4) income as provided under section 290.0802;

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

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

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

9.32 (8) for individuals who are allowed a federal foreign tax credit for taxes that do not
9.33 qualify for a credit under section 290.06, subdivision 22, an amount equal to the carryover
9.34 of subnational foreign taxes for the taxable year, but not to exceed the total subnational
9.35 foreign taxes reported in claiming the foreign tax credit. For purposes of this clause,
9.36 "federal foreign tax credit" means the credit allowed under section 27 of the Internal

10.1 Revenue Code, and "carryover of subnational foreign taxes" equals the carryover allowed
 10.2 under section 904(c) of the Internal Revenue Code minus national level foreign taxes to
 10.3 the extent they exceed the federal foreign tax credit;

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

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

10.14 (11) the amount of compensation paid to members of the Minnesota National Guard
 10.15 or other reserve components of the United States military for active service performed
 10.16 ~~in Minnesota, excluding compensation for services performed under the Active Guard~~
 10.17 ~~Reserve (AGR) program.~~ For purposes of this clause, "active service" means (i) state
 10.18 active service as defined in section 190.05, subdivision 5a, clause (1); (ii) federally
 10.19 funded state active service as defined in section 190.05, subdivision 5b; or (iii) federal
 10.20 active service as defined in section 190.05, subdivision 5c, ~~but "active service" excludes~~
 10.21 ~~services performed exclusively for purposes of basic combat training, advanced individual~~
 10.22 ~~training, annual training, and periodic inactive duty training; special training periodically~~
 10.23 ~~made available to reserve members; and service performed in accordance with section~~
 10.24 ~~190.08, subdivision 3;~~

10.25 (12) the amount of compensation paid to Minnesota residents who are members
 10.26 of the armed forces of the United States or United Nations for active duty performed
 10.27 ~~outside Minnesota;~~

10.28 (13) an amount, not to exceed \$10,000, equal to qualified expenses related to a
 10.29 qualified donor's donation, while living, of one or more of the qualified donor's organs
 10.30 to another person for human organ transplantation. For purposes of this clause, "organ"
 10.31 means all or part of an individual's liver, pancreas, kidney, intestine, lung, or bone marrow;
 10.32 "human organ transplantation" means the medical procedure by which transfer of a human
 10.33 organ is made from the body of one person to the body of another person; "qualified
 10.34 expenses" means unreimbursed expenses for both the individual and the qualified donor
 10.35 for (i) travel, (ii) lodging, and (iii) lost wages net of sick pay, except that such expenses
 10.36 may be subtracted under this clause only once; and "qualified donor" means the individual

11.1 or the individual's dependent, as defined in section 152 of the Internal Revenue Code. An
 11.2 individual may claim the subtraction in this clause for each instance of organ donation for
 11.3 transplantation during the taxable year in which the qualified expenses occur;

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

11.12 (15) to the extent included in federal taxable income, compensation paid to a
 11.13 nonresident who is a service member as defined in United States Code, title 10, section
 11.14 101(a)(5), for military service as defined in the Service Member Civil Relief Act, Public
 11.15 Law 108-189, section 101(2); ~~and~~

11.16 (16) international economic development zone income as provided under section
 11.17 469.325-; and

11.18 (17) to the extent included in federal taxable income, a percentage of compensation
 11.19 received from a pension or other retirement pay from the government for service in the
 11.20 armed forces of the United States, up to a maximum amount. For taxable years beginning
 11.21 after December 31, 2006, and before January 1, 2008, the percentage is 25 percent and
 11.22 the maximum amount is \$7,500; for taxable years beginning after December 31, 2007,
 11.23 and before January 1, 2009, the percentage is 50 percent and the maximum amount is
 11.24 \$15,000; for taxable years beginning after December 31, 2008, and before January 1,
 11.25 2010, the percentage is 75 percent and the maximum amount is \$22,500; and for taxable
 11.26 years beginning after December 31, 2009, the percentage is 100 percent and there is no
 11.27 maximum amount.

11.28 **EFFECTIVE DATE.** This section is effective for tax years beginning after
 11.29 December 31, 2006, except that the changes in clauses (11) and (12) are phased in over
 11.30 the tax years beginning after December 31, 2006, and before December 31, 2009. For
 11.31 tax years beginning after December 31, 2006, and before January 1, 2008, 25 percent
 11.32 of the compensation affected by the changes in clauses (11) and (12) are an allowable
 11.33 subtraction. For the tax year beginning after December 31, 2007, and before January 1,
 11.34 2009, 50 percent is allowed. For the tax year beginning after December 31, 2008, and
 11.35 before January 1, 2010, 75 percent is allowed. For tax years beginning after December
 11.36 31, 2009, 100 percent is allowed.

12.1 Sec. 13. Minnesota Statutes 2006, section 290.06, is amended by adding a subdivision
12.2 to read:

12.3 Subd. 34. Dairy investment credit. (a) A dairy investment credit is allowed against
12.4 the tax due under this chapter equal to ten percent of the amount paid or incurred by the
12.5 taxpayer, on the first \$500,000 of qualifying expenditures made in the qualifying period.

12.6 (b) "Qualifying expenditures" means for purposes of this subdivision the amount
12.7 spent for the acquisition, construction, or improvement of buildings or facilities, or the
12.8 acquisition of equipment, for dairy animal housing, confinement, animal feeding, milk
12.9 production, and waste management, including the following, if related to dairy animals in
12.10 this state:

- 12.11 (1) freestall barns;
- 12.12 (2) fences;
- 12.13 (3) watering facilities;
- 12.14 (4) feed storage and handling equipment;
- 12.15 (5) milking parlors;
- 12.16 (6) robotic equipment;
- 12.17 (7) scales;
- 12.18 (8) milk storage and cooling facilities;
- 12.19 (9) bulk tanks;
- 12.20 (10) manure pumping and storage facilities;
- 12.21 (11) digesters; and
- 12.22 (12) equipment used to produce energy.

12.23 Qualified expenditures only include amounts that are capitalized and deducted
12.24 under either section 167 or 179 of the Internal Revenue Code in computing federal
12.25 taxable income.

