HOUSE RESEARCH

Bill Summary

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Article 1: Federal Tax Conformity

Overview

This article makes conforming changes to Minnesota tax law to respond to federal legislation enacted from December 16, 2016, through March 31, 2018. It adopts the Internal Revenue Code as modified by the following acts of Congress:

- Disaster Tax Relief and Airport and Airway Extension Act
- Tax Cuts and Jobs Act (TCJA)
- Bipartisan Budget Act of 2018 (BBA 2018)
- Consolidated Appropriations Act of 2018

The most important changes were made by TCJA, the major restructuring of the federal tax enacted in December 2017, and the BBA 2018, enacted in February 2018, which includes the standard package of federal "extenders" – i.e., the extension of a collection of federal tax provisions that regularly expire and are extended for one or two years by Congress.

BBA 2018 extended a number of provisions for one year through tax year 2017 (i.e., the tax year that had already ended for calendar years taxpayers when the extension was enacted). The most significant provisions extended were the deductions for tuition and mortgage insurance premiums, the exclusion of discharge of indebtedness income of a principal residence, and various depreciation rules.

The TCJA changes are too numerous to list, but they include both major changes in the definition of the tax base for individual income (both personal and business related provisions) and corporate taxation. Some of the major changes – adopted by the article (because they affect the calculation of federal adjusted gross income or FAGI):

- Expanded section 179 and bonus depreciation rules apply, essentially allowing current deduction for investments in most equipment. (The maximum section 179 amount was permanently increased to $1 million; allowance of bonus depreciation is temporary.) The article conforms to the section 179 treatment, but continues the pattern of allowing only 20 percent of bonus depreciation in the year made.

- The use of active losses from one business to reduce other income (e.g., wages, investment income, or income from another business) were subject to dollar limits ($500,000, married joint filers; $250,000 for others).

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- Business interest deductions were limited to 30-percent of adjusted taxable income.
- Many more businesses will be allowed to use cash basis accounting.
- Net operating loss carrybacks are eliminated and carryovers limited to 80 percent of the loss.
- Various employee compensation costs (e.g., meals, lodging, and certain transportation costs) were disallowed as business expense deductions.
- Taxation of foreign income was substantially modified, requiring taxation of deferred foreign earnings (from 1986 through 2017) on a onetime basis (repatriation tax) and future inclusion of certain income for low taxed income from intangibles.
- The deduction allowed to employers who reimburse employees for moving expenses and the exclusion of those amounts from income of employees were both suspended.

The adopted federal changes generally take effect for Minnesota purposes at the same times as the federal changes take effect.

The article changes the starting point for calculating individual income taxes for individuals from federal taxable income (FTI) to FAGI. The effect of this change is to make the determination of (1) itemized and standard deductions and (2) personal and dependent exemptions a matter to be determined by Minnesota, rather than federal, law. The article provides an exemption amount equal to that allowed under pre-TCJA law.

The article increases the standard deduction allowed under prior law by $1,000 for married joint filers (from $13,000 to $14,000), by $500 for singles (from $6,500 to $7,000), and by $750 for heads of households (from $9,550 to $10,300). The additional standard deduction amounts (for age 65 or older, blind, and so forth) remain unchanged.

The article adopts Minnesota itemized deductions that parallel those under the TCJA. This results in the following changes in the allowable itemized deductions:

- **Taxes paid:** Disallows property taxes paid over $30,000
- **Charitable contributions:** Increases the limit 50-percent AGI limit to 60-percent
- **Interest:** Disallows home equity interest and interest attributable to acquisition indebtedness over $750,000 (for mortgages incurred after 12/15/2017); present law allows interest on acquisition indebtedness up to $1 million.
- **Medical expenses:** Allows medical expenses that exceed 7.5 percent of AGI for tax years 2017 and 2018 (present law has a ten percent of AGI limit which will return for tax year 2019).
- **Miscellaneous deductions:** Disallows the miscellaneous itemized deductions that are subject to the two-percent of AGI floor; this includes

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unreimbursed employee business expenses, tax preparation, and similar deductions.

- **Losses:** Disallows casualty loss deductions other than for losses that occur in declared disaster areas.

A taxpayer's itemized deductions are limited using the existing formula for limiting itemized deductions under Minnesota law.

The article reduces the 7.05 percent rate to seven percent for tax year 2018, 6.9 percent for tax year 2019, and 6.75 percent for following tax years.

The corporate franchise tax rate is reduced from 9.8 percent to 9.65 for tax years 2018 and 2019 and to 9.1 percent for later tax years. In addition, the corporate alternative minimum tax (AMT) is repealed.

1 **Revenue recapture for medical care debts; indexing.** Modifies the inflation indexing of the income-based exemptions for debtors with medical care debts under the revenue recapture program to adopt the new federal indexing rules based on the Chained Consumer Price Index for Urban Consumers (C-CPI-U). Revenue recapture provides for offsetting tax refunds for various types of debts owed to government agencies (in addition to unpaid taxes). The law provides income-based exemptions from recapture of debts for medical care. The statutory dollar amounts are indexed for inflation. This section resets the dollar amounts at the 2018 levels and converts their inflation indexing to the C-CPI-U, rather than the CPI-U, as under present law.

Background and chained CPI. TCJA converted inflation indexing in federal tax law from the CPI-U to C-CPI-U. Chained CPI accounts for the fact that consumers often change their consumption habits when prices increase by substituting for other goods. The index does that by regularly modifying (or "reweighting") the market basket of goods and services whose prices are used in measuring price changes. By contrast, CPI-U uses a fixed market basket of goods and services that does not regularly change. Chained CPI tends to increase more slowly than CPI-U. This means that provisions that are indexed for inflation will grow more slowly than they did under prior law.

Effective date: Tax year 2018.

2 **Update; administrative and compliance chapter.** Updates chapter 289A for federal changes through March 31, 2018.

Effective date: Tax year 2018.

3 **Filing requirements.** Authorizes the commissioner of revenue to establish individual income tax filing requirements that differ from federal law based on the Minnesota standard deduction and exemption amounts set under section 48. Present law bases the Minnesota filing requirement on the requirement to file a federal return. Since the bill converts the starting point for the Minnesota income tax from FTI to FAGI with a Minnesota standard deduction that is lower than the new federal standard deduction, there may be situations where individuals will have no federal liability but will be obligated to pay Minnesota tax.

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Effective date: Tax year 2018.

4 **Cross reference change.** Modifies statutory cross references in the composite return filing requirement for nonresident partners and S corporation shareholders to reflect the changes and additions made by the article, which both repeals and adds new additions.

Effective date: Tax year 2018.

5 **Conforming change.** Changes a reference from FTI to FAGI (in the information reporting for exempt interest dividends) to reflect the article's change in the starting point of the individual income tax from FTI to FAGI.

Effective date: Tax year 2018.

6 **Conforming change.** Adds a reference to FAGI in the commissioner's assessment authority, consistent with the article's change in the starting point of the individual income tax from FTI to FAGI.

Effective date: Tax year 2018.

7 **Surviving spouse definition.** Adds a definition of "surviving spouse" (linked to the federal definition) for purposes of the individual income tax chapter, since this term is used multiple times in the chapter including in the new section providing for Minnesota exemption amounts. A surviving spouse is an unmarried individual whose spouse died in one of the two preceding tax years and who maintains a separate household.

Effective date: Tax year 2018.

8 **Net income definition.** Modifies the definition of net income to provide that the starting point for computing Minnesota individual income tax will be FAGI (rather the FTI). Estates, trusts, and C corporations will continue to use FTI. For taxpayers with deemed repatriation income under TCJA that elect to pay the federal tax in eight installments, the repatriation income will be adjusted to include proportionate amounts of that income in each of the appropriate tax years. (Under federal law, all of the income is included in tax year 2017, but the tax is paid in installments.)

