2011 FEDERAL UPDATE LEGISLATIVE BULLETIN
(2011 1st Special Session)

MINNESOTA · REVENUE

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Unless otherwise noted, the provisions discussed in this bulletin can be found in 2011 Minn. Laws, 1st Special Session, Chapter 7, Article 2.

FEDERAL UPDATE

Legislative Overview

On April 1, 2011, Governor Dayton signed into law 2011 Laws of Minnesota, Chapter 10, (hereinafter referred to as "Regular Session Update") which updated Minnesota law to adopt changes to the Internal Revenue Code through December 31, 2010. That law, which is summarized in a separate Regular Session Bulletin, applied only to tax year 2010, and provided that the law reverted back to the Internal Revenue Code as amended through March 18, 2010 for tax year 2011 and beyond.

On July 20, 2011, Governor Dayton signed into law 2011 1st Spec. Sess. Laws, Chapter 7, Article 2 (hereinafter referred to as "Special Session Update") which updates Minnesota law to adopt changes to the Internal Revenue Code as amended through April 14, 2011. The effect of this law is to conform Minnesota law to changes that Congress has made to the Internal Revenue Code for tax year 2012 and thereafter. The purpose of this law change is to simplify compliance with and administration of the income, corporate franchise and estate taxes. (See purpose statement in 2011 Minn. Laws, 1st Special Session, Chapter 7, Article 10, Section 7.)

Many of the provisions discussed in this Bulletin describe changes to the Internal Revenue Code that apply to tax year 2010 as well as to 2011 and beyond. This Bulletin discusses those changes as though the Special Session Update adopted them for tax year 2010. However, this is done solely for ease of understanding the changes. The Special Session Update has no substantive effect on tax year 2010. All of the changes effective for tax year 2010 were adopted in the Regular Session Update.

Overview

Minnesota income and franchise tax is based on "federal taxable income" (FTI) for regular Minnesota tax purposes; "federal alternative minimum taxable income" (AMTI) for Minnesota alternative minimum taxable income; "federal adjusted gross income" (FAGI) for household income used for the Minnesota dependent care credit, education credit, and property tax refund; and "earned income" for the working family credit.

As it relates to tax years other than those beginning after December 31, 2010 and before January 1, 2012, current Minnesota law references these federal concepts as amended through March 18, 2010. Since that date, Congress has enacted at least four Acts that make changes to the Internal Revenue Code ("Code"). The Patient Protection and Affordable Care Act (Pub. L. No. 111-148) signed into law on March 23, 2010 and the Health Care and Education Reconciliation Act of 2010 (Pub. L. No. 111-152) made various changes to the Code related primarily to medical plans and deductions related to medical expenses.

The Small Business Jobs Act of 2010 (Pub. L. No. 111-240) signed into law September 27, 2010, made a number of changes to the Code primarily related to taxation of business income.

Finally, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Pub. L. No. 111-312) enacted December 17, 2010 was a comprehensive tax bill that made numerous changes to the Code, including the extension of many provisions that had otherwise been scheduled to sunset in 2010 or in 2011.

The Special Session Update adopts all of the changes to the Code enacted by Congress after March 18, 2010 through April 14, 2011, effective at the same time as they are effective for federal purposes. However, there will be Minnesota modifications to income to reverse the effect of the following federal changes:

- Standard deduction for married taxpayers. For federal purposes for 2011 and 2012, the standard deduction of married/joint filers will remain at 200% of the standard deduction for single filers and for married/separate it will remain at 100% of the single filer deduction. For Minnesota purposes, taxpayers will have to include the difference between the new federal law and the old federal law, which set the standard deduction for 2011 and 2012 at 167% joint/83.33% separate of the single standard deduction.

- Personal exemption phase out. The ability of individuals to take full dependent exemptions regardless of income was scheduled to phase out federally after 2010. The provision was extended federally for 2011 and 2012. For Minnesota purposes, taxpayers will have to add to income the amount by which the personal exemptions would have phased out under prior federal law, which required the phase out of personal exemptions for 2011 and 2012 by 2% for each $2,500 (or $1,250 for married separate filers) by which the federal adjusted gross income of the taxpayer exceeds the threshold amount for the taxpayer (around $250,000 FAGI for married joint filers and $168,000 for single filers).