12.26 (c) The credit is limited to the liability for tax, as computed under this chapter for the
12.27 taxable year. If the amount of the credit determined under this section for any taxable year
12.28 exceeds this limitation, the excess is a dairy investment credit carryover to each of the 15
12.29 succeeding taxable years. The entire amount of the excess unused credit for the taxable
12.30 year is carried first to the earliest of the taxable years to which the credit may be carried
12.31 and then to each successive year to which the credit may be carried. The amount of the
12.32 unused credit which may be added under this paragraph shall not exceed the taxpayer's
12.33 liability for tax less the dairy investment credit for the taxable year.

12.34 (d) The qualifying period is that time after December 31, 2006, and before January
12.35 1, 2013.

13.1 (c) The \$50,000 maximum credit applies at the entity level for partnerships, S
 13.2 corporations, trusts, and estates as well as at the individual level. In the case of married
 13.3 individuals, the credit is limited to \$50,000 for a married couple.

13.4 **EFFECTIVE DATE.** This section is effective for tax years beginning after
 13.5 December 31, 2006.

13.6 Sec. 14. Minnesota Statutes 2006, section 290.06, is amended by adding a subdivision
 13.7 to read:

13.8 **Subd. 35. Regional investment credit.** (a) A credit is allowed against the tax
 13.9 imposed by this chapter for investment in a qualified regional angel investment network
 13.10 fund. The credit equals 25 percent of the taxpayer's investment made in the fund, but not
 13.11 to exceed the lesser of:

13.12 (1) the liability for tax under this chapter, including the applicable alternative
 13.13 minimum tax; or

13.14 (2) the taxpayer's share of the amount of the certificate issued to the fund by the
 13.15 commissioner of employment and economic development under paragraph (c).

13.16 The taxpayer must claim the credit in the same tax year in which the investment
 13.17 to the fund is made. The credit is allowed only for investments made to a fund that are
 13.18 made after the fund has been certified by the commissioner of employment and economic
 13.19 development under paragraph (c).

13.20 (b) For purposes of this subdivision, a regional angel investment network fund
 13.21 means a pool investment fund that:

13.22 (1) is organized as a limited liability company and consists of members who are
 13.23 accredited investors within the meaning of Regulation D of the Securities and Exchange
 13.24 Commission, Code of Federal Regulations, title 17, section 230.501(a); or consists of
 13.25 members that are not accredited investors that make equity investments or investments in
 13.26 notes that pay interest or other fixed amounts or any combination of both;

13.27 (2) primarily makes investments in qualified small business ventures as defined in
 13.28 paragraph (f);

13.29 (3) has no fewer than five separate investors and no investor owns more than 25
 13.30 percent of the outstanding ownership interests in the fund. For purposes of determining
 13.31 the number of investors and the ownership interest of an investor under this clause, the
 13.32 ownership interests of an investor include those of:

13.33 (i) the investor's spouse, a child, and sibling; and

13.34 (ii) a corporation, partnership, or trust in which the investor has a controlling equity
 13.35 interest or in which the investor exercises management control.

14.1 (c) Regional angel investment network funds may apply to the commissioner
14.2 of employment and economic development for certification as a qualifying regional
14.3 angel investment network fund. The application must be in the form and made under
14.4 procedures specified by the commissioner of employment and economic development.
14.5 The commissioner of employment and economic development may certify up to 20
14.6 funds and may provide certificates entitling investors in each fund to tax credits under
14.7 this subdivision of up to \$600,000 for each fund. The commissioner of employment
14.8 and economic development must not issue a total amount of certificates for all funds of
14.9 more than \$6,000,000. In awarding certificates under this paragraph, the commissioner
14.10 of employment and economic development shall generally award them to qualified
14.11 applicants in the order in which the applications are received, but shall also seek to certify
14.12 funds that are broadly dispersed across the entire state.

14.13 (d) Each fund must provide each investor a statement indicating the investor's share
14.14 of the credit amount certified to the fund under paragraph (c) based on the order in which
14.15 that investor's investment is made to the fund.

14.16 (e) If the amount of the credit under this subdivision for any taxable year exceeds
14.17 the limitation under paragraph (a), clause (1), the excess is a credit carryover to each of
14.18 the ten succeeding taxable years. The entire amount of the excess unused credit for the
14.19 taxable year must be carried first to the earliest of the taxable years to which the credit
14.20 may be carried, and then to each successive year to which the credit may be carried. The
14.21 amount of the unused credit which may be added under this paragraph may not exceed the
14.22 taxpayer's liability for tax less the credit for the taxable year.

14.23 (f) A business is a qualified small business venture for purposes of this subdivision
14.24 only if the business satisfies the following conditions:

14.25 (1) the business is engaged in, or is committed to engage in, manufacturing,
14.26 agriculture, processing or assembling products, conducting research and development, or
14.27 developing a new product or business process;

14.28 (2) the business is not engaged in real estate development, insurance, banking,
14.29 lending, lobbying, political consulting, wholesale or retail trade, leisure, hospitality,
14.30 transportation, construction, or professional services provided by attorneys, accountants,
14.31 business consultants, physicians, or health care consultants;

14.32 (3) the business has its headquarters in Minnesota;

14.33 (4) at least 51 percent of the business's employees are employed in Minnesota;

14.34 (5) the business has less than 100 employees;

14.35 (6) the business has not been in operation for more than ten consecutive years;

15.1 (7) the business has not received more than \$1,000,000 in investments that have
 15.2 qualified for and received tax credits under this subdivision; and

15.3 (8) the business is not part of a unitary business that employs more than 100
 15.4 employees.

15.5 A business that does not meet all of the conditions in clauses (3) through (8) is
 15.6 not a qualified small business venture unless the commissioner of employment and
 15.7 economic development determines, prior to the investment by the fund, that the business
 15.8 is a small business as defined by the small business administration, or by other criteria
 15.9 in Minnesota law.