Effective date: Day following final enactment; adopting the FAGI starting point is effective for tax year 2018; changes incorporated by reference to federal provisions at the same time as they are effective for federal purposes.

9 **Adjusted gross income definition.** Adds a definition of "adjusted gross income" and "federal adjusted gross income" that refers to federal law to minimize the need to include repeated references to section 62 of the Internal Revenue Code. This definition also requires taxpayers to have consistent elections for federal and Minnesota purposes on items that affect computation of FAGI (e.g., the cost recovery method that businesses use to compute their income).

Effective date: Day following final enactment.

10 **Taxable net income definition.** Modifies the definition of taxable net income to reflect section 46's adoption of Minnesota itemized and standard deductions and personal exemptions. Nonresident individuals would be limited to claiming the standard deduction.

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Effective date: Tax year 2018.

11 **Chapter 290 update.** Adopts the changes to the Internal Revenue Code made since December 16, 2016, for purposes of the individual income and corporate franchise taxes. This will adopt the changes in federal law, as described in the Overview, the most significant of which were made by TCJA and the BBA 2018.

Effective date: Day following final enactment; changes incorporated by reference to federal provisions are effective at the same time as they are effective for federal purposes

12 **Additions to income; scope.** Modifies the scope subdivision of the section providing individual income tax additions to income to be consistent with the article's change in the starting point of the individual income tax from FTI to FAGI.

Effective date: Tax year 2018.

13 **State and local income and sales taxes.** Limits the addition for state and local income taxes and sales taxes to estates and trusts, since only those entities will continue to use FTI (which incorporates the federal deduction for state and local income taxes) in calculating Minnesota tax. The limitation on the deduction to the amount of the standard deduction is repealed, since trusts and estates are not allowed to elect the standard deduction.

Effective date: Tax year 2018.

14 **Section 179 addition.** Conforms to the federal section 179 allowances (allowing expensing for qualifying equipment purchases by businesses) for individuals, including pass-through entities, by limiting the addition to amounts deducted for federal purposes in taxable years before 2018. This change would allow individual income taxpayers the full section 179 deduction for property placed in service starting in tax year 2018.

Effective date: Tax year 2018.

15 **Foreign-derived intangible income (FDII).** Requires amounts deducted under TCJA's deduction for foreign-derived intangible income to be added back to FAGI for individuals (S corporation shareholders) who claim the deduction. FDII allows domestic corporations (including S corporations) with income from selling goods or services to foreign purchasers to deduct a percentage of that income. The amount of the deduction is determined under a complicated formula with percentages that vary from year to year and subject to a variety of limitations and exclusions.

Effective date: Tax year 2018.

16 **529 Plan distributions.** Requires distributions from 529 Plans (Qualified Tuition Plans) that are used to pay for K-12 expenses to be added to FAGI. The TCJA permits taxpayers to use distributions for K-12 expenses without being subject to tax. The amount added back could not exceed the amount of "earnings" of the account that are excluded from income for the taxable. Thus, recovery of amounts contributed to the account (rather than the account's investment returns) would not be taxed. This approach effectively treats any uses for K-12 purposes as the first use to which these investment returns or earnings are put (e.g., if distributions are also used to pay for higher education expenses).

Effective date: Tax year 2018.

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17 **Qualified business income.** Requires a trust or estate to add to FTI the amount it deducted as qualified business income (the 20-percent deduction allowed under TCJA).

Effective date: Tax year 2018.

18 **Subtractions from income; scope.** Modifies the scope subdivision of the section providing individual income tax subtractions from income to be consistent with the article's change in the starting point of the individual income tax from FTI to FAGI.

Effective date: Tax year 2018.

19 **Charitable contributions for non-itemizers.** Modifies the charitable contribution deduction for non-itemizers to be based on whether the taxpayer itemizes for Minnesota purposes (rather than federal purposes as under present law).

Effective date: Tax year 2018.

20 **Conforming change.** Changes a reference from FTI to FAGI (for the subtraction for military retirement pay) to be consistent with the article's change in the starting point for calculating the Minnesota tax.

Effective date: Tax year 2018.

21 **Social Security subtraction; indexing.** Resets the dollar amounts of the subtraction for Social Security benefits to the tax year 2018 amounts and provides that indexing (starting for tax year 2019) will be done using C-CPI-U. See section 1 for discussion of the effect of this change. In addition, the subtraction for married separate filers is specified to be one-half of the married joint amount.

Effective date: Tax year 2018.

22 **GILTI subtraction.** Allows the amount of global intangible low-taxed income (GILTI) required to be included in FAGI to be subtracted. TCJA required a portion of this foreign income (for corporations, including S corporations) to be included in FAGI. The article does not conform to the federal treatment.

Effective date: Tax year 2018.

23 **Deemed repatriation income of nonresidents.** Allows the amount of the deemed repatriation of deferred foreign income (a one-time requirement under TCJA that applies in tax year 2017) received by a nonresident to be subtracted from FAGI. The subtraction prevents Minnesota tax from applying to this non-Minnesota source income when it is received by nonresidents. Changes to determination of the percentage of total income derived from Minnesota sources (in section 30) excluded this income from computing the Minnesota-source percentage.

Effective date: Retroactively to tax year 2017 (same time that federal provision applies).

24 **Special foreign deductions.** Allows corporations required to add back the new 100-percent deduction for foreign dividends under TCJA to reduce the addition by any amounts of the dividends that represent amounts taxed in a prior year under the deemed repatriation provision. The FDII deduction for corporations is required to be added back. The section also eliminates the addition for the special deduction related to deemed repatriation of deferred

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foreign earnings. That will result in tax applying to the amount of that income that is net of the federal participation exemption.

Effective date: Retroactively to tax year 2017 (necessary because of the provision modifying addition for the deduction under the repatriation provision).

25 **Section 179 addition.** Conforms to the federal section 179 allowances (allowing expensing for qualifying equipment purchases) for C corporations by limiting the addition to amounts deducted for federal purposes in taxable years before 2018. This change would allow corporate income taxpayers the full section 179 deduction for property placed in service starting in tax year 2018.

Effective date: Tax year 2018.

26 **GILTI subtraction.** Allows the amount of GILTI required by a C Corporation to be included in FTI to be subtracted in computing Minnesota tax. TCJA subjects a portion of this foreign income to immediate federal taxation (not when it is repatriated as was the prior practice). The article does not conform to the federal treatment.

Effective date: Tax year 2018.

27 **Corporate alternative minimum tax (AMT).** Eliminates a reference to the corporate AMT, which is repealed by section 67.

28 **Unrelated business income tax (UBIT); net operating losses (NOLs).** Requires a nonprofit corporation required to pay UBIT to add back its federal NOL and claim a Minnesota NOL under the rules applicable to C corporations under the Minnesota tax. This prevents TCJA's rules requiring separately calculating NOLs for each activity.

Effective date: Tax year 2018.

29 **Corporate franchise tax rate.** Reduces the corporate franchise tax rate from 9.8 percent to 9.64 for tax years 2018 and 2019 and to 9.07 percent for tax years after that.

30 **Individual tax rates.** Resets the dollar amount of individual income tax brackets to the tax year 2018 amounts and reduces the 7.05 percent tax rate to seven percent for tax year 2018, 6.9 percent for tax year 2019, and 6.75 percent for later tax years.

In addition, conforming and updating changes are made to the allocation percentage that is used to determine the Minnesota-share of tax for nonresidents and part year residents. These changes reflect the repeal of the addition for domestic production activities and the subtractions for GILTI and the deemed repatriation income of nonresidents.

