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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-FIFTH
SESSION

HOUSE FILE No. **718**

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

1.1 A bill for an act
1.2 relating to taxation; conforming to various federal tax changes for individual
1.3 income, corporate franchise, and estate taxes, and property tax refund; amending
1.4 Minnesota Statutes 2006, sections 289A.02, subdivision 7; 290.01, subdivisions
1.5 19, 19a, 19b, 19c, 19d, 31; 290.091, subdivision 2; 290A.03, subdivision 15;
1.6 291.005, subdivision 1.

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

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

1.10 Subd. 7. **Internal Revenue Code.** Unless specifically defined otherwise, "Internal
1.11 Revenue Code" means the Internal Revenue Code of 1986, as amended through ~~May~~
1.12 18 December 31, 2006.

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

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

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

1.21 In the case of a regulated investment company or a fund thereof, as defined in section
1.22 851(a) or 851(g) of the Internal Revenue Code, federal taxable income means investment
1.23 company taxable income as defined in section 852(b)(2) of the Internal Revenue Code,
1.24 except that:

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

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

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

2.10 The net income of a real estate investment trust as defined and limited by section
2.11 856(a), (b), and (c) of the Internal Revenue Code means the real estate investment trust
2.12 taxable income as defined in section 857(b)(2) of the Internal Revenue Code.

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

2.16 The Internal Revenue Code of 1986, as amended through ~~May 18~~ December 31,
2.17 2006, shall be in effect for taxable years beginning after December 31, 1996.

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

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

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

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

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

2.29 (ii) exempt-interest dividends as defined in section 852(b)(5) of the Internal Revenue
2.30 Code, except the portion of the exempt-interest dividends derived from interest income
2.31 on obligations of the state of Minnesota or its political or governmental subdivisions,
2.32 municipalities, governmental agencies or instrumentalities, but only if the portion of the
2.33 exempt-interest dividends from such Minnesota sources paid to all shareholders represents
2.34 95 percent or more of the exempt-interest dividends that are paid by the regulated
2.35 investment company as defined in section 851(a) of the Internal Revenue Code, or the

3.1 fund of the regulated investment company as defined in section 851(g) of the Internal
3.2 Revenue Code, making the payment; and

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

3.6 (2) the amount of income or sales and use taxes paid or accrued within the taxable
3.7 year under this chapter and the amount of taxes based on net income paid or sales and use
3.8 taxes paid to any other state or to any province or territory of Canada, to the extent allowed
3.9 as a deduction under section 63(d) of the Internal Revenue Code, but the addition may not
3.10 be more than the amount by which the itemized deductions as allowed under section 63(d)
3.11 of the Internal Revenue Code exceeds the amount of the standard deduction as defined
3.12 in section 63(c) of the Internal Revenue Code. For the purpose of this paragraph, the
3.13 disallowance of itemized deductions under section 68 of the Internal Revenue Code of
3.14 1986, income or sales and use tax is the last itemized deduction disallowed;

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

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

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

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

3.28 (7) 80 percent of the depreciation deduction allowed under section 168(k) of the
3.29 Internal Revenue Code. For purposes of this clause, if the taxpayer has an activity that
3.30 in the taxable year generates a deduction for depreciation under section 168(k) and the
3.31 activity generates a loss for the taxable year that the taxpayer is not allowed to claim for
3.32 the taxable year, "the depreciation allowed under section 168(k)" for the taxable year is
3.33 limited to excess of the depreciation claimed by the activity under section 168(k) over the
3.34 amount of the loss from the activity that is not allowed in the taxable year. In succeeding
3.35 taxable years when the losses not allowed in the taxable year are allowed, the depreciation
3.36 under section 168(k) is allowed; and

4.1 (8) ~~80 percent of the amount by which the deduction allowed by section 179 of the~~
 4.2 ~~Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal~~
 4.3 ~~Revenue Code of 1986, as amended through December 31, 2003;~~

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

4.6 ~~(10) the exclusion allowed under section 139A of the Internal Revenue Code for~~
 4.7 ~~federal subsidies for prescription drug plans.~~

4.8 **EFFECTIVE DATE.** The amendment striking clause (8) relating to the deduction
 4.9 under section 179 of the Internal Revenue Code is effective retroactively for taxable years
 4.10 beginning after December 31, 2005, and the amendment striking clause (10) is effective
 4.11 for taxable years beginning after December 31, 2006.