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

15.11 Sec. 15. Minnesota Statutes 2006, section 290.091, subdivision 2, is amended to read:

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

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

15.16 (1) the taxpayer's federal alternative minimum taxable income as defined in section
 15.17 55(b)(2) of the Internal Revenue Code;

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

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

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

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

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

15.28 (ii) the medical expense deduction;

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

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

15.31 (3) for depletion allowances computed under section 613A(c) of the Internal
 15.32 Revenue Code, with respect to each property (as defined in section 614 of the Internal
 15.33 Revenue Code), to the extent not included in federal alternative minimum taxable income,
 15.34 the excess of the deduction for depletion allowable under section 611 of the Internal

16.1 Revenue Code for the taxable year over the adjusted basis of the property at the end of the
 16.2 taxable year (determined without regard to the depletion deduction for the taxable year);

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

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

16.8 (6) the amount of addition required by section 290.01, subdivision 19a, clauses
 16.9 (7), (8), and (9);

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

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

16.12 (2) an overpayment of state income tax as provided by section 290.01, subdivision
 16.13 19b, clause (2), to the extent included in federal alternative minimum taxable income;

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

16.18 (4) amounts subtracted from federal taxable income as provided by section 290.01,
 16.19 subdivision 19b, clauses (9) to ~~(16)~~ (17).

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

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

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

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

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

16.30 **EFFECTIVE DATE.** This section is effective for tax years beginning after
 16.31 December 31, 2006.

16.32 Sec. 16. Minnesota Statutes 2006, section 290.191, subdivision 2, is amended to read:

16.33 Subd. 2. **Apportionment formula of general application.** (a) Except for those
 16.34 trades or businesses required to use a different formula under subdivision 3 or section
 16.35 290.36, and for those trades or businesses that receive permission to use some other

17.1 method under section 290.20 or under subdivision 4, a trade or business required to
 17.2 apportion its net income must apportion its income to this state on the basis of the
 17.3 percentage obtained by taking the sum of:

17.4 (1) the percent for the sales factor under paragraph (b) of the percentage which
 17.5 the sales made within this state in connection with the trade or business during the tax
 17.6 period are of the total sales wherever made in connection with the trade or business during
 17.7 the tax period;

17.8 (2) the percent for the property factor under paragraph (b) of the percentage which
 17.9 the total tangible property used by the taxpayer in this state in connection with the trade or
 17.10 business during the tax period is of the total tangible property, wherever located, used by
 17.11 the taxpayer in connection with the trade or business during the tax period; and

17.12 (3) the percent for the payroll factor under paragraph (b) of the percentage which
 17.13 the taxpayer's total payrolls paid or incurred in this state or paid in respect to labor
 17.14 performed in this state in connection with the trade or business during the tax period are
 17.15 of the taxpayer's total payrolls paid or incurred in connection with the trade or business
 17.16 during the tax period.

17.17 (b) For purposes of paragraph (a) and subdivision 3, the following percentages apply
 17.18 for the taxable years specified:

17.19 Taxable years	17.20 Sales	17.21 Property	17.22 Payroll
17.23 beginning	17.24 factor	17.25 factor	17.26 factor
17.27 during	17.28 percent	17.29 percent	17.30 percent
17.31 calendar year			
17.32 2007	17.33 78	17.34 11	17.35 11
17.36 2008	17.37 81 85	17.38 9.5 7.5	17.39 9.5 7.5
17.40 2009	17.41 84 90	17.42 8 5	17.43 8 5
17.44 2010	17.45 87 95	17.46 6.5 2.5	17.47 6.5 2.5
17.48 2011	17.49 90	17.50 5	17.51 5
17.52 2012	17.53 93	17.54 3.5	17.55 3.5
17.56 2013	17.57 96	17.58 2	17.59 2
17.60 2014 and later	17.61 100	17.62 0	17.63 0
17.64 calendar years			

17.32 **EFFECTIVE DATE.** This section is effective for tax years beginning after
 17.33 December 31, 2006.

17.34 Sec. 17. Minnesota Statutes 2006, section 290A.04, subdivision 2, is amended to read:

17.35 Subd. 2. **Homeowners.** A claimant whose property taxes payable are in excess
 17.36 of the percentage of the household income stated below shall pay an amount equal to
 17.37 the percent of income shown for the appropriate household income level along with the

18.1 percent to be paid by the claimant of the remaining amount of property taxes payable.
 18.2 The state refund equals the amount of property taxes payable that remain, up to the state
 18.3 refund amount shown below.

18.4	Household Income	Percent of Income	Percent Paid by	Maximum State
18.5			Claimant	Refund
18.6				\$1,450
18.7	\$0 to 1,189	1.0 percent	15 percent	<u>\$1,810</u>
18.8				\$1,450
18.9	1,190 to 2,379	1.1 percent	15 percent	<u>\$1,810</u>
18.10				\$1,410
18.11	2,380 to 3,589	1.2 percent	15 percent	<u>\$1,760</u>
18.12				\$1,410
18.13	3,590 to 4,789	1.3 percent	20 percent	<u>\$1,760</u>
18.14				\$1,360
18.15	4,790 to 5,979	1.4 percent	20 percent	<u>\$1,700</u>
18.16				\$1,360
18.17	5,980 to 8,369	1.5 percent	20 percent	<u>\$1,700</u>
18.18				\$1,310
18.19	8,370 to 9,559	1.6 percent	25 percent	<u>\$1,570</u>
18.20				\$1,310
18.21	9,560 to 10,759	1.7 percent	25 percent	<u>\$1,570</u>
18.22				\$1,260
18.23	10,760 to 11,949	1.8 percent	25 percent	<u>\$1,520</u>
18.24				\$1,260
18.25	11,950 to 13,139	1.9 percent	30 percent	<u>\$1,520</u>
18.26				\$1,210
18.27	13,140 to 14,349	2.0 percent	30 percent	<u>\$1,450</u>
18.28				\$1,210
18.29	14,350 to 16,739	2.1 percent	30 percent	<u>\$1,450</u>
18.30				\$1,160
18.31	16,740 to 17,929	2.2 percent	35 percent	<u>\$1,330</u>
18.32				\$1,160
18.33	17,930 to 19,119	2.3 percent	35 percent	<u>\$1,330</u>
18.34				\$1,110
18.35	19,120 to 20,319	2.4 percent	35 percent	<u>\$1,280</u>
18.36				\$1,110
18.37	20,320 to 25,099	2.5 percent	40 percent	<u>\$1,280</u>
18.38				\$1,070
18.39	25,100 to 28,679	2.6 percent	40 percent	<u>\$1,230</u>
18.40				\$1,070
18.41	28,680 to 35,849	2.7 percent	40 percent	<u>\$1,230</u>
18.42				\$ 970
18.43	35,850 to 41,819	2.8 percent	45 percent	<u>\$1,070</u>
18.44				\$ 970
18.45	41,820 to 47,799	3.0 percent	45 percent	<u>\$1,070</u>
18.46				\$ 870
18.47	47,800 to 53,779	3.2 percent	45 percent	<u>\$960</u>