Effective date: Tax year 2018.

31 **Indexing of rate brackets.** Provides that indexing of individual income tax rate brackets (starting for tax year 2019) will be done using C-CPI-U. See section 1 for discussion of the effect of this change.

32 **Dependent care credit; phase-out amounts.** Resets the dollar amounts of the phase-out for the dependent care credit at the tax year 2018 amounts. This is necessary to reset the indexing, which is done in section 34.

Effective date: Tax year 2018.

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33 **Dependent care credit; income measure.** Adds alimony that is excluded from the recipient's income in income used to determine eligibility for the refundable dependent care credit. TCJA, effective for tax year 2019, provides that alimony (paid under new agreements or orders) is no longer deductible to the payer and includible in the recipient's income. The section also repeals a reference to domestic production deduction, which TCJA repealed.

Effective date: Tax year 2018.

34 **Dependent care credit indexing.** Converts indexing of the dependent care phase-out amounts to the C-CPI-U index. See section 1 for discussion of the effect of this change.

Effective date: Tax year 2018.

35 **Working family credit amounts; indexing.** Resets the indexed dollar amounts under the working family credit at the tax year 2018 amounts and converts indexing to the C-CPI-U index. See section 1 for discussion of the effect of this change.

Effective date: Tax year 2018.

36 **Working family credit indexing.** Converts indexing of additional working family credit amounts to the C-CPI-U index. See section 1 for discussion of the effect of this change.

Effective date: Tax year 2018.

37 **Long-term care insurance credit; conforming changes.** Modifies the long-term care insurance credit to refer to Minnesota, rather than federal, itemized deductions.

Effective date: Tax year 2018.

38 **Long-term care insurance credit; conforming changes.** Changes a reference in the long-term care insurance credit from FTI to Minnesota taxable net income.

Effective date: Tax year 2018.

39 **Historic structure rehabilitation credit.** Modifies the Internal Revenue Code reference to the historic structure rehabilitation credit to make it clear that the definition refers to the entire credit and not annual amount that is allowed in each tax year. TCJA modified the federal credit (which the Minnesota credit is based on and equal to) to provide it is allowed in five equal annual installments, starting with the year the property is placed in service.

40 **Historic structure rehabilitation credit; allowable in five installments.** Allows the credit (and the grant in lieu of the credit) in five equal annual installments, following TCJA's changes to the federal credit.

Effective date: Tax year 2018.

41 **Historic structure rehabilitation credit; conforming change.** Makes conforming changes to clarify that credit is allowed in annual installments following section 40.

Effective date: Tax year 2018.

42 **Historic structure rehabilitation credit; conforming change.** Makes conforming changes to clarify that credit is allowed in annual installments following section 40.

Effective date: Tax year 2018.

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43 **529 Plan credit.** Modifies the 529 Plan credit definitions to eliminate the definition of FAGI, which is unnecessary as a result of section 9's definition and to provide that qualified higher education expenses exclude amounts paid for K-12 expenses, as now permitted under federal law. Using account assets that qualified for the credit for K-12 expenses, as a result, would trigger recapture of the tax credit.

Effective date: Tax year 2018.

44 **529 Plan credit phase-out; indexing.** Resets the phase-out thresholds under the 529 Plan credit at the tax year 2018 amounts and converts indexing to the C-CPI-U index. See section 1 for discussion of the effect of this change.

Effective date: Tax year 2018.

45 **Elderly exclusion; conforming change.** Changes a reference from FTI to FAGI (in the elderly exclusion) to reflect the article's change in the starting point of the individual income tax.

Effective date: Tax year 2018.

46 **Itemized and standard deduction and exemption allowance.** Establishes itemized deductions, standard deduction, and exemption allowances for the individual income tax; these amounts replace amounts allowed in calculating FTI under present law. The itemized deduction limitation is retained, and the formula for estimating the deduction is identical to the formula under existing law.

Exemption amounts and allowance follow present law. The income phase-out of the allowance is retained (as well as the similar phase-out for itemized deductions).

Itemized deduction rules generally follow those under TCJA, but are generally permanent (unlike the TCJA rules which revert to prior law rules effective for tax year 2026). The table compares the differences between FTI (under present law) and the section's provisions:

Feature	FTI (present law)	Proposed
Exemption amount	$4,150	$4,150
Standard deduction		
Married joint	$13,000	$14,000
Head of household	$9,550	$10,300
Single	$6,500	$7,000
Additional amounts	Same as present law	
Itemized deductions		
Property taxes	Unlimited	$30,000 limit
Medical expenses	> 10 percent of AGI	> 7.5 percent of AGI (tax year 2018 only; 10 percent afterward)
Home mortgage interest		
Acquisition debt	$1 million loans	$750,000 for loans incurred after 12/15/2017
Home equity loans	$100,000 loans	Not deductible

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Charitable contributions – AGI limit	50 percent	60 percent
Casualty losses > 10 percent of AGI	Deductible	Deductible if loss in qualified disaster area
Miscellaneous deductions subject to 2 percent of AGI floor, e.g., tax preparation, unreimbursed employee business expenses, various investment expenses, safe deposit box rental, etc.	Deductible	Not deductible

47 **AMT definitions.** Modifies the definition of income for purposes of the individual AMT to be consistent with other changes made by the article and to require addition of the deduction for QBI.

Effective date: Tax year 2018.

48 **Individual AMT exemption amount; indexing.** Resets the individual AMT exemption at the tax year 2018 dollar amounts and converts indexing to the C-CPI-U index. See section 1 for discussion of the effect of the change to indexing.

Effective date: Tax year 2018.

49 **Corporate AMT carryover credit.** Modifies the carryover credit under the corporate AMT to reflect section 67's repeal of the corporate AMT. The carryover credit allows corporations that pay AMT in one year to use that tax as a credit against regular tax in a later tax year. Carryover credits generated in years prior to repeal could continue to be used in 2018 and later tax years.

Effective date: Tax year 2018.

50 **Minimum fee amounts; indexing.** Resets the minimum fee at the tax year 2018 amounts and converts indexing to the C-CPI-U index. See section 1 for discussion of the effect of this change.

Effective date: Tax year 2018.

51 **Corporate NOLs.** Provides that TCJA's 20 percent reduction in the amount of NOLs under TCJA does not apply to the Minnesota NOL statute (affects corporations).

Effective date: Tax year 2018.

52 **Allocation of trade or business income.** Modifies the definition of "wages" for purposes of allocating trade or business income between Minnesota and non-Minnesota sources to include a reference to income from sales of section 83(i) qualified stock (provided as compensation to employees), which were authorized by TCJA.

Effective date: Tax year 2018.

53 **Deemed repatriation income.** Provides that deferred foreign income deemed by TCJA to includible in subpart F income for tax year 2017 is dividend income. This follows

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Minnesota's practice of treating subpart F income as dividend income and Minnesota's treatment of subpart F income that was used in the 2004 repatriation tax holiday.

Effective date: Retroactively to tax year 2017.

54 **Insurance companies; computation of limit on interest expense.** Provides that section 163(j) interest limitation for corporations that are part of an affiliated group of companies that include insurance companies (exempt from corporate franchise tax because they pay premium tax) are to be computed by including the insurance company's income in determining how the limit applies. This parallels the federal treatment, which imposes the corporate income tax on insurance companies.

55 **Wages for withholding tax.** Modifies the definition of "wages" for purposes of withholding tax to include section 83(i) qualified stock election under TCJA. The provision allows employees receiving the stock to defer when income is includible, subject to a variety of limits and conditions.

56 **Household income definition; PTR.** Modifies the definition of household income under the property tax refund for renters and the homestead credit refund programs to eliminate the addition for the domestic production deduction, which was repealed by the TCJA, and to include nontaxable alimony received by the claimant.