- Itemized deduction phase out. The ability of individuals to fully claim itemized deductions regardless of income was scheduled to phase out federally after 2010. The provision was extended federally for 2011 and 2012. For Minnesota purposes, taxpayers will have to add to income the amount by which their itemized deductions would have phased out under prior federal law, which required the phase out of certain itemized deductions when the taxpayer's adjusted gross income exceeds the applicable threshold (around $168,000 FAGI or $84,000 for married separate filers), by the lesser of: (i) 3% of the excess of AGI over the applicable amount, or (ii) 80% of the amount of itemized deductions otherwise allowable.

Additionally, several of the changes to the Code are extensions of provisions that Minnesota has previously decided not to fully conform to. The separate state treatment of the following items will continue:

- Treatment of enhanced section 179 expensing of business property. With earlier federal enhancements of section 179 expensing, Minnesota has required taxpayers to add to income 80% of the enhanced federal deduction, and has then allowed taxpayers a subtraction from income of the amount of the addition ratably over five years. This treatment continues for the 179 expensing enhancements contained in the Small Business Jobs Act as well as those contained in the Tax Relief, Unemployment Reauthorization and Job Creation Act.

- Treatment of bonus depreciation of assets. With earlier rounds of federal bonus depreciation, Minnesota has required taxpayers to add to income 80% of the bonus, and has then allowed taxpayers a subtraction from income of the amount of the addition ratably over five years. This treatment continues for both the 50% bonus depreciation contained in the Small Business Jobs Act and the 100% bonus depreciation contained in the Tax Relief, Unemployment Reauthorization and Job Creation Act.

- Deductions for state and local sales tax.

Finally, taxpayers have previously been required to include in income the following deductions, which were extended to 2010 and 2011 federally by Congress in 2010. These additions were repealed for 2010 in the Regular Session Update. Those repeals were made permanent in the Special Session Update.

- The $250 deduction allowed in the computation of federal adjusted gross income for classroom expenses of K-12 educators.

- The $4,000 deduction for student tuition paid for higher education for taxpayers or their dependents.

- The enhanced charitable deduction for corporation charitable contributions of computer inventory.

- Corporation modifications for Subpart F active financing income.

Federal update to Minnesota administrative provisions. Minn. Stat. § 289A.02, subd. 7, was amended to incorporate the federal administrative provisions as defined in the Internal Revenue Code through April 14, 2011. However, since there were no changes to sections of the Code referenced in Minn. Stat. ch. 289A, this change has no substantive effect. This section is effective at the same time as the provisions are effective for federal purposes.

Minnesota net income. Minn. Stat. § 290.01, subd. 19, was amended to adopt all of the changes made to federal taxable income since March 18, 2010. These changes include:

Highlights of the Health Care Act, as amended by the Reconciliation Act include:

- For purposes of determining the tax free employee medical insurance fringe benefit and the deductions for medical insurance expenses paid, a child under the age of 27 at the end of the tax year of the taxpayer is considered a "dependent". This means that the value of the fringe benefit will generally be excluded from income of the parent and the cost of the policy will be deductible by self employed parents. This is effective for benefits paid after March 30, 2010.

- Beginning in 2013, taxpayers will be able to deduct medical expenses only in excess of 10% of federal adjusted gross income except that for 2013 through 2016, persons 65 or over will continue to be allowed to deduct medical expenses in excess of 7.5% of federal adjusted gross income.

- Beginning in 2013, the maximum an employer may allow an employee to put into a health flexible spending account for reimbursement of medical expenses incurred by the taxpayer, spouse or dependents is $2,500 per year.

- Beginning in 2011, taxpayers can no longer be reimbursed from a flexible spending account, health savings account, medical savings account or archer medical savings account for medicine unless the medicine is prescribed or is insulin.

- Payments made under a state loan repayment or forgiveness program to encourage health care service providers to work in underserved communities is excluded from income. This provision is effective for amounts received after December 31, 2008.

Highlights of the Small Business Jobs Act include:

- The allowable maximum section 179 expensing of business property is increased from $250,000 to $500,000 for property placed in service in 2010 and from $25,000 to $500,000 for property placed in service in 2011. The maximum allowable expensing is reduced dollar for dollar by the amount of assets acquired in the year in excess of $2,000,000. This phase out threshold was increased from $530,000 for 2010 and from $200,000 for 2011.

- The definition of property eligible for section 179 expensing was expanded to include up to $250,000 of improvements to qualified real property, which is defined as qualified leasehold property, restaurant property or retail improvement property. This expansion of the definition of property eligible for section 179 expensing treatment applies only to assets placed in service in tax years beginning in 2010 and 2011.