4.12 Sec. 4. Minnesota Statutes 2006, section 290.01, subdivision 19b, is amended to read:

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

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

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

4.21 (3) the amount paid to others, less the amount used to claim the credit allowed under
 4.22 section 290.0674, not to exceed \$1,625 for each qualifying child in grades kindergarten
 4.23 to 6 and \$2,500 for each qualifying child in grades 7 to 12, for tuition, textbooks, and
 4.24 transportation of each qualifying child in attending an elementary or secondary school
 4.25 situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a
 4.26 resident of this state may legally fulfill the state's compulsory attendance laws, which
 4.27 is not operated for profit, and which adheres to the provisions of the Civil Rights Act
 4.28 of 1964 and chapter 363A. For the purposes of this clause, "tuition" includes fees or
 4.29 tuition as defined in section 290.0674, subdivision 1, clause (1). As used in this clause,
 4.30 "textbooks" includes books and other instructional materials and equipment purchased
 4.31 or leased for use in elementary and secondary schools in teaching only those subjects
 4.32 legally and commonly taught in public elementary and secondary schools in this state.
 4.33 Equipment expenses qualifying for deduction includes expenses as defined and limited in
 4.34 section 290.0674, subdivision 1, clause (3). "Textbooks" does not include instructional
 4.35 books and materials used in the teaching of religious tenets, doctrines, or worship, the

5.1 purpose of which is to instill such tenets, doctrines, or worship, nor does it include books
5.2 or materials for, or transportation to, extracurricular activities including sporting events,
5.3 musical or dramatic events, speech activities, driver's education, or similar programs. For
5.4 purposes of the subtraction provided by this clause, "qualifying child" has the meaning
5.5 given in section 32(c)(3) of the Internal Revenue Code;

5.6 (4) income as provided under section 290.0802;

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

5.9 (6) to the extent not deducted or not deductible pursuant to section 408(d)(8)(E)
5.10 of the Internal Revenue Code in determining federal taxable income by an individual
5.11 who does not itemize deductions for federal income tax purposes for the taxable year, an
5.12 amount equal to 50 percent of the excess of charitable contributions over \$500 allowable
5.13 as a deduction for the taxable year under section 170(a) of the Internal Revenue Code ~~and~~
5.14 ~~under the provisions of Public Law 109-1;~~

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

5.18 (8) for individuals who are allowed a federal foreign tax credit for taxes that do not
5.19 qualify for a credit under section 290.06, subdivision 22, an amount equal to the carryover
5.20 of subnational foreign taxes for the taxable year, but not to exceed the total subnational
5.21 foreign taxes reported in claiming the foreign tax credit. For purposes of this clause,
5.22 "federal foreign tax credit" means the credit allowed under section 27 of the Internal
5.23 Revenue Code, and "carryover of subnational foreign taxes" equals the carryover allowed
5.24 under section 904(c) of the Internal Revenue Code minus national level foreign taxes to
5.25 the extent they exceed the federal foreign tax credit;

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

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

6.1 (11) to the extent included in federal adjusted gross income, the amount of
6.2 compensation paid to members of the Minnesota National Guard or other reserve
6.3 components of the United States military for active service performed in Minnesota,
6.4 excluding compensation for services performed under the Active Guard Reserve (AGR)
6.5 program. For purposes of this clause, "active service" means (i) state active service as
6.6 defined in section 190.05, subdivision 5a, clause (1); (ii) federally funded state active
6.7 service as defined in section 190.05, subdivision 5b; or (iii) federal active service as
6.8 defined in section 190.05, subdivision 5c, but "active service" excludes services performed
6.9 exclusively for purposes of basic combat training, advanced individual training, annual
6.10 training, and periodic inactive duty training; special training periodically made available to
6.11 reserve members; and service performed in accordance with section 190.08, subdivision 3;

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

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

6.27 ~~(14) in each of the five tax years immediately following the tax year in which an~~
6.28 ~~addition is required under subdivision 19a, clause (8), or 19c, clause (16), in the case of a~~
6.29 ~~shareholder of a corporation that is an S corporation, an amount equal to one-fifth of the~~
6.30 ~~addition made by the taxpayer under subdivision 19a, clause (8), or 19c, clause (16), in the~~
6.31 ~~case of a shareholder of a corporation that is an S corporation, minus the positive value of~~
6.32 ~~any net operating loss under section 172 of the Internal Revenue Code generated for the~~
6.33 ~~tax year of the addition. If the net operating loss exceeds the addition for the tax year, a~~
6.34 ~~subtraction is not allowed under this clause;~~