Effective for tax year 2019, TCJA provides that alimony (paid under new agreements or orders) is no longer deductible to the payer and includible in the recipient's income. References to the exemption amount in the definition of household income are tied to the amount under the Minnesota income tax, as provided in section 46.

Effective date: Property taxes payable in 2019 and rent paid in 2018.

57 **Gross rent amount; indexing.** Sets the gross rent amounts for nursing homes, foster care homes, and intermediate care facilities at the 2018 amounts and converts indexing to the C-CPI-U index. See section 1 for discussion of the effect of this change.

Effective date: Property taxes payable in 2019 and rent paid in 2018

58 **PTR update.** Updates the reference to the Internal Revenue Code for purposes of the property tax refund chapter. This will incorporate federal changes made to FAGI and TCJA's repeal of the exemption allowance (replaced in section 56 with a reference to the Minnesota amount provided by the article).

59 **PTR indexing.** Converts indexing of the PTR schedules to the C-CPI-U index. See section 1 for discussion of the effect of this change.

Effective date: Rent paid in 2019 and property taxes payable in 2020.

60 **Estate tax update.** Updates the reference to the Internal Revenue Code in the estate tax. This will have no material effect on estate tax, since the TCJA made changes in the federal exclusion amounts from which the state estate tax is decoupled.

Effective date: Estates of decedents dying after December 31, 2017.

61 **Sales tax exemption.** Provides that TCJA's change in the like-kind exchange rules (limiting them to real property) does not apply for purposes of the sales tax exemption for occasional

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sales. The bill makes this change by tying the statutory reference to the version of the Internal Revenue Code before the enactment of TCJA.

Effective date: Sales and purchases made after December 31, 2017.

62 **MVST exemption.** Provides that TCJA's change in the like-kind exchange rules (limiting them to real property) does not apply for purposes of the motor vehicle sales tax exemption by tying the statutory reference to the version of the Internal Revenue Code before the enactment of TCJA.

Effective date: Sales and purchases made after December 31, 2017.

63 **First-time homebuyer savings account; conforming change.** Changes a reference from FTI to FAGI (in the subtraction under the first-time homebuyer savings account program) to reflect the article's change in the starting point of the individual income tax from FTI to FAGI.

Effective date: Tax year 2018

64 **First-time homebuyer savings account; conforming change.** Changes a reference from FTI to FAGI (in the addition under the first-time homebuyer savings account program) to reflect the article's change in the starting point of the individual income tax from FTI to FAGI.

Effective date: Tax year 2018.

65 **JOBZ subtraction; conforming change.** Changes a reference from FTI to FAGI (in the JOBZ subtraction) to reflect the article's change in the starting point of the individual income tax from FTI to FAGI.

Effective date: Tax year 2018.

66 **Corporate AMT.** Eliminates a reference in the JOBZ statute to the corporate AMT, which is repealed by section 67.

67 **Repealer.** Repeals the following provisions:

Repealed section	Description
290.01, subd. 29a	Definition of state itemized deductions
290.0131, subd. 7	Addition for fines, fees, and penalties (individuals), which is now included federal income
290.0131, subd. 11	Addition (individuals) for domestic production activities
290.0131, subd. 12	Addition for disallowed itemized deduction amount (becomes part of the itemized deduction computation)
290.0131, subd. 13	Addition for disallowed personal exemption amount (becomes part of the exemption allowance calculation)
290.0132, subd. 8	Subnational taxes subtraction (replaced with itemized deduction for taxes)
290.0132, subd. 19	Subtraction for federal disallowed itemized deduction amount
290.0132, subd. 20	Subtraction for federal disallowed personal exemption amount
290.0133, subd. 13	Addition (corporations) for domestic production activities

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290.0133, subd. 14	Addition for fines, fees, and penalties (corporations), which is now included federal income
290.0921, subd. 1, 2, 3a, 4, and 6	Corporate AMT (other than carryover credit)
290.10, subd. 2	Disallowance of trade or business expense for fines, fees, and penalties, which now are disallowed by federal law

Article 2: Individual Income, Corporate Franchise, and Estate Taxes

Overview

Article 2 contains individual income, corporate, and estate tax provisions that are unrelated to federal tax conformity. Among other provisions, the article includes:

- A $10 million appropriation for and extension of the angel credit.
- Corporate income tax changes related to captive insurance companies.
- A corporate and individual income tax subtraction for the trade or business expenses of medical cannabis companies.
- New credits for donations of prepared food and railroad overpass safety expenditures.
- Changes to the master's degree and stillbirth credits.
- Creates a temporary rule under the recapture tax for estates to correct certain mistakes made during the preparation of estate tax returns.

1 **Angel credit authorization.** Authorizes $10 million in small business investment tax credits (commonly referred to as the angel credit) for allocation during calendar year 2018. No credit authorizations for this credit was enacted for 2018.

Effective date: Tax year 2018.

2 **Angel credit, sunset.** Extends the expiration dates for the angel credit by one year to reflect the additional authorization in section 1.

3 **Financial institution.** Modifies the definition of a financial institution for corporate franchise tax purposes to eliminate the requirement that exempt insurance companies must be subject to Minnesota insurance premiums taxation. This will allow out-of-state insurers who do not write coverage on Minnesota risks (and, thus, are not subject to the Minnesota premiums tax) to qualify as insurance companies that are exempt from corporate franchise tax.

Effective date: Retroactively to tax year 2017.

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4 **Disqualified captive insurance company.** Defines a "disqualified captive insurance company" for corporate franchise tax purposes. A company is a disqualified captive if it satisfies two criteria, each of which can met in two different ways:

- The company either (1) is explicitly licensed by a state as a captive insurance company or (2) derives 80 percent or more of its premiums from insurance covering other members of the unitary group; and
- The company either (1) derives half or more of its gross receipts from items other than insurance premiums or (2) pays an effective tax rate of 0.25 percent or less in insurance premiums or similar special state insurance taxes.

Premiums are defined by reference to federal law, but exclude premiums that are of types that are exempt from the Minnesota insurance premiums tax (e.g., return premiums or reinsurance premiums).

Disqualified captives are subject to the corporate franchise tax (other insurance companies are exempt) and must include their income and apportionment factors on the combined return of a unitary business of which they are a part.

Effective date: Retroactively to tax year 2017.

5 **Medical cannibus; individual income subtraction.** Allows companies manufacturing medical marijuana under Minnesota licenses to subtract their trade or business expenses in computing Minnesota individual income tax.

Effective date: Tax year 2018.

Background. Federal law (section 280E of the Internal Revenue Code), which Minnesota law incorporates by reference, disallows deductions for amounts "paid or incurred … in carrying on any trade or business [that] consists of trafficking in [Schedule I or II] controlled substances" as defined by federal law. Since marijuana is a Schedule I controlled substance, this provision prevents medical marijuana businesses from deducting their business expenses, such as rent, wages paid to employees, and so forth. Under guidance provided by the Internal Revenue Services (following the legislative history of section 280E), this does not prohibit deductions for the cost of goods sold. This section and section 7 would allow companies that are licensed by the state of Minnesota to produce medical marijuana to subtract the expenses disallowed under section 280E in computing Minnesota income or corporate tax.

6 **Addition food donation qualifying for credit.** Requires charitable contributions of prepared food that qualify for the credit under section 9 to be added to FTI in computing corporate franchise tax. This prevents a taxpayer from qualifying for both a deduction and the credit.

Effective date: Tax year 2018.

7 **Medical cannibus; corporate franchise tax subtraction.** Allows companies manufacturing medical marijuana under Minnesota licenses to subtract their trade or business expenses in computing corporate franchise taxes.