- Additionally, the ability to use section 179 expensing for costs associated with off the shelf computer software was continued for one more year to apply to software placed in service in 2011. Finally the ability to revoke a section 179 election without the IRS approval was extended for one more year through 2011.

  However, Minnesota will continue to treat all of the enhanced section 179 expensing as it has treated other recent federal enhancements of section 179 expensing. The additions and subtractions dealing with this type of section 179 expensing are already part of permanent Minnesota law and therefore were not amended.

- The exclusion of gain from the sale of qualified small business stock sold by an individual is increased from 75% of the gain to 100% of the gain for original issue C corporation stock acquired after September 27, 2010, and before January 1, 2011. The exclusion applies to certain stock purchased in businesses with less than $50 million of assets that is held for at least five years.

- The ability to claim 50% additional (“bonus”) depreciation in the year of acquisition of certain business property was extended to include assets placed in service in 2010. However, Minnesota will continue to treat this bonus depreciation as it has treated other versions of federal bonus depreciation. The additions and subtractions dealing with this type of bonus depreciation are already part of permanent Minnesota law and therefore were not amended.

- The maximum first year deduction for light trucks, vans and automobiles used in a trade or business is increased by $8,000 for qualified vehicles placed in service in 2010.

- The maximum deduction for business start up expenses is increased from $5,000 to $10,000 for expenses incurred in 2010. The ability to deduct 2010 start up expenses phases out when expenses exceed $60,000, a $10,000 increase from prior law.

- In determining the percentage of completion under certain long term contracts that require income to be determined based on the percentage of expenses incurred on the project, for property placed in service after December 31, 2009, the cost of qualified property will be taken into account without regard to any bonus depreciation taken on the property.

- State and local government sponsored employee retirement plans can include Roth accounts beginning in 2010.

- Employer sponsored 401(k), 403(b) and 457(b) plan participants can roll over their pre-tax balances into a designated employer sponsored Roth account beginning January 1, 2011 for 457(b) participants and September 27, 2010 for other participants. If the rollover is made in 2010, the taxpayer can elect to include the income attributable to the rollover in taxable income ratably in 2011 and in 2012.

- For amounts received in tax years beginning after December 31, 2010, taxpayers will be allowed to annuitize a portion of an annuity, endowment or life insurance contract if the annuitization period is for at least 10 years or the life of one or more individuals.

- Rules defining income from sources within the United States were amended to include various amounts received, whether directly or indirectly, from a noncorporate resident or a domestic corporation for the provision of a guarantee of indebtedness of such person. This is effective for guarantees issued after September 27, 2010.

- Recordkeeping requirements for business use of cell phones are eased beginning with tax years beginning after December 31, 2009.

Highlights of the Tax Relief, Unemployment Reauthorization and Job Creation Act include:

- The ability of individuals to take full dependent exemptions regardless of income was extended to include 2011 and 2012. After 2012, the law will revert back to 2001 law which phases out personal exemptions by 2% for each $2,500 (or $1,250 for married separate filers) by which the AGI of the taxpayer exceeds the threshold amount for the taxpayer. For Minnesota purposes, affected taxpayers will have the personal exemptions phase out in the same manner and amount as the exemptions would have phased out federally if the Tax Relief, Unemployment Reauthorization and Job Creation Act had not been enacted.

- For 2011 and 2012, the standard deduction for married filing joint taxpayers will remain at twice the standard deduction for single taxpayers and for married filing separate filers it will remain at 100% of the single filer deduction. After 2012, the standard deduction will revert back to 2001 law, which makes the deduction equal to 167% of the single standard deduction for joint filers or 83.33% for married separate filers. For Minnesota purposes, affected married taxpayers will have to include in income the difference between the current federally allowed standard deduction and the amount allowed prior to the passage of Tax Relief, Unemployment Reauthorization and Job Creation Act.

- The ability of individuals to fully claim itemized deductions regardless of income was extended to include 2011 and 2012. After 2012, the law will revert back to 2001 law which phases out certain itemized deductions when an individual's adjusted gross income exceeds applicable thresholds, by the lesser of: (i) 3% of the excess of AGI over the applicable amount, or (ii) 80% of the amount of itemized deductions otherwise allowable. For Minnesota purposes, affected taxpayers will have their itemized deductions phase out in the same manner and amount as the deductions would have phased out federally if the Tax Relief, Unemployment Reauthorization and Job Creation Act had not been enacted.

