

2019 INDIVIDUAL INCOME & CORPORATE FRANCHISE TAX LEGISLATIVE BULLETIN



Appeals and Legal Services Division
600 North Robert Street
Saint Paul, Minnesota 55146-2220

July 25, 2019

Unless otherwise noted, the provisions discussed in this bulletin can be found in 2019 Minn. Laws, 1st Spec. Sess., Ch. 6.

FEDERAL UPDATE

Cost of Living Adjustment. The following statutes listed below were updated to make a cost of living adjustment (inflation adjustment) based on the Chained Consumer Price Index for All Urban Consumers (C-CPI-U) published by the Bureau of Labor Statistics as provided in new section Minn. Stat. § 270C.22. The commissioner shall announce and publish the adjusted amounts on the Department of Revenue’s website on or before December 15 of each year. Effective for adjustments beginning with taxable years beginning after December 31, 2019, calendar years beginning after December 31, 2019 and for refunds based on rent paid in 2019 and property taxes payable in 2020.

Minn. Stat. § 270A.03, subd. 5	Minn. Stat. § 290.0121, subd. 3	Minn. Stat. § 290.0122, subd. 2
Minn. Stat. § 290.0123, subd. 6	Minn. Stat. § 290.06, subd. 2c	Minn. Stat. § 290.067, subd. 2b
Minn. Stat. § 290.0684, subd. 2	Minn. Stat. § 290.091, subd. 3	Minn. Stat. § 290.0922, subd. 1
Minn. Stat. § 290A.03, subd. 12	Minn. Stat. § 290A.04, subd. 4	Minn. Stat. § 290.0132, subd. 26

Federal Conformity. Minn. Stat. § 289A.02, subd.7 was amended to update the cross reference to the Internal Revenue Code to mean the Internal Revenue Code of 1986 as amended through December 31, 2018. Effective May 31, 2019, except the changes incorporated by federal changes are effective retroactively to the time the federal provision became effective.

Individuals, requirement to file a return. Minn. Stat. § 289A.08, subd. 1, was amended by adding paragraph (d) that requires the commissioner of revenue to annually determine the gross income levels at which individuals are required to file a return for each taxable year based on allowed deduction amounts under Minn. Stat. § 290.0123. Also updated subdivision 7, which is a cross reference to the deletion of section 290.0131, subd. 11, due to the change from federal taxable income to federal adjusted gross income. Effective for taxable years beginning after December 31, 2018.

Federal Adjusted Gross Income. The statutes listed below were changed to reflect the new starting point for the definition of “net income” in Minn. Stat. § 290.01, subd. 19 paragraph (b), for individuals. The starting point has changed from federal taxable income to federal adjusted gross income. Effective for taxable years beginning after December 31, 2018.

Minn. Stat. § 289A.12, subd. 14	Minn. Stat. § 289A.35	Minn. Stat. § 290.0131, subd. 1
Minn. Stat. § 290.0132, subd. 1	Minn. Stat. § 290.0132, subd. 21	Minn. Stat. § 290.032, subd. 2
Minn. Stat. § 290.0672, subd. 2	Minn. Stat. § 290.0802, subd. 2	Minn. Stat. § 462D.06, subd. 1
Minn. Stat. § 462D.06, subd. 2	Minn. Stat. § 469.316, subd. 1	

Marital Status. Minn. Stat. § 290.01 was amended by adding subd. 3c to provide that the determination of marital status is the same as a determination made by section 7703 of the Internal Revenue Code. Effective for taxable years beginning after December 31, 2018.

Surviving Spouse. Minn. Stat. § 290.01, was amended by adding subd. 14a to create a definition of surviving spouse to mean the term “surviving spouse” under section 2(a) of the Internal Revenue Code. Effective for taxable years beginning after December 31, 2018.

Definition of Net Income. Minn. Stat. § 290.01, subd. 19, was amended so that “net income” means federal taxable income for corporations and estates and trusts, but federal adjusted gross income with Minnesota modifications for individual income taxpayers. Also amends the statute to provide that references to the Internal Revenue Code within the subdivision refer to the Internal Revenue Code of 1986 as amended through December 31, 2018. The changes to the definition of “net income” are effective for taxable years beginning after December 31, 2018. The change that relates to the update of the Internal Revenue Code is effective retroactively so that changes to the federal code that are referenced are updated at the same time as the changes became effective for federal purposes, but are subject to the application of Minn. Stat. § 290.993.

Foreign Income. The statutes listed below were changed to reflect that foreign income including deferred foreign income, global intangible low-taxed income, and foreign derived intangible income, are not included in Minnesota taxable income for individual income taxpayers, corporate franchise taxpayers, and trusts and estates. Effective as noted below.