Effective date: Tax year 2018.

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8 **Exempt entities.** Modifies the statutory definition of insurance companies that are exempt from corporate franchise tax to incorporate section 4's definition of disqualified captive insurance companies (i.e., ones which are not exempt insurance companies).

Effective date: Retroactively to tax year 2017.

9 **Prepared food donation credit.** Allows a 20 percent, nonrefundable tax credit to businesses that make eligible donations of prepared food. No carryforward is allowed, if the credit exceeds the liability for tax. The donations must be charitable contributions under federal tax law, except that the taxpayer is not required to itemize deductions. To qualify, the business must regularly sell prepared food. The food must be prepared by the taxpayer and must meet federal, state, and local food regulations. Donations allowed as a credit may not be taken as a Minnesota itemized deduction for charitable contributions.

Effective date: Tax year 2018.

10 **Stillbirth credit allowed.** Modifies the stillbirth credit to provide that it is allowed to an "eligible individual" (defined in section 11) and to eliminate the test that allows the credit based on who would have qualified to claim the stillborn child as a tax dependent.

In addition, apportionment of the credit for nonresidents is eliminated. A nonresident who is an eligible individual (e.g., the nonresident spouse of a Minnesota resident member of the military) would be allowed the full credit. Apportionment would continue for part year residents—that is, individuals who move into or out of the state during the tax year—based on the percentage of their income that is derived from Minnesota sources.

Effective date: Retroactive to tax year 2016 (original effective date of the credit).

11 **Stillbirth credit; definitions.** Defines terms for purposes of the stillbirth tax credit:

- "**Certificate of birth resulting in stillbirth**" means a certificate of stillbirth issued by the Minnesota Department of Health for a Minnesota birth or a similar certificate issued by another state or country if the birth occurs outside of Minnesota.
- "**Eligible individual**" (i.e., individuals who will be allowed the credit) must be:
  - a Minnesota resident or the nonresident spouse of a member of the military who is a Minnesota resident; and
  - the individual who gave birth (i.e., the mother) who was listed on the birth certificate (or if the birth mother is not listed, then the first individual listed on the certificate) or simply is the mother who gave birth, if the birth occurred outside of Minnesota in a state or country where no certificate is issued for stillbirths.
- "**Stillbirth**" is defined by reference to the statute that requires a fetal death report, but without regard to whether the birth occurs in Minnesota.

Effective date: Retroactive to tax year 2016 (original effective date of the credit).

12 **Credit for attaining master's degree in teacher's licensure field; definitions.** Extends the income tax credit to licensed teachers who obtain a master's degree in special education. Under present law, the credit is limited to K-12 teachers who complete a master's degree in a

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core content area directly related to their licensure field. The credit equals the lesser of $2,500 or the amount paid for tuition, fees, books, and instructional materials necessary to complete the degree that are not reimbursed by an employer or by scholarship.

Special education is defined to include a program of study directly related to licensure in developmental disabilities, early childhood special education, emotional or behavioral disorders, autism spectrum disorders, or learning disabilities.

13 **Railroad crossing credit.** Allows a nonrefundable tax credit against the individual income and corporate franchise taxes equal to 50 percent of a railroad's expenditures on safety improvements at designated "priority crossings." A 15-year carryover of the credit is allowed. To qualify, expenditures must:

- increase the safety of the crossing by improving the quality of active traffic signals or by helping to implement grade separation;
- be the type of improvements that would qualify for depreciation or cost recovery deductions; or
- not already be required by law to be made by the railroad.

A list of priority crossings will be determined by the commissioner of the Department of Transportation, using the same methodology it used to prepare its 2014 Highway-Rail Grade Crossings and Rail Safety report.

Effective date: Tax year 2018 for expenditures made after the list of priority crossings is posted on October 2018.

14 **AMT; disallowed section 280E expenses for medical cannabis manufacturers.** Provides that expenses that qualify for the section 280E subtraction for medical cannabis manufacturers (section 5 of the article) may be subtracted when computing the individual AMT.

Effective date: Tax year 2018.

15 **Combined returns.** Modifies the combined return statute to incorporate the new definition of disqualified captive insurance companies—specifically that these captives, including ones incorporated in a foreign country, must include their income and apportionment factors in the combined report. The 2017 tax bill's definition of taxable captives is repealed, since it is replaced by section 4's definition.

Effective date: Retroactively to tax year 2017.

16 **Cross reference.** Corrects a cross reference error that resulted from 2017 tax act's renumbering of clauses in the qualified property provisions of the estate tax.

Effective date: Day following final enactment.

17 **Qualified small business property.** Modifies the required holding period for qualified small business property to provide that ownership by either of the spouses in various ownership forms (undivided, joint, QTIP trust, etc.) can be used to satisfy the 3-year requirement. It does not matter if the spouse predeceased the decedent. Under present law, the decedent must own the property for the 3-year period.

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Effective date: Decedents dying after December 31, 2017

18 **Qualified farm property.** Modifies the required holding period for qualified farm property to provide that ownership by either of the spouses in various ownership forms (undivided, joint, QTIP trust, etc.) can be used to satisfy the 3-year requirement. It does not matter if the spouse predeceased the decedent. Under present law, the decedent must own the property for the 3-year period.

Effective date: Decedents dying after December 31, 2017.

19 **Recapture tax, temporary provision.** Provides a temporary special rule under the recapture tax that applies to estates claiming the subtraction for qualified property. The rule is limited to estates of decedents:

- Dying after December 31, 2011 and before January 1, 2017; and
- That filed a return reporting no tax liability and also claimed a qualified property treatment, which is triggering recapture tax.

The special rule limits the amount of the qualified property exclusion or subtraction (i.e., amount that triggers recapture tax) to the amount necessary to reduce the estate tax to zero. This prevents a (likely inadvertent) choice by whomever filed the return to forgo claiming the full general exclusion or exemption and instead to claim a larger qualified property subtraction from increasing recapture tax. The 2017 conversion of the zero bracket amount to an exclusion (i.e., a subtraction from the estate's value, rather than an amount in the rate table) reduces the likelihood of these mistakes.

The section also corrects a cross reference error that resulted from 2017 tax act's renumbering of clauses in the qualified property provisions of the estate tax.

Effective date: Retroactive for estates of decedents dying after December 31, 2011.

Article 3: Sales and Use Taxes

Overview

Allows massage therapists to register to collect the health care provider tax. If they do so, all massage therapy services provided by them are subject to the medical provider tax and explicitly excluded from the regular sales tax.

Provides a number of sales tax exemptions for various construction projects including:

- a number of public safety facilities;
- a municipal water treatment plant;
- Great Harvest Heartland facility;
- the Duluth Central high school site redevelopment; and
- reconstruction after the Mazeppa fire.

Provides a number of other minor sales tax exemptions.

1 **Health care provider.** Adds massage therapists to the list of health care providers subject to the health care provider tax.

Effective date: Effective for gross revenues received after June 30, 2018.

2 **Massage therapist.** Defines a massage therapist as a person providing massage therapy service but only if they register to pay the health care provider tax.

Effective date: Effective for gross revenues received after June 30, 2018.

3 **Massage therapy services.** Defines massage therapy services to include services that involves systematic and structured touch for pain and tension relief and promote specific or general wellness. It excludes massage services provided by a health care facility or upon written referral from a licensed health care professional or facility.

Effective date: Effective for gross revenues received after June 30, 2018.

4 **Patient services.** Adds massage therapy services to the list of patient services subject to the health care provider tax.

Effective date: Effective for gross revenues received after June 30, 2018.