- The ability of an individual to elect to take an itemized deduction for sales tax paid was extended through 2011 and 2012. However, the inclusion of the federal deduction in Minnesota income is already part of permanent Minnesota law which was not amended.

- The ability of taxpayers to claim an itemized deduction for qualified mortgage insurance on their qualified residence was extended through 2011 and 2012.

- The deduction in the computation of adjusted gross income of up to $250 of classroom expenses paid by a K-12 grade educator was extended through 2010 and 2011.

- The ability of taxpayers age 70½ or older to exclude from gross income up to $100,000 of their distributions from an individual retirement account that are made directly to charitable organizations was extended through 2010 and 2011. The amount excluded is not allowed as a charitable contribution deduction.

- The special rules to encourage charitable contributions of real property for conservation purposes were extended for an additional two years for contributions made in calendar years 2010 and 2011.

- The changes to Coverdell education savings accounts (formerly known as Education IRA’s) that were scheduled to sunset after 2010, were extended through the end of 2012. The most notable of the extended provisions is the ability to contribute $2,000 per year to the account, rather than only $500.

- The deduction in the computation of adjusted gross income of up to $4,000 of qualified tuition for higher education was extended through 2010 and 2011.

- The ability to deduct student loan interest in the computation of adjusted gross income for more than 60 months was extended through 2011 and 2012. The income thresholds for deductibility will remain at 2002 levels, adjusted for inflation through 2011 and 2012, as they have been since 2001.

- The exclusion from income of an employee for amounts paid or expenses incurred (up to $5,250 annually) by the employer in providing educational assistance, including graduate assistance, to employees under an educational assistance program was extended through 2011 and 2012.

- The exclusion from income for scholarships awarded under the National Health Service Corps and Armed Forces Health Professions programs, was extended through 2011 and 2012.

- The percentage of bonus depreciation was increased to 100% for property placed in service after September 8, 2010 and before January 1, 2012. However, Minnesota will continue to treat this bonus depreciation as it has treated other versions of federal bonus depreciation. The additions and subtractions dealing with this type of bonus depreciation are already part of permanent Minnesota law and were not amended.

- The allowable maximum section 179 expensing was increased from $25,000 to $125,000 for property placed in service in 2012. The maximum allowable expensing is reduced dollar for dollar by the amount of assets acquired in the year in excess of $500,000. However, Minnesota will continue to treat this enhanced 179 expensing as it has treated other recent federal enhancements of section 179 expensing. The additions and subtractions dealing with this type of section 179 expensing are already part of permanent Minnesota law and were not amended.

- The ability to depreciate leasehold improvements and qualified restaurant property, new restaurant property and improvements to retail property over 15 years (rather than 39 years) was extended to property placed in service in 2010 and 2011.

- The ability to expense the first $15 million of production costs of films and television shows was extended through 2010 and 2011.

- The ability to expense environmental remediation expenditures at a brownfield site was extended to expenses paid or incurred through 2010 and 2011.

- The ability to expense 50% of the cost of advanced mine safety equipment was extended to equipment placed in service in 2010 and 2011.

- The suspension of the 100% of income limitation on the depletion for oil and gas produced from marginal properties was extended to include tax years beginning in 2010 and 2011.

- The ability to depreciate certain motorsports entertainment complex property over 7 years rather than 15 or 39 years was extended to property placed in service through 2010 and 2011.

- The ability of a C corporation to donate computer inventory to educational facilities or libraries and deduct the lesser of cost basis plus one-half the normal mark-up or two times basis was extended to contributions made in taxable years beginning in 2010 and 2011.

- The ability of other than C corporations to take a deduction for contributions to a charity equal to the cost basis plus one-half the normal price mark-up of apparently wholesome food inventory was extended to contributions made through 2010 and 2011.

- The ability of a C corporation to donate book inventory to a public school and deduct the cost basis plus one-half the normal mark-up was extended to contributions made through 2010 and 2011.

- For benefits paid in 2011, employers can provide the same amount of tax free fringe benefit to their employees for qualified transportation fringe benefits that the employer provides through transit passes and vanpooling as the employer provides to employees as a tax free parking benefit. The maximum excludable benefit is around $230 per month.

- The ability to exclude adoption expenses was extended one year through December 31, 2012. The maximum allowable exclusion for 2012 is $12,170.

- The basis adjustment to S corporation stock when the S corporation donates appreciated property, which is equal to the tax basis of the property rather than the fair market value, was extended to contributions made in taxable years beginning in 2010 and 2011.

- The ability to use accelerated depreciation of qualified Indian reservation property was extended to property placed in service in 2010 and 2011.