Statute	Effective Date
Minn. Stat. § 290.01, subd. 19i.	Effective retroactively at the same time as the changes in Public Law 115-97 relating to deferred foreign income were effective for federal purposes
Minn. Stat. § 290.0131, subd. 17.	Effective retroactively for tax years beginning after December 31, 2017.

Statute	Effective Date
Minn. Stat. § 290.0131, subd. 18.	Effective May 31, 2019, except the changes incorporated by federal changes are effective retroactively at the same time the changes became effective for federal purposes.
Minn. Stat. § 290.0132, subd. 27.	Effective May 31, 2019, except the changes incorporated by federal changes are effective retroactively at the same time the changes became effective for federal purposes
Minn. Stat. § 290.0132, subd. 28.	Effective retroactively for tax years beginning after December 31, 2017.
Minn. Stat. § 290.0133, subd. 6.	Effective May 31, 2019, except the changes incorporated by federal changes are effective retroactively at the same time the changes became effective for federal purposes.
Minn. Stat. § 290.0134, subd. 17.	Effective retroactively for tax years beginning after December 31, 2017.
Minn. Stat. § 290.0134, subd. 18.	Effective May 31, 2019, except the changes incorporated by federal changes are effective retroactively at the same time the changes became effective for federal purposes.
Minn. Stat. § 290.091, subd. 2.	Effective for taxable years beginning after December 31, 2018.

Adjusted Gross Income and Federal Adjusted Gross Income. Minn. Stat. § 290.01, was amended to create new subd. 21a, to define adjusted gross income. Effective May 31, 2019.

State Itemized Deduction. Minn. Stat. § 290.01, subd. 29a, was amended to state that the state itemized deductions is defined as the deductions for individual income tax listed in new section 290.0122. Effective for taxable years beginning after December 31, 2018.

Internal Revenue Code. Minn. Stat. § 290.01, subd. 31, was amended to provide that “Internal Revenue Code” means the Internal Revenue Code of 1986, as amended through December 31, 2018. Effective May 31, 2019, except that changes incorporated by federal changes are effective retroactively at the same time as changes became effective for federal purposes, but are also subject to Minn. Stat. § 290.993.

Dependent Exemption. Minn. Stat. § 290.0121 was created to provide a new state “dependent exemption” equaling \$4,250 per dependent however subject to limitations based on federal adjusted gross income and adjusted due to inflation. Effective for taxable years beginning after December 31, 2018.

Itemized Deductions. Minn. Stat. § 290.0122 was created to provide a deduction for itemized deductions that include certain taxes paid, charitable contributions, interest paid, medical expenses, unreimbursed employee expenses, certain losses and miscellaneous items. The deduction is limited for taxpayers with adjusted gross income in excess of the applicable amount and is adjusted for inflation. Effective for taxable years beginning after December 31, 2018.

Standard Deduction. Minn. Stat. § 290.0123 created a state standard deduction. The standard deduction is limited if income exceeds the threshold amounts. There is an additional amount for seniors and blind taxpayers. The standard deduction amount corresponds to the amounts allowed federally as follows:

Married joint filer and Surviving Spouse	\$24,400
Head of Household	\$18,350
Any other filers	\$12,200

An additional amount of \$1,300 is provided for those 65 or older or \$1,650 for such a taxpayer who is not married or a surviving spouse; and includes an additional amount of \$1,300 if the taxpayer or spouse is 65 or older and qualifies for exemption under section 151(b) of the Internal Revenue Code. Similarly, an additional amount of \$1,300 is provided for a taxpayer who is blind at the close of the taxable year or \$1,650 if such person is not married or a surviving spouse, including an additional amount of \$1,300 if the taxpayer or spouse is blind and qualifies for an exemption under section 151(b) of the Internal Revenue Code. The standard deduction for an individual who is a dependent as defined in sections 151 and 152 of the Internal Revenue Code is limited to the greater of \$1,100 or the lesser of the sum of \$350 and the individual's earned income as defined in section 32(c) of the Internal Revenue Code or \$12,200.

The standard deduction is zero for (1) a married individual filing a separate return if either spouse itemizes their deductions, (2) an individual making a return for a period of less than twelve months due to a change in an annual accounting period, or (3) a nonresident alien individual, except as allowed under a United States income tax treaty. The standard deduction is limited for taxpayers with adjusted gross income in excess of the applicable amount by the lesser of: three percent of the taxpayer's federal adjusted gross income over the applicable amount or 80 percent of the standard deduction otherwise allowable under this section. Effective for taxable years beginning after December 31, 2018.

Scope of Additions. Minn. Stat. § 290.0131 subd. 1 was amended to expand and clarify that the scope of additions imposed under this section include amounts added to federal taxable income for a trust or an estate and amounts added to federal adjusted gross income of an individual. Effective for taxable years beginning after December 31, 2018.