5 **Sales and purchase.** Moves an exclusion for massage services provided by a health care facility or upon written referral from a licensed health care professional or facility from the definition taxable services. This exclusion is turned into an expanded exemption section in section 7.

Effective date: Effective for sales and purchases made after June 30, 2018.

6 **Bullion Coin.** Adds bullion coin to the current exemption for precious metal bullion.

Effective date: Effective for sales and purchases made after June 30, 2018.

7 **Massage therapy.** Exempts from sales tax massage services that are either taxed under the health care provider tax or upon written referral from a licensed health care professional or

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facility upon written referral from a licensed health care professional or facility for the treatment of illness, injury, or disease.

Effective date: Effective for sales and purchases made after June 30, 2018.

8 **Certain herbicides.** Provides a sales tax exemption for herbicides used under an invasive aquatic plant management permit. Covers purchases by lakeshore property owners, an association of lakeshore property owners, or by a contractor hired to provide the invasive aquatic plant management. Only covers herbicides registered with the Department of Agriculture for use on invasive aquatic plants.

Effective date: Effective for sales and purchases made after June 30, 2018.

9 **Ticket purchasing rights to collegiate events.** Excludes from the taxable sale price of a ticket to a college sporting event, the extra price paid to sit in a “preferred area”. To qualify the underlying ticket price must be at least as high as the ticket price for the surrounding seats; the extra price must be stated separately and the revenue from the extra price for the preferred seats must go entirely to support student scholarships.

Effective date: Effective for sales and purchases made after June 30, 2018.

10 **Prizes.** Expands the sales tax exemption for items purchased for prizes at festivals, fairs, and carnivals to also exempt items purchased for use as prizes in connection with lawful (i.e. charitable) gambling.

Effective date: Effective for sales and purchases made after June 30, 2018.

11 **Hospitals, outpatient surgical centers, and critical access dental providers.** Exempts sales to a qualifying medical facility from the sales tax. Defines “qualifying medical facility” as a facility that has been granted an abatement of the state general tax (carried in the property tax division report).

Effective date: Effective for sales and purchases made after June 30, 2018.

12 **Ice arenas and rinks.** Expands the sales tax exemption for a nonprofit operating an ice arena to the Westonka Sports Association operating the ice arena at the David M. Thaler Sports Center.

Effective date: Effective for sales and purchases made after June 30, 2018.

13 **Lawful gambling equipment.** Exempts from the sales tax, the lease or purchase of gambling equipment by an organization licensed to conduct lawful gambling. The exempt gambling equipment is defined under the current lawful gambling statute and includes permanent and disposable goods including, pull tabs, bingo cards, and similar items as well as electronic devices and associated software.

Effective date: Effective for sales and purchases made after June 30, 2018.

14 **Nonprofit conservation clubs.** Provides a sales tax exemption for purchases made by nonprofit (501(c)(3)) clubs that provide instruction and training in, and shooting facilities for handguns or rifles.

Effective date: Effective for sales and purchases made after June 30, 2018.

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15 **Public safety facilities.** Provides an upfront exemption for construction of the following public safety facilities:

- a new fire station in the city of Inver Grove Heights;
- a new fire station or remodeling of an existing fire station in the city of Virginia;
- a new fire station in the city of Minnetonka; and
- remodeling and expansion of an existing fire station in the city of Minnetonka to accommodate its use as a police station.

Applies to purchases by contractors and subcontractors as well as directly by the city.

Effective date: Effective for sales and purchases made after the day following final enactment but before January 1, 2021.

16 **Second Harvest Heartland.** Provides a sales tax construction exemption for a warehouse, distribution, and office facility for the Second Harvest Heartland food bank in Hennepin County. The sales tax must be paid upfront and the contractor may apply for the refund.

Effective date: Effective for materials and supplies purchased after January 1, 2018, and before January 1, 2022.

17 **Nonprofit snowmobile clubs.** Provides a sales tax exemption on building materials and supplies used by a nonprofit snowmobile club to construct, maintain, or improve a state or grant-in-aid snowmobile trail.

Effective date: Effective for sales and purchases made after June 30, 2018.

18 **Medical facility in underserved area.** Provides a construction materials exemption for qualifying medical facilities.

Effective date: Effective for sales and purchases made after June 30, 2018.

19 **Properties destroyed by fire (Mazeppa).** Provides a sales tax exemption for reconstruction of the properties affected by the fire in Mazeppa on March 11, 2018. The tax must be paid at the time of purchase and refunded to the property owner. The exemption also covers durable restaurant equipment destroyed in the fire.

Effective date: Effective retroactively to purchases made after March 11, 2018, and before January 1, 2021.

20 **Former Duluth Central High School.** Provides a construction exemption for a private redevelopment project on the site of the former Duluth Central High School. The exemption is limited to $5 million and only applies if the redevelopment returns the property to the property tax rolls. The tax is paid at the time of purchase and refunded to the project developer.

Effective date: Effective for purchases made between June 30, 2018, and January 1, 2020.

21 **Tax collected.** Requires that the tax on items exempt in sections 16, 19, and 20 be paid on items at the time of purchase. Also removes references to obsolete sales tax exemptions.

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22 **Refund; eligible persons.** Requires the owner or developer of the building or project to apply for a refund of the upfront taxes paid under section 21.

23 **Application.** Requires contractors, subcontractors, and builders provide refund applicants under section 22 with the information needed for the application.

24 **Collection; disposition.** With section 13, exempts distributer sales to gambling organizations of pull-tabs and tipboards from the sales tax.

25 **Municipality owned water treatment facility; city of Elko New Market.** Provides a retroactive sales tax exemption for the materials and supplies used in and equipment incorporated into a water treatment facility owned by the city of Elko New Market. The exemption applies to purchases by the city and by contractors, subcontractors, and builders. The city must apply for the refund of taxes paid and the contractor, subcontractors, and builders must provide the city with the information necessary to make the application. Money is appropriated to the commissioner of revenue to pay the refund.

Effective date: Effect retroactively for sales and purchases made after June 1, 2014, and before June 1, 2016.

26 **Sales tax rate adjustment if tax imposed on remote sellers.** Beginning 15 months after the state begins collecting sales tax on marketplace providers and/or other remote sellers, the commissioner of revenue is instructed to reduce the general sales tax and the legacy sale tax rates down by a revenue neutral amount to reflect increased sales collections from these remote sales. Provides a mechanism for calculating the revenue neutral rate.

Effective date: Effective the day after final enactment.

Article 4: Miscellaneous Provisions

Overview

Modifies registration, registration tax, and tax refunds for unmanned drones.

Provides onetime extra LGA payments to the cities of Lilydale and Hermantown and increases the LGA appropriation for Pay 2019 only so these extra payments do not shift aid from other cities.

1 **Unmanned aircraft.** Defines an unmanned aircraft for the chapter on aeronautics.

Effective date: Effective July 1, 2018.

2 **Unmanned aircraft system.** Defines an unmanned aircraft system for the chapter on aeronautics.

Effective date: Effective July 1, 2018.

3 **Unmanned aircraft systems.** Requires registration and payment of a $25 fee for unmanned aircraft that have a takeoff weight of under 55 pounds. For unmanned aircraft that are under the 55 pounds weight limit and are owned and operated only for recreation, registration is not required and no fee is due. The fee or fee exemption for applicable unmanned aircraft is

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instead of the current aircraft registration tax (which varies based on aircraft price, with a minimum of $100).

Effective date: Effective July 1, 2018.

4 **Tax refund.** Modifies an aircraft tax refund provision so that refunds are not available for unmanned aircraft that are destroyed or removed from the state.

Effective date: Effective July 1, 2018.