- The exclusion from unrelated business income of certain qualifying payments (generally rent, interest, royalties and annuities not in excess of amount of payments that would be made at arm's length) to a tax-exempt organization by an entity controlled by the tax-exempt organization was extended for two years, to payments received through December 31, 2011.

- The ability of a taxpayer to elect to recognize gain on certain qualifying electric transmission transactions ratably over an eight-year period to the extent the amount realized is used to purchase exempt utility property within four years of the sale date was extended to apply to gains attributable to dispositions in 2010 and 2011.

- The ability of Alaska Native Settlement Trusts to elect to have income taxed at the lowest individual rate was extended through 2011 and 2012.

All of the changes are effective for Minnesota purposes at the same time as they are effective for federal purposes.

Additions to income – individuals, estates and trusts. Minn. Stat. § 290.01, subd. 19a, was amended to modify four existing additions to tax and create three new additions to tax. The new additions are as follows:

1. Married filing joint taxpayers who take a standard deduction to compute their federal taxable income are required to include in Minnesota net income the difference between the standard deduction used to determined federal taxable income (for 2011 and 2012 the federal standard deduction is 200% of the standard deduction for single filers) and 167% of the standard deduction for single filers. Married filing separate taxpayers who take a standard deduction to compute their federal taxable income are required to include in Minnesota net income the difference between the standard deduction used to determined federal taxable

income (for 2011 and 2012 the federal standard deduction is 100% of the standard deduction for single filers) and 83.33% of the standard deduction for single filers.

2. Taxpayers with adjusted gross income over applicable thresholds will be required to include an amount that represents the phase out of their personal exemptions. For 2011 the thresholds, which are adjusted for inflation, are approximately $250,000 for married filing joint taxpayers or around $168,000 for single taxpayers. The phase out is 2% for each $2,500 (or $1,250 for married filing separate filers) by which the federal adjusted gross income of the taxpayer exceeds the threshold amount for the taxpayer.

3. Taxpayers with adjusted gross income over applicable thresholds will be required to include in income an amount that represents the phase out of itemized deductions taken in computing federal taxable income. For Minnesota purposes, taxpayers will have to add to income the amount by which their itemized deductions would have phased out under prior federal law, which required the phase out of itemized deductions (other than medical expenses, gambling losses and investment interest expense) when the taxpayer's adjusted gross income exceeds the applicable threshold (around $168,000 FAGI or $84,000 for married separate filers), by the lesser of: (i) 3% of the excess of AGI over the applicable amount, or (ii) 80% of the amount of itemized deductions otherwise allowable. This new addition, plus the addition for state taxes paid, is limited to the amount that will reduce the taxpayer's federally allowable deductions down to their standard deduction. For married taxpayers, the standard deduction is the allowable federal standard deduction minus the amount of the married standard deduction addition that would have been required if the taxpayers had taken the standard deduction.

These three additions are effective for taxable years beginning after December 31, 2010.

The four additions that are being modified are:

1. The K-12 educator expense addition will no longer be required effective for taxable years beginning after December 31, 2009.

2. The higher education tuition addition will no longer be required for taxable years beginning after December 31, 2009.

3. The addition for state taxes paid in excess of the standard deduction is modified to reflect the addition discussed above for married joint filers.

4. The addition related to prescription drug subsidies under section 139A of the Code is being amended to reflect the fact that beginning in 2013, taxpayers will no longer be able to exclude from federal adjusted gross income the amount of the federal subsidy for prescription drug plans allowed under section 139A of the Code. The Minnesota addition, which was enacted to reach the same result for Minnesota purposes, is no longer necessary.

Additions to income – corporations. Minn. Stat. § 290.01, subd. 19c, was amended in two ways. First, the addition related to prescription drug subsidies under section 139A of the Code is being amended to reflect the fact that beginning in 2013, taxpayers will no longer be able to exclude from federal adjusted gross income the amount of the federal subsidy for prescription drug plans allowed under section 139A of the Code. The Minnesota addition, which was enacted to reach the same result for Minnesota purposes, is no longer necessary. And the addition equal to the enhanced charitable contribution of corporate computer inventory will no longer be required for taxable years beginning after December 31, 2009.

Update of individual alternative taxable income, credits, built in gains of S corporations and 501(c)(3) hospitals. Minn. Stat. § 290.01, subd. 31, was amended to incorporate federal changes which impact Minnesota tax provisions that are not part of the computation of regular tax.