19.1				\$780
19.2	53,780 to 59,749	3.5 percent	50 percent	<u>\$860</u>
19.3				\$680
19.4	59,750 to 65,729	4.0 percent	50 percent	<u>\$750</u>
19.5				\$580
19.6	65,730 to 69,319	4.0 percent	50 percent	<u>\$640</u>
19.7				\$480
19.8	69,320 to 71,719	4.0 percent	50 percent	<u>\$530</u>
19.9				\$390
19.10	71,720 to 74,619	4.0 percent	50 percent	<u>\$430</u>
19.11				\$290
19.12	74,620 to 77,519	4.0 percent	50 percent	<u>\$320</u>

19.13 The payment made to a claimant shall be the amount of the state refund calculated
 19.14 under this subdivision. No payment is allowed if the claimant's household income is
 19.15 \$77,520 or more.

19.16 **EFFECTIVE DATE.** This section is effective beginning with refunds based on
 19.17 property taxes payable in 2008.

19.18 Sec. 18. Minnesota Statutes 2006, section 297A.68, subdivision 5, is amended to read:

19.19 Subd. 5. **Capital equipment.** (a) Capital equipment is exempt as follows:

19.20 (1) For sales and purchases of capital equipment by the wood products industry, the
 19.21 tax is not imposed.

19.22 (2) For sales and purchases of capital equipment by a small business, the tax is
 19.23 not imposed. For purposes of this subdivision, "small business" is as defined in section
 19.24 645.455, subdivision 2.

19.25 (3) For all other sales and purchases of capital equipment, the tax must be imposed
 19.26 and collected as if the rate under section 297A.62, subdivision 1, applied, and then
 19.27 refunded in the manner provided in section 297A.75.

19.28 "Capital equipment" means machinery and equipment purchased or leased, and used
 19.29 in this state by the purchaser or lessee primarily for manufacturing, fabricating, mining,
 19.30 or refining tangible personal property to be sold ultimately at retail if the machinery and
 19.31 equipment are essential to the integrated production process of manufacturing, fabricating,
 19.32 mining, or refining. Capital equipment also includes machinery and equipment
 19.33 used primarily to electronically transmit results retrieved by a customer of an online
 19.34 computerized data retrieval system.

19.35 (b) Capital equipment includes, but is not limited to:

19.36 (1) machinery and equipment used to operate, control, or regulate the production
 19.37 equipment;

- 20.1 (2) machinery and equipment used for research and development, design, quality
20.2 control, and testing activities;
- 20.3 (3) environmental control devices that are used to maintain conditions such as
20.4 temperature, humidity, light, or air pressure when those conditions are essential to and are
20.5 part of the production process;
- 20.6 (4) materials and supplies used to construct and install machinery or equipment;
- 20.7 (5) repair and replacement parts, including accessories, whether purchased as spare
20.8 parts, repair parts, or as upgrades or modifications to machinery or equipment;
- 20.9 (6) materials used for foundations that support machinery or equipment;
- 20.10 (7) materials used to construct and install special purpose buildings used in the
20.11 production process;
- 20.12 (8) ready-mixed concrete equipment in which the ready-mixed concrete is mixed
20.13 as part of the delivery process regardless if mounted on a chassis, repair parts for
20.14 ready-mixed concrete trucks, and leases of ready-mixed concrete trucks; and
- 20.15 (9) machinery or equipment used for research, development, design, or production
20.16 of computer software.
- 20.17 (c) Capital equipment does not include the following:
- 20.18 (1) motor vehicles taxed under chapter 297B;
- 20.19 (2) machinery or equipment used to receive or store raw materials;
- 20.20 (3) building materials, except for materials included in paragraph (b), clauses (6)
20.21 and (7);
- 20.22 (4) machinery or equipment used for nonproduction purposes, including, but not
20.23 limited to, the following: plant security, fire prevention, first aid, and hospital stations;
20.24 support operations or administration; pollution control; and plant cleaning, disposal of
20.25 scrap and waste, plant communications, space heating, cooling, lighting, or safety;
- 20.26 (5) farm machinery and aquaculture production equipment as defined by section
20.27 297A.61, subdivisions 12 and 13;
- 20.28 (6) machinery or equipment purchased and installed by a contractor as part of an
20.29 improvement to real property;
- 20.30 (7) machinery and equipment used by restaurants in the furnishing, preparing, or
20.31 serving of prepared foods as defined in section 297A.61, subdivision 31;
- 20.32 (8) machinery and equipment used to furnish the services listed in section 297A.61,
20.33 subdivision 3, paragraph (g), clause (6), items (i) to (vi) and (viii);
- 20.34 (9) machinery or equipment used in the transportation, transmission, or distribution
20.35 of petroleum, liquefied gas, natural gas, water, or steam, in, by, or through pipes, lines,
20.36 tanks, mains, or other means of transporting those products. This clause does not apply to

21.1 machinery or equipment used to blend petroleum or biodiesel fuel as defined in section
21.2 239.77; or

21.3 (10) any other item that is not essential to the integrated process of manufacturing,
21.4 fabricating, mining, or refining.

21.5 (d) For purposes of this subdivision:

21.6 (1) "Equipment" means independent devices or tools separate from machinery but
21.7 essential to an integrated production process, including computers and computer software,
21.8 used in operating, controlling, or regulating machinery and equipment; and any subunit or
21.9 assembly comprising a component of any machinery or accessory or attachment parts of
21.10 machinery, such as tools, dies, jigs, patterns, and molds.

21.11 (2) "Fabricating" means to make, build, create, produce, or assemble components or
21.12 property to work in a new or different manner.

