Bill Summary

H.F. 2756

As amended (H2756DE2)

MN HOUSE RESEARCH

Subject	**Additional tax on preferential rate income**
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Overview

The bill imposes a 3% tax on "preferential rate income" in excess of $500,000, in addition to existing income and capital gains taxes. The bill defines preferential rate income as long-term capital gains and qualifying dividends receiving a preferential federal rate. Nonresidents must pay the tax on the portion of their capital gains on Minnesota situs property and qualified dividends earned while residing in Minnesota.

Summary

Section	Description
1	**Additional tax on capital gain income.**

Subd. 1. Definitions. Defines "net capital gain" and "preferential rate income."

"Net capital gain" means net long-term capital gains, reduced by any net short-term capital losses.

"Preferential rate income" is defined to equal the lesser of a taxpayer's "adjusted net capital gain" and federal taxable income. "Adjusted net capital gains" include two parts:

1) Net long-term capital gains eligible for a preferential federal rate. This excludes capital gains subject to the 28% rate (such as gains on collectibles) and gains on 1250 property (subject to a 25% rate).

2) Qualified dividends, which are eligible for a preferential rate. Qualified dividends are part of an "adjusted net capital gain."

Subd. 2. Tax imposed; capital gains. Imposes a 3% tax on preferential rate income in excess of $500,000. The tax is in addition to the individual income tax and alternative minimum tax.

Subd. 3. Nonresidents. Allows nonresidents and part-year residents to apportion the additional tax based on the share of their preferential rate income that is capital gains from Minnesota situs property and qualified dividends earned while the taxpayer was domiciled in Minnesota.

Section	Description
	Subd. 4. Credits for taxes paid to another state. Reduces the credit for taxes paid to another state for taxpayers who earned a capital gains exclusion, deduction, or exemption under the state's tax. The tax used to calculate the credit for taxes paid to another state is reduced by 3% of the dollar amount of the exclusion, deduction, or exemption.

The bill is effective for tax year 2019.