For alternative minimum tax the new changes to federal adjusted gross income incorporated into the definition of net income will apply to the computation of Minnesota alternative taxable income.

The definition of "income" for purposes of the Minnesota dependent care credit and the education credit will also adopt the new changes to federal adjusted gross income incorporated into the definition of net income.

The ability to base the federal child and dependent care credit on a maximum of $3,000 for one qualifying individual, or $6,000 for two qualifying individuals, was extend through 2011 and 2012. Additionally, the phase out of the enhanced federal credit will remain at around $43,000 of federal adjusted gross income (rather than $15,000) for 2011 and 2012. Both of these changes will affect the computation of the Minnesota child and dependent care credit, since the credit is equal to the lesser of the federal credit allowed or an amount calculated pursuant to a formula found in Minn. Stat. § 290.067, subd. 2. The change to the maximum allowable expenses also affects the credit of licensed family day care home operators who take care of their own child under age 16 months, and married couples with children under age 1, both of whom are deemed to have incurred expenses equal to the maximum allowable expenses for the federal credit. Minnesota law is being amended to reflect those federal changes.

One condition of eligibility for the Minnesota working family credit is that the taxpayer must be eligible for the federal earned income credit. Several changes in eligibility for the federal earned income credit, which were set to sunset after 2010, were extended for two additional years. These include changes in the definition of "earned income" used to determine the credit, changes in the definition of "qualifying child" to generally provide that the child must live with the taxpayer for more than one half of the year, and changes to tie-breaker rules when more than one person can claim a credit using the same child. Additionally, the phase out range for married, joint filers will continue to be $5,000 more, plus inflation, than the phase out for other filers for 2011 and 2012 (although as discussed below, Minnesota did not adopt the additional $5,000 phase out in the actual calculation of the working family credit for 2012). These changes are all picked up for Minnesota working family purposes at the same time they are effective for federal purposes.

The recognition period for the tax on built in gains of an s-corporation imposed under Minn. Stat. § 290.9727 is shortened to five years for gains recognized in tax years that begin in 2011.

Hospitals that meet the requirements to be exempt from income tax under section 501(c)(3) of the Internal Revenue Code will not be exempt from income tax under the Internal Revenue Code, or under Minn. Stat. § 290.05, unless they meet requirements of new IRC section 501(r) that include conducting a community health needs assessment, adopting a financial assistance policy, imposing limits on charges and adopting certain billing and collection practices. Generally effective for taxable years beginning after May 23, 2010.

Public Law No. 111-226, the FAA Air Transportation Modernization and Safety Improvement Act, was signed into law on August 1, 2010. This Act repealed the definition of "active foreign business income" which is incorporated by reference in Minn. Stat. § 290.01, subd. 6b for purposes of defining a "foreign operating corporation" and § 290.01, subds. 19c and 19d for purposes of the qualification of income of a foreign operating corporation and income that qualifies as royalties, fees, and other like income received from a foreign operating corporation or an affiliated foreign corporation. This section references the Code prior to repeal of the term, so that chapter 290 continues to provide a definition of "foreign operating corporation" and qualifying income as if IRC § 861(c)(1)(A) were not repealed.

All of the changes are effective for Minnesota purposes at the same time as they are effective for federal purposes.

Working family credit phase out. Minn. Stat. § 290.0671, subd. 1 was amended to provide a $5,000 additional income phase out level for the working family credit of married filing joint filers for 2011. The increase coincides with a similar increase in the phase out of the federal earned income credit. NOTE: The $5,000 additional phase out is also applicable for 2012 for federal purposes. Minnesota did not adopt that change for 2012.

Marriage penalty credit. Minn. Stat. § 290.0675 was amended to change the definition of "standard deduction" that is used to calculate the marriage penalty credit to reflect the addition resulting from nonconformity to the federal increase in the standard deduction for married taxpayers for 2011 and 2012. Effective for taxable years beginning after December 31, 2010.

Federal update of property tax refund. Minn. Stat. § 290A.03, subd. 15, was amended to adopt the federal changes that affect household income, which uses the definition of federal adjusted gross income as a starting point. Effective for refunds based on property taxes payable after December 31, 2009 and rent paid after December 31, 2008.

Federal update of estate tax. Minn. Stat. § 291.005, subd. 1, was amended to move the date through which Minnesota incorporates the federal estate tax to April 14, 2011, while continuing to exclude those provisions that suspend or allow estates to opt out of the federal estate tax. This change does not have any substantive effect.