5 **Certified aid adjustments.** Deletes obsolete provisions and provides onetime extra aid payments to the following two cities for aids payable in 2019 only:

- $97,260 to the city of Hermantown for their 2018 loss due to a formula glitch; and
- $150,000 to the city of Lilydale to help pay for some sewer costs.

Effective date: Effective for aids payable in calendar year 2019.

6 **Cities.** Increases the city LGA appropriation in calendar year 2019 only, to pay the extra aid authorized in section 5.

Effective date: Effective for aids payable in 2019 and thereafter.

7 **Unmanned aircraft registration tax refund; appropriation.** Provides for refund of the aircraft registration tax if the person also registers the aircraft under the $25 fee structure established in section 3. Appropriates the amount necessary for refunds from the state airports fund.

Effective date: Effective July 1, 2018.

Article 5: Department of Revenue; Property Tax; Policy Changes

Overview

This article contains property tax provisions related the Small Cities Assistance program, Board of Assessors sanctions recommendations, and CRV filing and deed tax thresholds.

1 **Administration (Small Cities Assistance).** Provides that the commissioner of transportation will certify aid amounts for the Small Cities Assistance program to the commissioner of revenue by June 1.

Effective date: Effective for aids payable in 2018 and thereafter.

2 **Assessor sanctions; refusal to license.** Requires the commissioner of revenue to make recommendations to the Board of Assessors for sanctions and clarifies the notice and hearing procedures for an applicant or licensee who disputes the commissioner's recommendation.

Effective date: Effective for sanctions or refusals to grant or renew a license recommended by the commissioner of revenue after June 30, 2018.

Section

3 Requirement (Certificates of Real Estate Value). Changes the threshold for filing a Certificate of Real Estate Value at consideration in excess of $1,000 to in excess of $3,000.

Effective date: Effective for certificates of value filed after December 31, 2018.

4 Determination of tax (deed tax). Changes the minimum consideration for real property, used in calculating the deed tax, from $500 or less to $3,000 or less.

Effective date: Effective for deeds recorded after December 31, 2018.

Article 6: Department of Revenue; Miscellaneous; Policy Changes

Overview

Article 6 contains the Department of Revenue's policy language relating to sales tax permit issuance. The article forbids the Department of Revenue from issuing a permit to a business or person with an unpaid sales tax liability, and allows certain data about a sales tax permit holder to be disclosed if the permit is revoked or cancelled.

1 **Revocation or cancellation.** Permits the Department of Revenue to disclose information about the holder of a sales tax permit to any person, if the department cancelled the permit under section 270C.722 or 297A.84. The department may disclose the basis for the cancellation, the date of the cancellation, and if the permit was reinstated, the date upon which it was reinstated.

Effective date: Effective the day following final enactment.

2 **Permits issued and not issued; cancellation (sales tax).** Forbids the Department of Revenue from issuing a new sales tax permit to a business or person that has an unpaid sales tax liability not under appeal. Permits the department to cancel a permit (with notice) if a permit was issued that does not comply with the statutory requirements for issuing a permit. Requires the department to reissue a permit if the permit holder demonstrates that the permit was issued in accordance with statute.

Effective date: Effective for permits applied for after December 31, 2018.

3 **Cancellation of permits.** Adds the cancellation provision from section 2 to the list of conditions that allow the commissioner to cancel a sales tax permit.

Effective date: Effective for permits applied for after December 31, 2018.

Overview

This article modifies Minnesota reporting and payment requirements generated by federal audits and assessments in response to the changes, enacted by Congress in 2015, providing for conducting audits at the partnership, rather than the partner, level. The changes parallel model legislation being developed by the Multistate Tax Commission to respond to the federal changes.

Effective date: This section is effective for tax years beginning after December 31, 2017, except that for partnerships that make an election under Code of Federal Regulations, title 26, section 301.9100-22T, this section is effective retroactively and applies to the same tax periods to which the election relates.

1 **Enforcement; administrative order; penalties, cease and desist.** Updates a cross-reference.

2 **Individual income, fiduciary income, mining company, corporate franchise, and entertainment taxes.** Updates a cross-reference.

3 **Erroneous refunds.** Updates a cross-reference.

4 **Incorrect determination of federally adjusted gross income.** Updates a cross-reference.

5 **Definitions; partnerships; federal adjustments.** Adds a new section of law containing various definitions relating to the reporting of federal adjustments, and federal adjustments to partnership returns.

6 **Reporting federal adjustments; general rule.** Replaces § 289A.38, subd. 7, with a new provision and provides the general requirement that taxpayers report federal audit adjustments, and amended federal returns to Minnesota within 180 days. Partnerships having undergone entity level audit are exempt from this provision and are required to report adjustments to Minnesota under § 289A.383.

7 **Reporting and payment requirements (adjustments following a partnership level audit).** Provides for the reporting of federal adjustments following a partnership level audit by the IRS. By default, each partnership will be required to file a federal adjustments report related to federal changes, and submit the report to both Minnesota and its direct partners within 90 days. Each partnership reporting changes must also file amended composite and withholding reports for nonresident partners within 180 days. Each direct partner, other than tiered partners, receiving an adjustment report as described above is also required to make a federal adjustment report and pay any additional tax due within 180 days of the final determination date.

Each partnership reporting federal adjustments after a partnership level audit is also eligible to make an election to pay the additional tax due to Minnesota at the entity level. A partnership making the election is required to do so on a federal adjustment report filed with the commissioner within 90 days of the final determination date. A partnership making the election must be able to determine and report the residency status of all direct individual partners, and pay tax on the properly allocated and apportioned share of all income at the highest marginal rate for its individual and corporate partners.

Section

8 **Assessment of tax, interest, penalties, and additional amounts (statute of limitations).** Provides that when a taxpayer reports federal adjustments pursuant to §§ 289A.382 and 289A.383 in a timely fashion that the statute of limitations on assessment for state tax purposes is extended for a period of one year. When a taxpayer files a federal adjustment report in an untimely fashion the statute of limitations is extended for the shorter of either (1) one year after the filing of the untimely report; or (2) six years.

9 **Statute of limitations on refund claims.** Provides that the statute of limitations on refund claims related to adjustments made by the IRS is equal to the extended period for additional assessments under Minn. Stat. § 289A.384.

10 **Consent to extend refunds.** Makes changes to correct cross references and generally comport with the changes in other sections. In addition, eliminates the authority to make assessments for an additional six month period when no federal changes are made.

11 **Penalty for failure to notify of federal change.** Updates a cross-reference.

12 **Partners, not partnership, subject to tax.** Updates a cross-reference.

13 **Time limit for bad debt refund.** Updates a cross-reference.

14 **Time limit for a bad debt deduction.** Updates a cross-reference.

15 **Repayment procedures.** Updates a cross-reference.

16 **Repealer.** Repeals Minn. Stat. § 289A.38, subdivisions 7, 8, and 9.

Article 8: Department of Revenue; Individual Income and Corporate Franchise Taxes; Technical Changes

Overview

This article includes provisions related to reporting adjustments after an IRS settlement, ensuring that married filing separate brackets are exactly half of the married filing joint brackets, and the designation of required beneficiaries for first-time home-buyers.

1 **Federal tax changes.** Requires taxpayers to report adjustments to the department following a settlement or compromise with the IRS.

Effective date: Effective the day following final enactment.

2 **Accelerated recognition of certain installment sales gains.** Deletes the phrase "allocable amount" which is rendered unnecessary due to the changes in paragraph (e) section 4.

Effective date: Effective the day following final enactment.

3 **Schedule of rates for individuals, estates, and trusts.** Ensures the general tax brackets for married filing separate are exactly half of married filing joint. Also provides for the

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representation of accelerated installment sale receipts in the nonresident apportionment fraction of taxpayers who pay income taxes on accelerated installment sale gains under section 3.

