

# HOUSE RESEARCH

## Bill Summary

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### Overview

This bill:

- Phases in a 20% exclusion under the individual income tax for income from pass-through businesses (S corporations and partnerships).
- Reduces the corporate franchise tax rate in ten annual steps of one-half a percentage point from 9.8 percent (under current law) to 4.8 percent (effective for tax year 2021), while making corresponding changes in the alternative minimum tax rate (reducing it from 5.8 percent to 2.8 percent).
- Converts the refund for sales tax on manufacturing capital equipment to an exemption at the time of purchase, beginning with sales and purchases made after June 30, 2011.

- 1 Income tax subtraction for pass-through income.** Allows an individual income tax subtraction for a percentage of nonpassive S corporation and partnership income or loss, attributed to businesses that have either employees or tangible property in Minnesota. The subtraction percentage would be phased in under the following schedule:
  - 5% in tax year 2012
  - 10% in tax year 2013
  - 15% in tax year 2014
  - 20% in tax year 2015 and following years
- 2 Corporate franchise tax rate.** Reduces the corporate franchise tax rate in ten annual steps (each of one-half a percentage point) from 9.8 percent under present law to 4.8 percent for tax year 2021.
- 3 Corporate alternative minimum tax.** Reduces the alternative minimum tax (AMT) rate under the corporate franchise tax in ten annual steps (each of three-tenths of a percentage point) from 5.8 percent under present law to 2.8 percent for tax year 2021.

- 4 Capital equipment; up-front exemption.** Allows the capital equipment exemption as an up-front exemption, beginning for sales and purchases made after June 30, 2011. Under current law, purchases of exempt capital equipment are subject to tax, but the manufacturer may apply for a refund of the tax from the Department of Revenue. A manufacturer may submit only two claims for such a refund during a calendar year.
- 5 Tax collected; conforming change.** Eliminates the requirement that the sales tax on manufacturing capital equipment be paid at the time of purchase.
- 6 Refund; conforming change.** Eliminates cross references in the refund statute to the capital equipment statute consistent with allowing the exemption at the time of purchase.