

This Document can be made available  
in alternative formats upon request

State of Minnesota  
**HOUSE OF REPRESENTATIVES**

EIGHTY-SIXTH  
SESSION

**HOUSE FILE No. 3802**

April 26, 2010

Authored by Carlson, Newton, Faust, Ward, Morgan and others

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; individual income; allowing a mortgage interest credit in  
1.3 lieu of the mortgage interest deduction for itemizers and nonitemizers; amending  
1.4 Minnesota Statutes 2008, section 290.06, by adding a subdivision; Minnesota  
1.5 Statutes 2009 Supplement, section 290.01, subdivision 19a.

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

1.7 Section 1. Minnesota Statutes 2009 Supplement, section 290.01, subdivision 19a,  
1.8 is amended to read:

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

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

1.15 (ii) exempt-interest dividends as defined in section 852(b)(5) of the Internal Revenue  
1.16 Code, except the portion of the exempt-interest dividends derived from interest income  
1.17 on obligations of the state of Minnesota or its political or governmental subdivisions,  
1.18 municipalities, governmental agencies or instrumentalities, but only if the portion of the  
1.19 exempt-interest dividends from such Minnesota sources paid to all shareholders represents  
1.20 95 percent or more of the exempt-interest dividends that are paid by the regulated  
1.21 investment company as defined in section 851(a) of the Internal Revenue Code, or the  
1.22 fund of the regulated investment company as defined in section 851(g) of the Internal  
1.23 Revenue Code, making the payment; and

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

2.4 (2) (i) the amount of income, sales and use, motor vehicle sales, or excise taxes paid  
2.5 or accrued within the taxable year under this chapter and the amount of taxes based on net  
2.6 income paid, sales and use, motor vehicle sales, or excise taxes paid to any other state or  
2.7 to any province or territory of Canada; and

2.8 (ii) for individuals who claim the mortgage interest credit in lieu of deduction under  
2.9 section 290.06, subdivision 36, qualified residence interest, as defined in section 163(h) of  
2.10 the Internal Revenue Code;

2.11 to the extent allowed as ~~a deduction~~ deductions under section 63(d) of the Internal  
2.12 Revenue Code, but the ~~addition~~ sum of the additions made under items (i) and (ii) may not  
2.13 be more than the amount by which the itemized deductions as allowed under section 63(d)  
2.14 of the Internal Revenue Code exceeds the amount of the standard deduction as defined  
2.15 in section 63(c) of the Internal Revenue Code, disregarding the amounts allowed under  
2.16 sections 63(c)(1)(C) and 63(c)(1)(E) of the Internal Revenue Code. For the purpose of  
2.17 this paragraph, the disallowance of itemized deductions under section 68 of the Internal  
2.18 Revenue Code of 1986, income, sales and use, motor vehicle sales, or excise taxes, and  
2.19 qualified residence interest are the last itemized deductions disallowed;

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

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

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

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

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

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

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

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

3.11 (10) the exclusion allowed under section 139A of the Internal Revenue Code for  
 3.12 federal subsidies for prescription drug plans;

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

3.14 (12) the amount deducted for qualified tuition and related expenses under section  
 3.15 222 of the Internal Revenue Code, to the extent deducted from gross income;

3.16 (13) the amount deducted for certain expenses of elementary and secondary school  
 3.17 teachers under section 62(a)(2)(D) of the Internal Revenue Code, to the extent deducted  
 3.18 from gross income;

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

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

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

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

3.27 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 3.28 December 31, 2009.

3.29 Sec. 2. Minnesota Statutes 2008, section 290.06, is amended by adding a subdivision  
 3.30 to read:

3.31 **Subd. 36. Mortgage interest credit in lieu of deduction for itemizers and**  
 3.32 **nonitemizers.** (a) An individual may claim a credit under this subdivision for qualified  
 3.33 residence interest defined under section 163 of the Internal Revenue Code and allowable  
 3.34 as a deduction in determining net income. An individual who claims the credit in this  
 3.35 subdivision and who itemizes deductions for federal income tax purposes for the taxable

4.1 year must include qualified residence interest in taxable income, as provided in section  
4.2 290.01, subdivision 19a.

4.3 (b) An individual is allowed a credit against the tax imposed by this chapter equal  
4.4 to seven percent of the lesser of:

4.5 (1) \$6,000; or

4.6 (2) qualified residence interest deduction for which the individual is eligible under  
4.7 section 63(d) of the Internal Revenue Code, minus \$4,000.

4.8 (c) The amount of the credit allowed must be reduced by the amount of the  
4.9 taxpayer's liability under section 290.091, determined before the credit allowed by this  
4.10 section is subtracted from regular tax liability.

4.11 (d) For a nonresident or part-year resident, the credit must be allocated based on the  
4.12 percentage calculated under subdivision 2c, paragraph (e).

4.13 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
4.14 December 31, 2009.