6.35 ~~(15)~~ to the extent included in federal taxable income, compensation paid to a
6.36 nonresident who is a service member as defined in United States Code, title 10, section

7.1 101(a)(5), for military service as defined in the Service Member Civil Relief Act, Public
 7.2 Law 108-189, section 101(2); and
 7.3 ~~(16)~~ (15) international economic development zone income as provided under
 7.4 section 469.325.

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

7.7 Sec. 5. Minnesota Statutes 2006, section 290.01, subdivision 19c, is amended to read:

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

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

7.15 (2) interest not subject to federal tax upon obligations of: the United States, its
 7.16 possessions, its agencies, or its instrumentalities; the state of Minnesota or any other
 7.17 state, any of its political or governmental subdivisions, any of its municipalities, or any
 7.18 of its governmental agencies or instrumentalities; the District of Columbia; or Indian
 7.19 tribal governments;

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

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

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

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

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

7.31 (8) the exempt foreign trade income of a foreign sales corporation under sections
 7.32 921(a) and 291 of the Internal Revenue Code;

7.33 (9) the amount of percentage depletion deducted under sections 611 through 614 and
 7.34 291 of the Internal Revenue Code;

8.1 (10) for certified pollution control facilities placed in service in a taxable year
 8.2 beginning before December 31, 1986, and for which amortization deductions were elected
 8.3 under section 169 of the Internal Revenue Code of 1954, as amended through December
 8.4 31, 1985, the amount of the amortization deduction allowed in computing federal taxable
 8.5 income for those facilities;

8.6 (11) the amount of any deemed dividend from a foreign operating corporation
 8.7 determined pursuant to section 290.17, subdivision 4, paragraph (g);

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

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

8.13 (14) any increase in subpart F income, as defined in section 952(a) of the Internal
 8.14 Revenue Code, for the taxable year when subpart F income is calculated without regard
 8.15 to the provisions of section 103 of Public Law 109-222;

8.16 (15) 80 percent of the depreciation deduction allowed under section 168(k)(1)(A)
 8.17 and (k)(4)(A) of the Internal Revenue Code. For purposes of this clause, if the taxpayer
 8.18 has an activity that in the taxable year generates a deduction for depreciation under
 8.19 section 168(k)(1)(A) and (k)(4)(A) and the activity generates a loss for the taxable year
 8.20 that the taxpayer is not allowed to claim for the taxable year, "the depreciation allowed
 8.21 under section 168(k)(1)(A) and (k)(4)(A)" for the taxable year is limited to excess of the
 8.22 depreciation claimed by the activity under section 168(k)(1)(A) and (k)(4)(A) over the
 8.23 amount of the loss from the activity that is not allowed in the taxable year. In succeeding
 8.24 taxable years when the losses not allowed in the taxable year are allowed, the depreciation
 8.25 under section 168(k)(1)(A) and (k)(4)(A) is allowed; and

8.26 ~~(16) 80 percent of the amount by which the deduction allowed by section 179 of the~~
 8.27 ~~Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal~~
 8.28 ~~Revenue Code of 1986, as amended through December 31, 2003;~~

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

8.31 ~~(18) the exclusion allowed under section 139A of the Internal Revenue Code for~~
 8.32 ~~federal subsidies for prescription drug plans.~~

8.33 **EFFECTIVE DATE.** The amendment striking clause (16) relating to the deduction
 8.34 under section 179 of the Internal Revenue Code is effective retroactively for taxable years
 8.35 beginning after December 31, 2005, and the amendment striking clause (18) is effective
 8.36 for taxable years beginning after December 31, 2006.