21.13 (3) "Integrated production process" means a process or series of operations through
21.14 which tangible personal property is manufactured, fabricated, mined, or refined. For
21.15 purposes of this clause, (i) manufacturing begins with the removal of raw materials
21.16 from inventory and ends when the last process prior to loading for shipment has been
21.17 completed; (ii) fabricating begins with the removal from storage or inventory of the
21.18 property to be assembled, processed, altered, or modified and ends with the creation
21.19 or production of the new or changed product; (iii) mining begins with the removal of
21.20 overburden from the site of the ores, minerals, stone, peat deposit, or surface materials and
21.21 ends when the last process before stockpiling is completed; and (iv) refining begins with
21.22 the removal from inventory or storage of a natural resource and ends with the conversion
21.23 of the item to its completed form.

21.24 (4) "Machinery" means mechanical, electronic, or electrical devices, including
21.25 computers and computer software, that are purchased or constructed to be used for the
21.26 activities set forth in paragraph (a), beginning with the removal of raw materials from
21.27 inventory through completion of the product, including packaging of the product.

21.28 (5) "Machinery and equipment used for pollution control" means machinery and
21.29 equipment used solely to eliminate, prevent, or reduce pollution resulting from an activity
21.30 described in paragraph (a).

21.31 (6) "Manufacturing" means an operation or series of operations where raw materials
21.32 are changed in form, composition, or condition by machinery and equipment and which
21.33 results in the production of a new article of tangible personal property. For purposes of
21.34 this subdivision, "manufacturing" includes the generation of electricity or steam to be
21.35 sold at retail.

21.36 (7) "Mining" means the extraction of minerals, ores, stone, or peat.

22.1 (8) "Online data retrieval system" means a system whose cumulation of information
22.2 is equally available and accessible to all its customers.

22.3 (9) "Primarily" means machinery and equipment used 50 percent or more of the time
22.4 in an activity described in paragraph (a).

22.5 (10) "Refining" means the process of converting a natural resource to an intermediate
22.6 or finished product, including the treatment of water to be sold at retail.

22.7 (11) "Wood products industry" means manufacturers of pulp, paper, and paperboard;
22.8 sawmills and planing mills; manufacturers of panel board including veneer, plywood, and
22.9 reconstituted wood products such as particleboard, waferboard, and oriented strandboard;
22.10 manufacturers of fabricated wood millwork; manufacturers of structural wood members;
22.11 and manufacturers of prefabricated wood buildings and components. For purposes of this
22.12 subdivision, "wood products industry" does not include logging; manufacturers of wood
22.13 cabinets, furniture, office or store fixtures, toys and playground equipment, caskets, or
22.14 miscellaneous wood products; manufacturers of wood containers; businesses engaged in
22.15 wood preserving; the operation of timber tracts or tree farms; forest nurseries and the
22.16 gathering of forest products; and forestry services related to timber production.

22.17 ~~(11)~~ (12) This subdivision does not apply to telecommunications equipment as
22.18 provided in subdivision 35, and does not apply to wire, cable, fiber, poles, or conduit
22.19 for telecommunications services.

22.20 **EFFECTIVE DATE.** This section is effective for sales and purchases made after
22.21 June 30, 2007.

22.22 Sec. 19. Minnesota Statutes 2006, section 297A.70, subdivision 2, is amended to read:

22.23 Subd. 2. **Sales to government.** (a) All sales, except those listed in paragraph (b),
22.24 to the following governments and political subdivisions, or to the listed agencies or
22.25 instrumentalities of governments and political subdivisions, are exempt:

22.26 (1) the United States and its agencies and instrumentalities;

22.27 (2) school districts, the University of Minnesota, state universities, community
22.28 colleges, technical colleges, state academies, the Perpich Minnesota Center for Arts
22.29 Education, and an instrumentality of a political subdivision that is accredited as an
22.30 optional/special function school by the North Central Association of Colleges and Schools;

22.31 (3) hospitals and nursing homes owned and operated by political subdivisions of
22.32 the state of tangible personal property and taxable services used at or by hospitals and
22.33 nursing homes;

22.34 (4) the Metropolitan Council, for its purchases of vehicles and repair parts to equip
22.35 operations provided for in section 473.4051;

23.1 (5) other states or political subdivisions of other states, if the sale would be exempt
 23.2 from taxation if it occurred in that state; ~~and~~

23.3 (6) sales to public libraries, public library systems, multicounty, multitype library
 23.4 systems as defined in section 134.001, county law libraries under chapter 134A, state
 23.5 agency libraries, the state library under section 480.09, and the Legislative Reference
 23.6 Library; and

23.7 (7) Department of Transportation purchases that are made from the trunk highway
 23.8 fund.

23.9 (b) This exemption does not apply to the sales of the following products and services:

23.10 (1) building, construction, or reconstruction materials purchased by a contractor
 23.11 or a subcontractor as a part of a lump-sum contract or similar type of contract with a
 23.12 guaranteed maximum price covering both labor and materials for use in the construction,
 23.13 alteration, or repair of a building or facility;

23.14 (2) construction materials purchased by tax exempt entities or their contractors to
 23.15 be used in constructing buildings or facilities which will not be used principally by the
 23.16 tax exempt entities;

23.17 (3) the leasing of a motor vehicle as defined in section 297B.01, subdivision 5,
 23.18 except for leases entered into by the United States or its agencies or instrumentalities; or

23.19 (4) lodging as defined under section 297A.61, subdivision 3, paragraph (g), clause
 23.20 (2), and prepared food, candy, and soft drinks, except for lodging, prepared food, candy,
 23.21 and soft drinks purchased directly by the United States or its agencies or instrumentalities.

23.22 (c) As used in this subdivision, "school districts" means public school entities and
 23.23 districts of every kind and nature organized under the laws of the state of Minnesota, and
 23.24 any instrumentality of a school district, as defined in section 471.59.

23.25 **EFFECTIVE DATE.** This section is effective for sales and purchases made after
 23.26 June 30, 2007.

23.27 Sec. 20. Minnesota Statutes 2006, section 297A.71, is amended by adding a
 23.28 subdivision to read:

23.29 **Subd. 40. Legal reference office and data center facility.** Materials and supplies
 23.30 used or consumed in, and equipment incorporated into, the construction, improvement, or
 23.31 expansion of a legal reference office and data center facility is exempt if:

23.32 (1) the facility is engaged in the development or provision of print or online versions
 23.33 of legal reference products and services; and

23.34 (2) the total capital investment made in the facility is at least \$60,000,000.