Addition for Taxes Paid. Minn. Stat. § 290.0131, subd. 3, was amended to state that the amount deducted federally by trusts and estates for income, sales and use, motor vehicle sales, or excise taxes is an addition. This addition is no longer needed for individual income tax taxpayers because of the new starting point of federal adjusted gross income. Also deleted subd. 3(b), which only applied to individual income tax taxpayers. Effective for taxable years beginning after December 31, 2018.

Addition for 529 Plan Distributions Minn. Stat. § 290.0131, was amended to add subd. 15, which is an addition to net income for any gain realized on a 529 plan, if the distribution is made and not used to pay qualified higher education expenses. The term qualified higher education expenses is defined elsewhere, specifically not to include K-12 tuition expenses, which the Internal Revenue Code treats as a qualified expense. Effective retroactively for taxable years beginning after December 31, 2017.

Section 199A Addition. Minn. Stat. § 290.0131 was amended to add subd. 16 to require estates and trusts, which still use federal taxable income, to add any § 199A deduction that was taken on the federal income tax returns. Effective retroactively for taxable years beginning after December 31, 2017.

Scope of Subtractions. Minn. Stat. § 290.0132, subd. 1, was amended to expand and clarify that the scope of subtractions required under this section include amounts subtracted from federal taxable income for a trust or an estate and amounts subtracted from adjusted gross income for an individual. Effective for taxable years beginning after December 31, 2018.

Charitable Contribution Deduction for Non-Itemizers. Minn. Stat. § 290.0132, subd. 7, was amended so individual taxpayers who do not elect to itemize for Minnesota purposes may still deduct charitable contributions, as is currently the law. Also excludes any contributions that are not allowed under section 408(d)(8)(E) of the Internal Revenue Code. Effective for taxable years beginning after December 31, 2018.

Standard or Itemized Deduction Subtraction. Minn. Stat. § 290.0132, subd. 19, was amended to allow individual income taxpayers to deduct either the Minnesota standard or itemized deduction from federal adjusted gross income. Effective for taxable years beginning after December 31, 2018.

Dependent Exemptions. Minn. Stat. § 290.0132, subd. 20, was amended to allow a dependent exemption under the new section 290.0121, subd. 1, paragraph (a). Effective for taxable years beginning after December 31, 2018.

Unrelated Business Income Calculation. Minn. Stat. § 290.05, subd. 3, was amended to exclude employee fringe benefits from the definition of unrelated business taxable income. Effective retroactively for taxable years beginning after December 31, 2017.

Inflation Adjustment for Brackets. Minn. Stat. § 290.06, subd. 2d, was amended to provide that the commissioner shall annually adjust the minimum and maximum dollar amounts for each rate bracket as provided in section 270C.22. Effective for adjustments beginning with taxable years beginning after December 31, 2019.

529 Recapture Definitions. Minn. Stat. § 290.06, subd. 2h, was amended to make the technical change of moving the definition of “qualified higher education expenses” from section 290.0684 to Internal Revenue Code section 529 (e)(3) except that section 509 (c)(7) relating to k-12 education expenses does not apply. Effective retroactively for taxable years beginning after December 31, 2017.

Working Family Credit Expansion. Minn. Stat. § 290.0671, subd. 7, was amended to reflect the rebase of the inflation calculation in new section 270C.22. Effective generally for adjustments in taxable years beginning after December 31, 2019.

Long-Term Care Insurance Credit. Minn. Stat. § 290.0672, subd. 1 and 2, were amended to refer to Minnesota rather than federal itemized deductions and to refer to Minnesota net income rather than federal taxable income. Effective for taxable years beginning after December 31, 2018.

Marriage Penalty Credit. Minn. Stat. § 290.0675, subd. 1, was amended to change a reference in the marriage credit to the Minnesota standard deduction rather than the federal standard deduction. Effective for taxable years beginning after December 31, 2018.

Historic Preservation Credit. Minn. Stat. § 290.0681, subs. 1, 2, 3, and 4, were amended to update the Minnesota Historic Preservation Credit to fix the cross-reference to the Internal Revenue Code and match the federal Historic Preservation Credit payout structure. The credit and grant will now pay out in equal installments over a five year period, beginning in the year the building was placed into service. Effective retroactively for applications for allocation certificates submitted after December 31, 2017.

529 Definition Change and Inflation Adjustment. Minn. Stat. § 290.0684, subd. 1, was amended to delete an obsolete definition reference for “qualified higher education expenses”. Effective May 31, 2019.

Alternative Taxable Income for Individuals. Minn. Stat. § 290.091, subd. 2, was amended to update the calculation of alternative taxable income for the new additions and subtractions, to add any deduction taken under 199A and 250 of the Internal Revenue Code, and update the calculation for the new Minnesota itemized deductions. Effective for tax years beginning after December 31, 2018.