9.1 Sec. 6. Minnesota Statutes 2006, section 290.01, subdivision 19d, is amended to read:

9.2 Subd. 19d. **Corporations; modifications decreasing federal taxable income.** For
9.3 corporations, there shall be subtracted from federal taxable income after the increases
9.4 provided in subdivision 19c:

9.5 (1) the amount of foreign dividend gross-up added to gross income for federal
9.6 income tax purposes under section 78 of the Internal Revenue Code;

9.7 (2) the amount of salary expense not allowed for federal income tax purposes due to
9.8 claiming the federal jobs credit under section 51 of the Internal Revenue Code;

9.9 (3) any dividend (not including any distribution in liquidation) paid within the
9.10 taxable year by a national or state bank to the United States, or to any instrumentality of
9.11 the United States exempt from federal income taxes, on the preferred stock of the bank
9.12 owned by the United States or the instrumentality;

9.13 (4) amounts disallowed for intangible drilling costs due to differences between
9.14 this chapter and the Internal Revenue Code in taxable years beginning before January
9.15 1, 1987, as follows:

9.16 (i) to the extent the disallowed costs are represented by physical property, an amount
9.17 equal to the allowance for depreciation under Minnesota Statutes 1986, section 290.09,
9.18 subdivision 7, subject to the modifications contained in subdivision 19e; and

9.19 (ii) to the extent the disallowed costs are not represented by physical property, an
9.20 amount equal to the allowance for cost depletion under Minnesota Statutes 1986, section
9.21 290.09, subdivision 8;

9.22 (5) the deduction for capital losses pursuant to sections 1211 and 1212 of the
9.23 Internal Revenue Code, except that:

9.24 (i) for capital losses incurred in taxable years beginning after December 31, 1986,
9.25 capital loss carrybacks shall not be allowed;

9.26 (ii) for capital losses incurred in taxable years beginning after December 31, 1986,
9.27 a capital loss carryover to each of the 15 taxable years succeeding the loss year shall be
9.28 allowed;

9.29 (iii) for capital losses incurred in taxable years beginning before January 1, 1987, a
9.30 capital loss carryback to each of the three taxable years preceding the loss year, subject to
9.31 the provisions of Minnesota Statutes 1986, section 290.16, shall be allowed; and

9.32 (iv) for capital losses incurred in taxable years beginning before January 1, 1987,
9.33 a capital loss carryover to each of the five taxable years succeeding the loss year to the
9.34 extent such loss was not used in a prior taxable year and subject to the provisions of
9.35 Minnesota Statutes 1986, section 290.16, shall be allowed;

10.1 (6) an amount for interest and expenses relating to income not taxable for federal
10.2 income tax purposes, if (i) the income is taxable under this chapter and (ii) the interest and
10.3 expenses were disallowed as deductions under the provisions of section 171(a)(2), 265 or
10.4 291 of the Internal Revenue Code in computing federal taxable income;

10.5 (7) in the case of mines, oil and gas wells, other natural deposits, and timber for
10.6 which percentage depletion was disallowed pursuant to subdivision 19c, clause (11), a
10.7 reasonable allowance for depletion based on actual cost. In the case of leases the deduction
10.8 must be apportioned between the lessor and lessee in accordance with rules prescribed
10.9 by the commissioner. In the case of property held in trust, the allowable deduction must
10.10 be apportioned between the income beneficiaries and the trustee in accordance with the
10.11 pertinent provisions of the trust, or if there is no provision in the instrument, on the basis
10.12 of the trust's income allocable to each;

10.13 (8) for certified pollution control facilities placed in service in a taxable year
10.14 beginning before December 31, 1986, and for which amortization deductions were elected
10.15 under section 169 of the Internal Revenue Code of 1954, as amended through December
10.16 31, 1985, an amount equal to the allowance for depreciation under Minnesota Statutes
10.17 1986, section 290.09, subdivision 7;

10.18 (9) amounts included in federal taxable income that are due to refunds of income,
10.19 excise, or franchise taxes based on net income or related minimum taxes paid by the
10.20 corporation to Minnesota, another state, a political subdivision of another state, the
10.21 District of Columbia, or a foreign country or possession of the United States to the extent
10.22 that the taxes were added to federal taxable income under section 290.01, subdivision 19c,
10.23 clause (1), in a prior taxable year;

10.24 (10) 80 percent of royalties, fees, or other like income accrued or received from a
10.25 foreign operating corporation or a foreign corporation which is part of the same unitary
10.26 business as the receiving corporation;

10.27 (11) income or gains from the business of mining as defined in section 290.05,
10.28 subdivision 1, clause (a), that are not subject to Minnesota franchise tax;