24.1 Except for equipment owned or leased by a contractor, all machinery, equipment,
 24.2 appliances, furniture, fixtures, and technical equipment, including data processing, data
 24.3 storage, and telecommunications hardware and software, necessary to the construction and
 24.4 equipping of the facility to provide those services are also exempt.

24.5 **EFFECTIVE DATE.** This section is effective for sales and purchases made after
 24.6 December 31, 2006, and before January 1, 2012.

24.7 Sec. 21. Minnesota Statutes 2006, section 297A.71, is amended by adding a
 24.8 subdivision to read:

24.9 **Subd. 41. Commuter rail; material, supplies, and equipment.** Materials and
 24.10 supplies used or consumed in, and equipment incorporated into, the construction or
 24.11 improvement of a commuter rail transportation system operated under sections 174.80
 24.12 to 174.90 are exempt. This exemption includes railroad cars and engines and related
 24.13 equipment.

24.14 **EFFECTIVE DATE.** This section is effective for sales and purchases made after
 24.15 December 31, 2006.

24.16 Sec. 22. Minnesota Statutes 2006, section 297A.75, subdivision 1, is amended to read:

24.17 Subdivision 1. **Tax collected.** The tax on the gross receipts from the sale of the
 24.18 following exempt items must be imposed and collected as if the sale were taxable and the
 24.19 rate under section 297A.62, subdivision 1, applied. The exempt items include:

24.20 (1) capital equipment ~~exempt~~ on which the tax is imposed and collected under
 24.21 section 297A.68, subdivision 5;

24.22 (2) building materials for an agricultural processing facility exempt under section
 24.23 297A.71, subdivision 13;

24.24 (3) building materials for mineral production facilities exempt under section
 24.25 297A.71, subdivision 14;

24.26 (4) building materials for correctional facilities under section 297A.71, subdivision
 24.27 3;

24.28 (5) building materials used in a residence for disabled veterans exempt under section
 24.29 297A.71, subdivision 11;

24.30 (6) elevators and building materials exempt under section 297A.71, subdivision 12;

24.31 (7) building materials for the Long Lake Conservation Center exempt under section
 24.32 297A.71, subdivision 17;

- 25.1 (8) materials, supplies, fixtures, furnishings, and equipment for a county law
 25.2 enforcement and family service center under section 297A.71, subdivision 26;
- 25.3 (9) materials and supplies for qualified low-income housing under section 297A.71,
 25.4 subdivision 23;
- 25.5 (10) materials, supplies, and equipment for municipal electric utility facilities under
 25.6 section 297A.71, subdivision 35;
- 25.7 (11) equipment and materials used for the generation, transmission, and distribution
 25.8 of electrical energy and an aerial camera package exempt under section 297A.68,
 25.9 subdivision 37; and
- 25.10 (12) tangible personal property and taxable services and construction materials,
 25.11 supplies, and equipment exempt under section 297A.68, subdivision 41.

25.12 **EFFECTIVE DATE.** This section is effective for sales and purchases made after
 25.13 June 30, 2007.

25.14 Sec. 23. Minnesota Statutes 2006, section 297A.75, subdivision 3, is amended to read:

25.15 Subd. 3. **Application.** (a) The application must include sufficient information
 25.16 to permit the commissioner to verify the tax paid. If the tax was paid by a contractor,
 25.17 subcontractor, or builder, under subdivision 1, clause (4), (5), (6), (7), (8), (9), (10), (11),
 25.18 or (12), the contractor, subcontractor, or builder must furnish to the refund applicant a
 25.19 statement including the cost of the exempt items and the taxes paid on the items unless
 25.20 otherwise specifically provided by this subdivision. The provisions of sections 289A.40
 25.21 and 289A.50 apply to refunds under this section.

25.22 (b) An applicant may not file more than two applications per calendar year for
 25.23 refunds for taxes paid on capital equipment exempt on which the tax is imposed and
 25.24 collected under section 297A.68, subdivision 5.

25.25 **EFFECTIVE DATE.** This section is effective for sales and purchases made after
 25.26 June 30, 2007.

25.27 Sec. 24. Minnesota Statutes 2006, section 469.312, subdivision 5, is amended to read:

25.28 Subd. 5. **Duration limit.** (a) The maximum duration of a zone is 12 years. The
 25.29 applicant may request a shorter duration. The commissioner may specify a shorter
 25.30 duration, regardless of the requested duration.

25.31 (b) The duration limit under this subdivision and the duration of the zone for
 25.32 purposes of allowance of tax incentives described in section 469.315 is extended by three
 25.33 calendar years for each parcel of property that meets the following requirements:

26.1 (1) the qualified business operates an ethanol plant, as defined in section 41A.09, on
 26.2 the site that includes the parcel; and

26.3 (2) the business subsidy agreement was executed after April 30, 2006.

26.4 (c)(1) Notwithstanding the 12-year zone limitation, all qualified businesses that sign
 26.5 a business subsidy agreement, as required under sections 469.310, subdivision 11, and
 26.6 469.313, before December 31, 2015, are entitled to claim the tax benefits for which they
 26.7 qualify under section 469.315 for the year in which the business subsidy agreement is
 26.8 signed and ten additional years.

26.9 (2) This paragraph does not apply to:

26.10 (i) any acreage designated as a job opportunity building zone for which any person
 26.11 has fully executed a business subsidy agreement before this paragraph became effective; or

26.12 (ii) any trade or business that relocates as defined in section 469.310, subdivision 12,
 26.13 and received benefits under section 463.315 prior to the relocation.

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

26.15 Sec. 25. Minnesota Statutes 2006, section 477A.013, subdivision 9, is amended to read:

26.16 Subd. 9. **City aid distribution.** (a) In each calendar year ~~2002 and thereafter~~, each
 26.17 city shall receive an aid distribution equal to the sum of (1) 50 percent of the sum of the
 26.18 ~~city~~ city's formula aid under subdivision 8, and ~~(2) its city aid base, each as computed~~
 26.19 under the laws applicable to aid distributed in the prior year but without the limits in
 26.20 paragraphs (b) through (d), and (2) 50 percent of the sum of the city's formula aid under
 26.21 subdivision 8, and its city aid base, each as computed under the laws applicable to aid to
 26.22 be distributed in the current year but without the limits in paragraphs (b) through (d).