Effective date: Effective for taxable years beginning after December 31, 2017.

4 **Inflation adjustment of brackets.** Ensures the general tax brackets for married filing separate are exactly half of married filing joint.

Effective date: Effective for taxable years beginning after December 31, 2017.

5 **Payments to horse racing license holders.** Corrects a cross-reference that was moved in a prior session.

Effective date: Effective the day following final enactment.

6 **Designation of qualified beneficiary (first time home buyer).** Allows a taxpayer to designate the required beneficiary at the same time the taxpayer files their income tax return.

Effective date: Effective the day following final enactment.

Article 9: Department of Revenue; Sales and Use Taxes; Technical Changes

Overview

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1 **Ships used in interstate commerce.** Clarifies an ambiguity created in the chapter 297A recodification in 2000.

Effective date: Effective the day following final enactment.

2 **DEED certification of Greater Minnesota businesses.** Clarifies that the commissioner of employment and economic development must certify a Greater Minnesota business as a qualifying business under Minn. Stat. § 116J.8738, and that any purchase and delivery received exempt from the sales tax occurred during the duration of the business subsidy agreement.

Effective date: Effective the day following final enactment.

3 **DEED certification of biopharmaceutical manufacturing facilities.** Clarifies that the commissioner of employment and economic development must certify to the commissioner of revenue that the biopharmaceutical manufacturing facility is qualified for the sales tax exemption.

Effective date: Effective the day following final enactment.

4 **Recordkeeping requirement.** Reinstates a record keeping requirement inadvertently omitted during the chapter 289A recodification in 1990.

Effective date: Effective the day following final enactment.

Article 10: Department of Revenue; Tobacco Taxes; Technical Changes

Overview

This section includes technical provisions related to the taxation of vapor products.

1 **Definition of tobacco product**. Amends the definition of tobacco products to include vapor products.

Effective date: Effective the day following final enactment.

2 **Definition of vapor product**. Creates a definition of "vapor product" that includes electronic cigarettes and other components and accessories sold with a nicotine solution, as well as solutions containing nicotine produced from sources other than tobacco.

Effective date: Effective the day following final enactment except the inclusion of nontobacco nicotine in the definition is effective January 1, 2019.

3 **Definition of wholesales sales price**. Amends the definition of wholesale sales price so that it does not include the cost of electronic cigarettes and other components and accessories sold separately from a nicotine solution.

Effective date: Effective the day following final enactment.

Article 11: Department of Revenue; Property Taxes; Technical Changes

Overview

This section mostly contains provisions related to property tax data collection. The agricultural homestead market value credit is also amended to clarify that fractional owners of a homestead are only eligible to receive a fractional maximum amount of the credit.

1 **Powers and duties; property tax data reports.** Amends the commissioner's powers to administer the state's property tax laws by clarifying that the commissioner of revenue may collect property tax data at the parcel level or higher in the time, form, and manner as the commissioner may prescribe. This method of collection is consistent with property tax data collection under the Property Record Information System of Minnesota.

2 **Initial report.** Conforming changes and cross-references added to the changes in section 1.

3 **Final report.** Conforming changes and cross-references added to the changes in section 1.

4 **Record of proceedings changing net tax capacity; duties of county auditor.** Conforming changes to the changes in section 1.

5 **Additional general duties.** Conforming changes and cross-references added to the changes in section 1.

6 **Training and education of property tax personnel.** Conforming changes and cross-references added to the changes in section 1.

7 **Reimbursement for lost revenue.** Conforming changes and cross-references added to the changes in section 1.

Section

8 **Reimbursement for lost revenue.** Conforming changes and cross-references added to the changes in section 1.

9 **Disaster or emergency area.** Conforming changes and cross-references added to the changes in section 1.

10 **Reduction amounts submitted to county.** Conforming changes and cross-references added to the changes in section 1.

11 **Agricultural homestead market value credit.** Amends agricultural homestead credit to clarify that a fractional agricultural homestead will also receive a fractional maximum credit amount.

12 **Credit reimbursements.** Conforming changes and cross-references added to the changes in section 1.

13 **Credit reimbursements.** Conforming changes and cross-references added to the changes in section 1.

14 **Listing, valuation, and assessment of exempt property by county auditors.** Conforming changes and cross-references added to the changes in section 1.

15 **Length of session; record.** Conforming changes to the changes in section 1.

16 **Corrected lists, abstracts.** Conforming changes to the changes in section 1.

17 **Levy amount.** Conforming changes and cross-references added to the changes in section 1.

18 **Determination; payment.** Conforming changes and cross-references added to the changes in section 1.

19 **Original net tax capacity.** Conforming changes and cross-references added to the changes in section 1.

20 **Repealer.** Repeals the statute describing the abstract of tax lists.

Effective date: Effective the day following final enactment.

Article 12: Department of Revenue; Miscellaneous; Technical Changes

Overview

This article amends various sections of law to replace references to disabled or blind persons to persons with a disability or persons who are blind. In addition, this section also amends gender-specific language regarding married persons with non-gender specific references. Also amends a section of law regarding the time to file post-trial motions.

1 **Superior National Forest; recreational property for use by disabled veterans.** Amends the statute to update language for persons who have a disability.

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Effective date: Effective the day following final enactment.

2 **Certain recreational property for disabled veterans.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

3 **Market value definition.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

4 **Class 1.** Amends the statute to update language for persons who are blind or have a disability.

Effective date: Effective the day following final enactment.

5 **Homestead of disabled veteran or family caregiver.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

6 **Returns of married persons.** Updates gender-specific language for spouses.

Effective date: Effective the day following final enactment.

7 **Requirements to pay.** Updates gender-specific language for spouses.

Effective date: Effective the day following final enactment.

8 **Joint income tax returns.** Updates gender-specific language for spouses.

Effective date: Effective the day following final enactment.

9 **Order of assessment if joint income tax return.** Updates gender-specific language for spouses.

Effective date: Effective the day following final enactment.

10 **Subtraction.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

11 **Restrictions; married couples.** Amends the statutes listed below to update gender-specific language for spouses.

Effective date: Effective the day following final enactment.

12 **Definitions.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

13 **Income.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

14 **Household.** Updated gender-specific language for spouses.

Effective date: Effective the day following final enactment.

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15 **Claimant.** Updated gender-specific language for spouses.

Effective date: Effective the day following final enactment.

16 **Combined household income.** Amends the statutes listed below to update gender-specific language for spouses.

Effective date: Effective the day following final enactment.

17 **One claimant per household.** Amends the statutes listed below to update gender-specific language for spouses.

Effective date: Effective the day following final enactment.

18 **Proof of claim.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

19 **Disabled.** Amends the statute to update language for persons who have a disability.

Effective the day following final enactment.

20 **Other exempt meals.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

21 **Parts and accessories used to make a motor vehicle disabled accessible.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

22 **Sales of certain goods and services to government.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

23 **Sales to nonprofit groups.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

24 **Camp fees.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

25 **Materials used to make residential property disabled accessible.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

26 **Tax collected.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

27 **Purchase price.** Amends the statute to update language for persons who have a disability. Amends the statutes listed below to update gender-specific language for spouses.

Effective date: Effective the day following final enactment.

Section

28	**Sale, sells, selling, purchase, purchased, or acquired.** Amends the statutes listed below to update gender-specific language for spouses. **Effective date:** Effective the day following final enactment.
29	**Effective date.** Amends the effective date in Laws 2017, First Special Session chapter 1, article 8, section 3 concerning the period of time to file post-trial motions. After June 30, 2018, all cases have 30 days to file post-trial motions. **Effective date:** Effective the day following final enactment.