10.29 (12) the amount of disability access expenditures in the taxable year which are not
10.30 allowed to be deducted or capitalized under section 44(d)(7) of the Internal Revenue Code;

10.31 (13) the amount of qualified research expenses not allowed for federal income tax
10.32 purposes under section 280C(c) of the Internal Revenue Code, but only to the extent that
10.33 the amount exceeds the amount of the credit allowed under section 290.068;

10.34 (14) the amount of salary expenses not allowed for federal income tax purposes due
10.35 to claiming the Indian employment credit under section 45A(a) of the Internal Revenue
10.36 Code;

11.1 (15) the amount of any refund of environmental taxes paid under section 59A of the
11.2 Internal Revenue Code;

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

11.6 (17) for a corporation whose foreign sales corporation, as defined in section 922
11.7 of the Internal Revenue Code, constituted a foreign operating corporation during any
11.8 taxable year ending before January 1, 1995, and a return was filed by August 15, 1996,
11.9 claiming the deduction under section 290.21, subdivision 4, for income received from
11.10 the foreign operating corporation, an amount equal to 1.23 multiplied by the amount of
11.11 income excluded under section 114 of the Internal Revenue Code, provided the income is
11.12 not income of a foreign operating company;

11.13 (18) any decrease in subpart F income, as defined in section 952(a) of the Internal
11.14 Revenue Code, for the taxable year when subpart F income is calculated without regard to
11.15 the provisions of section 614 of Public Law 107-147; and

11.16 (19) in each of the five tax years immediately following the tax year in which an
11.17 addition is required under subdivision 19c, clause (15), an amount equal to one-fifth of
11.18 the delayed depreciation. For purposes of this clause, "delayed depreciation" means the
11.19 amount of the addition made by the taxpayer under subdivision 19c, clause (15). The
11.20 resulting delayed depreciation cannot be less than zero; ~~and~~

11.21 ~~(20) in each of the five tax years immediately following the tax year in which an~~
11.22 ~~addition is required under subdivision 19c, clause (16), an amount equal to one-fifth of the~~
11.23 ~~amount of the addition.~~

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

11.26 Sec. 7. Minnesota Statutes 2006, section 290.01, subdivision 31, is amended to read:

11.27 Subd. 31. **Internal Revenue Code.** Unless specifically defined otherwise, "Internal
11.28 Revenue Code" means the Internal Revenue Code of 1986, as amended through ~~May~~
11.29 ~~18~~ December 31, 2006.

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

11.33 Sec. 8. Minnesota Statutes 2006, section 290.091, subdivision 2, is amended to read:

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

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

12.5 (1) the taxpayer's federal alternative minimum taxable income as defined in section
 12.6 55(b)(2) of the Internal Revenue Code;

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

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

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

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

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

12.17 (ii) the medical expense deduction;

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

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

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

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

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

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

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

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

12.35 (2) an overpayment of state income tax as provided by section 290.01, subdivision
 12.36 19b, clause (2), to the extent included in federal alternative minimum taxable income;

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

13.5 (4) amounts subtracted from federal taxable income as provided by section 290.01,
 13.6 subdivision 19b, clauses (9) to ~~(16)~~ (15).

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

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

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

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

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

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

13.19 Sec. 9. Minnesota Statutes 2006, section 290A.03, subdivision 15, is amended to read:

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

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

13.25 Sec. 10. Minnesota Statutes 2006, section 291.005, subdivision 1, is amended to read:

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

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

13.31 (2) "Minnesota gross estate" means the federal gross estate of a decedent after (a)
 13.32 excluding therefrom any property included therein which has its situs outside Minnesota,
 13.33 and (b) including therein any property omitted from the federal gross estate which is

14.1 includable therein, has its situs in Minnesota, and was not disclosed to federal taxing
14.2 authorities.

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

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

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

14.14 (6) "Situs of property" means, with respect to real property, the state or country in
14.15 which it is located; with respect to tangible personal property, the state or country in which
14.16 it was normally kept or located at the time of the decedent's death; and with respect to
14.17 intangible personal property, the state or country in which the decedent was domiciled
14.18 at death.

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

14.21 (8) "Internal Revenue Code" means the United States Internal Revenue Code of
14.22 1986, as amended through ~~May 18~~ December 31, 2006.

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

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