26.23 ~~(b) For aids payable in 2005 and thereafter, the total~~ The city aid distribution for
 26.24 any city shall not exceed the sum of (1) ten percent of the city's net levy for the year
 26.25 prior to the aid distribution plus (2) its total aid in the previous year. ~~For aids payable in~~
 26.26 ~~2005 and thereafter;~~

26.27 (c) The total city aid distribution for any city with a population of 2,500 or more
 26.28 may not decrease from its ~~total~~ aid distribution under this section in the previous year by
 26.29 an amount greater than ten percent of its net levy in the year prior to the aid distribution.

26.30 ~~(c) For aids payable in 2004 only, the total aid for a city with a population less~~
 26.31 ~~than 2,500 may not be less than the amount it was certified to receive in 2003 minus the~~
 26.32 ~~greater of (1) the reduction to this aid payment in 2003 under Laws 2003, First Special~~
 26.33 ~~Session chapter 21, article 5, or (2) five percent of its 2003 aid amount. For aids payable~~
 26.34 ~~in 2005 and thereafter;~~

27.1 (d) The ~~total~~ aid distribution for a city with a population less than 2,500 must not be
 27.2 less than the amount it was certified to receive in the previous year minus five percent
 27.3 of its 2003 certified aid amount.

27.4 ~~(d)~~ (e) If a city's net tax capacity used in calculating aid under this section has
 27.5 decreased in any year by more than 25 percent from its net tax capacity in the previous
 27.6 year due to property becoming tax-exempt Indian land, the city's maximum allowed aid
 27.7 increase under paragraph (b) shall be increased by an amount equal to (1) the city's tax
 27.8 rate in the year of the aid calculation, multiplied by (2) the amount of its net tax capacity
 27.9 decrease resulting from the property becoming tax exempt.

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

27.11 Sec. 26. Minnesota Statutes 2006, section 477A.013, is amended by adding a
 27.12 subdivision to read:

27.13 Subd. 11. **Use of revenues.** Beginning with aids payable in 2007, any city of over
 27.14 100,000 population receiving additional aid under this section due to an increase in the
 27.15 appropriation over the amount appropriated for aid paid in 2006 must use the additional
 27.16 aid it receives to increase spending on police services and prosecutors in the city attorney's
 27.17 office above the level funded by the city in calendar year 2006.

27.18 **EFFECTIVE DATE.** This section is effective beginning with aids payable in 2007
 27.19 and thereafter.

27.20 Sec. 27. Minnesota Statutes 2006, section 477A.03, subdivision 2a, is amended to read:

27.21 Subd. 2a. **Cities.** ~~For aids payable in 2004, the total aids paid under section~~
 27.22 ~~477A.013, subdivision 9, are limited to \$429,000,000. For aids payable in 2005, the total~~
 27.23 ~~aids paid under section 477A.013, subdivision 9, are limited to \$437,052,000. For aids~~
 27.24 ~~payable in 2006 and thereafter, The total aids paid under section 477A.013, subdivision 9,~~
 27.25 ~~is each year are limited to \$485,052,000~~ \$495,052,000.

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

27.27 **ARTICLE 2**

27.28 **FEDERAL UPDATE**

27.29 Section 1. Minnesota Statutes 2006, section 289A.02, subdivision 7, is amended to
 27.30 read:

28.1 Subd. 7. **Internal Revenue Code.** Unless specifically defined otherwise, "Internal
 28.2 Revenue Code" means the Internal Revenue Code of 1986, as amended through ~~May~~
 28.3 ~~18~~ December 31, 2006.

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

28.5 Sec. 2. Minnesota Statutes 2006, section 290.01, subdivision 19, is amended to read:

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

28.12 In the case of a regulated investment company or a fund thereof, as defined in section
 28.13 851(a) or 851(g) of the Internal Revenue Code, federal taxable income means investment
 28.14 company taxable income as defined in section 852(b)(2) of the Internal Revenue Code,
 28.15 except that:

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

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

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

28.25 The net income of a real estate investment trust as defined and limited by section
 28.26 856(a), (b), and (c) of the Internal Revenue Code means the real estate investment trust
 28.27 taxable income as defined in section 857(b)(2) of the Internal Revenue Code.

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

28.31 The Internal Revenue Code of 1986, as amended through ~~May 18~~ December 31,
 28.32 2006, shall be in effect for taxable years beginning after December 31, 1996.

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

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

29.2 Sec. 3. Minnesota Statutes 2006, section 290.01, subdivision 19b, is amended to read:

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

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

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

29.11 (3) the amount paid to others, less the amount used to claim the credit allowed under
29.12 section 290.0674, not to exceed \$1,625 for each qualifying child in grades kindergarten
29.13 to 6 and \$2,500 for each qualifying child in grades 7 to 12, for tuition, textbooks, and
29.14 transportation of each qualifying child in attending an elementary or secondary school
29.15 situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a
29.16 resident of this state may legally fulfill the state's compulsory attendance laws, which
29.17 is not operated for profit, and which adheres to the provisions of the Civil Rights Act
29.18 of 1964 and chapter 363A. For the purposes of this clause, "tuition" includes fees or
29.19 tuition as defined in section 290.0674, subdivision 1, clause (1). As used in this clause,
29.20 "textbooks" includes books and other instructional materials and equipment purchased
29.21 or leased for use in elementary and secondary schools in teaching only those subjects
29.22 legally and commonly taught in public elementary and secondary schools in this state.
29.23 Equipment expenses qualifying for deduction includes expenses as defined and limited in
29.24 section 290.0674, subdivision 1, clause (3). "Textbooks" does not include instructional
29.25 books and materials used in the teaching of religious tenets, doctrines, or worship, the
29.26 purpose of which is to instill such tenets, doctrines, or worship, nor does it include books
29.27 or materials for, or transportation to, extracurricular activities including sporting events,
29.28 musical or dramatic events, speech activities, driver's education, or similar programs. For
29.29 purposes of the subtraction provided by this clause, "qualifying child" has the meaning
29.30 given in section 32(c)(3) of the Internal Revenue Code;

