HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 1507 **DATE:** April 2, 2013
Version: As introduced

Authors: Runbeck and others

Subject: Long-term capital gains exclusion

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Overview

Allows an income tax subtraction for 30 percent of net long-term capital gains, defined by reference to federal law as gains that qualify for the maximum 15 percent federal tax rate. The subtraction is 60 percent for gains on farm assets.

Section

1 **Income tax subtractions; capital gains.** Provides a subtraction from Minnesota taxable income of 30 percent of net long-term capital gains. The subtraction percentage is increased to 60 percent for gains on farm assets. Defines farm assets as livestock, including horses; equipment; real property; and depreciable property.

Background. Net capital gains are defined, by reference to the Internal Revenue Code, as net long-term gain after subtraction of both long-term and short-term capital losses. Collectibles gain, unrecaptured section 1250 gain (gain on certain types of real estate that represents recovery of previously taken depreciation deductions), and section 1202 gains (gain on small business stock that qualifies for a 50 percent exclusion) do not qualify for the subtraction. In effect, this allows the subtraction of 30 percent of net gains (60 percent for farm assets) that qualify for the maximum 15 percent federal tax rate.

2 **Alternative minimum taxable income.** Allows the capital gains subtraction in section 1 to also be subtracted from alternative minimum taxable income. This avoids shifting individuals who claim the subtraction in section 1 onto the alternative minimum tax.