29.31 (4) income as provided under section 290.0802;

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

29.34 (6) to the extent not deducted or not deductible pursuant to section 408(d)(8)(E)
29.35 of the Internal Revenue Code in determining federal taxable income by an individual

30.1 who does not itemize deductions for federal income tax purposes for the taxable year, an
 30.2 amount equal to 50 percent of the excess of charitable contributions over \$500 allowable
 30.3 as a deduction for the taxable year under section 170(a) of the Internal Revenue Code ~~and~~
 30.4 ~~under the provisions of Public Law 109-1;~~

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

30.8 (8) for individuals who are allowed a federal foreign tax credit for taxes that do not
 30.9 qualify for a credit under section 290.06, subdivision 22, an amount equal to the carryover
 30.10 of subnational foreign taxes for the taxable year, but not to exceed the total subnational
 30.11 foreign taxes reported in claiming the foreign tax credit. For purposes of this clause,
 30.12 "federal foreign tax credit" means the credit allowed under section 27 of the Internal
 30.13 Revenue Code, and "carryover of subnational foreign taxes" equals the carryover allowed
 30.14 under section 904(c) of the Internal Revenue Code minus national level foreign taxes to
 30.15 the extent they exceed the federal foreign tax credit;

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

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

30.26 (11) to the extent included in federal adjusted gross income, the amount of
 30.27 compensation paid to members of the Minnesota National Guard or other reserve
 30.28 components of the United States military for active service performed in Minnesota,
 30.29 excluding compensation for services performed under the Active Guard Reserve (AGR)
 30.30 program. For purposes of this clause, "active service" means (i) state active service as
 30.31 defined in section 190.05, subdivision 5a, clause (1); (ii) federally funded state active
 30.32 service as defined in section 190.05, subdivision 5b; or (iii) federal active service as
 30.33 defined in section 190.05, subdivision 5c, but "active service" excludes services performed
 30.34 exclusively for purposes of basic combat training, advanced individual training, annual
 30.35 training, and periodic inactive duty training; special training periodically made available to
 30.36 reserve members; and service performed in accordance with section 190.08, subdivision 3;

31.1 (12) to the extent included in federal adjusted gross income, the amount of
 31.2 compensation paid to Minnesota residents who are members of the armed forces of the
 31.3 United States or United Nations for active duty performed outside Minnesota;

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

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

31.24 (15) to the extent included in federal taxable income, compensation paid to a
 31.25 nonresident who is a service member as defined in United States Code, title 10, section
 31.26 101(a)(5), for military service as defined in the Service Member Civil Relief Act, Public
 31.27 Law 108-189, section 101(2); and

31.28 (16) international economic development zone income as provided under section
 31.29 469.325.

31.30 **EFFECTIVE DATE.** This section is effective retroactively for tax years beginning
 31.31 after December 31, 2005.

31.32 Sec. 4. Minnesota Statutes 2006, section 290.01, subdivision 31, is amended to read:

31.33 Subd. 31. **Internal Revenue Code.** Unless specifically defined otherwise, "Internal
 31.34 Revenue Code" means the Internal Revenue Code of 1986, as amended through ~~May~~
 31.35 ~~18~~ December 31, 2006.

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

32.4 Sec. 5. Minnesota Statutes 2006, section 290A.03, subdivision 15, is amended to read:

32.5 Subd. 15. **Internal Revenue Code.** "Internal Revenue Code" means the Internal
 32.6 Revenue Code of 1986, as amended through ~~May 18~~ December 31, 2006.

32.7 **EFFECTIVE DATE.** This section is effective retroactively for property tax refunds
 32.8 based on property taxes payable on or after December 31, 2005, and rent paid on or after
 32.9 December 31, 2004.

32.10 Sec. 6. Minnesota Statutes 2006, section 291.005, subdivision 1, is amended to read:

32.11 Subdivision 1. **Scope.** Unless the context otherwise clearly requires, the following
 32.12 terms used in this chapter shall have the following meanings:

32.13 (1) "Federal gross estate" means the gross estate of a decedent as valued and
 32.14 otherwise determined for federal estate tax purposes by federal taxing authorities pursuant
 32.15 to the provisions of the Internal Revenue Code.

32.16 (2) "Minnesota gross estate" means the federal gross estate of a decedent after (a)
 32.17 excluding therefrom any property included therein which has its situs outside Minnesota,
 32.18 and (b) including therein any property omitted from the federal gross estate which is
 32.19 includable therein, has its situs in Minnesota, and was not disclosed to federal taxing
 32.20 authorities.

32.21 (3) "Personal representative" means the executor, administrator or other person
 32.22 appointed by the court to administer and dispose of the property of the decedent. If there
 32.23 is no executor, administrator or other person appointed, qualified, and acting within this
 32.24 state, then any person in actual or constructive possession of any property having a situs in
 32.25 this state which is included in the federal gross estate of the decedent shall be deemed
 32.26 to be a personal representative to the extent of the property and the Minnesota estate tax
 32.27 due with respect to the property.

32.28 (4) "Resident decedent" means an individual whose domicile at the time of death
 32.29 was in Minnesota.

32.30 (5) "Nonresident decedent" means an individual whose domicile at the time of
 32.31 death was not in Minnesota.

32.32 (6) "Situs of property" means, with respect to real property, the state or country in
 32.33 which it is located; with respect to tangible personal property, the state or country in which
 32.34 it was normally kept or located at the time of the decedent's death; and with respect to

33.1 intangible personal property, the state or country in which the decedent was domiciled
33.2 at death.

33.3 (7) "Commissioner" means the commissioner of revenue or any person to whom the
33.4 commissioner has delegated functions under this chapter.

33.5 (8) "Internal Revenue Code" means the United States Internal Revenue Code of
33.6 1986, as amended through ~~May 18~~ December 31, 2006.

33.7 (9) "Minnesota adjusted taxable estate" means federal adjusted taxable estate as
33.8 defined by section 2011(b)(3) of the Internal Revenue Code, increased by the amount of
33.9 deduction for state death taxes allowed under section 2058 of the Internal Revenue Code.

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