Alternative Taxable Income Exemption Amounts. Minn. Stat. § 290.091, subd. 3, was amended to update the cross reference to the phase out of the exemption amount under the Internal Revenue Code. Effective May 31, 2019.

Corporate Alternative Taxable Income. Minn. Stat. § 290.0921, subd. 2 was amended to provide that “Internal Revenue Code” for purposes of the corporate alternative minimum tax means the Internal Revenue Code of 1986, as amended through December 16, 2016. Minn. Stat. § 290.0921, subd. 3 was amended to reflect that the subtraction for disallowed section 280E medical cannabis manufacturer expenses under section 290.0134, subd. 19, is allowed as a deduction in determining corporate alternative taxable income. Effective for taxable years beginning after December 31, 2018.

Net Operating Losses. Minn. Stat. § 290.095, subd. 2, was amended to limit the amount of net operating losses available for use in the tax year by a corporation to 80 percent of the taxable net income. Effective retroactively for taxable years beginning after December 31, 2017.

Income Not Derived from Conduct of a Trade or Business. Minn. Stat. §§ 290.17, subd. 2, and 290.92, subd. 1, were amended to update cross references to the Internal Revenue Code to include in the definition of “wage” sales of qualified stock for which an election is in effect under section 83(i) of the Internal Revenue Code. Effective retroactively for wages paid after December 31, 2017.

Controlled Foreign Corporation Definition. Minn. Stat. § 290.21, was amended to add subd. 9, to make clear that income characterized under sections 951 of the Internal Revenue Code is dividend income for Minnesota purposes. Effective May 31, 2019.

Interest limitation. Minn. Stat. § 290.34, was amended to add subd. 5, that requires taxpayers to calculate the interest expense limitation that is set forth in section 163(j) of the Internal Revenue Code using the combined report entities included in the unitary group under section 290.17, subd. 4. The Minnesota limitation amount must be aggregated between combined report entities consistent with the application to a consolidated group for federal income tax purposes. Effective retroactively for taxable years beginning after December 31, 2017.

Exemptions. Minn. Stat. § 290.92, subd. 5, was amended to require a taxpayer’s withholding exemptions to be calculated using the new standard deduction and exemption amounts. Effective for taxable years beginning after December 31, 2018.

Special Limited Adjustment. New section Minn. Stat. § 290.993 created special rules for Minnesota non-corporate income taxpayers and those that elect to file a composite return, for tax year 2018 only. Taxpayers are allowed to make a Minnesota election to itemize their deductions, even if they had taken the standard deduction at the federal level. There is an automatic adjustment of the tax liability or refund to zero, if the changes to the taxpayer’s return are due solely to the federal changes between the Internal Revenue Code as of December 16, 2016, and the Internal Revenue Code as of December 31, 2018. This adjustment does not apply in the case of certain changes to the federal code including depreciation and basis, which are outlined in the table below. Effective retroactively for taxable years beginning after December 31, 2017, and before January 1, 2019.

Federal Provision	Description
PL 115-97 §11012	Limitation on losses for taxpayers other than corporations
PL 115-97 §13101	Modification of rules for expensing depreciable business assets under section 179
PL 115-97 §13201	Increase in federal bonus depreciation (100%) for certain assets
PL 115-97 §13202	Modification to depreciation limitations on luxury automobiles and personal use property
PL 115-97 §13203	Modification of treatment of certain farm assets
PL 115-97 §13204	Changes in applicable recovery period for real property
PL 115-97 §13205	Use of alternative depreciation system for electing farming

Federal Provision	Description
	businesses
PL 115-97 §13207	Expensing of certain costs of replanting citrus plants lost by reason of casualty under Internal Revenue Code § 263A
PL 115-97 §13301	Limitation on Deduction for Interest
PL 115-97 §13302	Modification of Net Operating Loss Deduction
PL 115-97 §13303	Like kind exchanges of real property
PL 115-97 § 13313	Repeal of tax free rollover of publicly traded securities capital gain into specialized small business investment companies
PL 115-97 §13502	Modification to definition of substantial built in loss in the case of a transfer of a partnership interest
PL 115-97 §13503	Charitable contributions and foreign taxes taken into account in determining the limitation on a loss allowance for a partner
PL 115-97 §13801	Changes to the production period for beer, wine and distilled spirits
PL 115-97 §14101	Deduction for foreign-source portion of dividends received by domestic corporations from specified 10-percent owned foreign corporations
PL 115-97 §14102	Special rules relating to sales or transfers involving specified 10-percent owned foreign corporations
PL 115-97 §14211	Subpart F elimination of inclusion of foreign base company oil related income
PL 115-97 §14212	Subpart F repeal of inclusion based on withdrawal of previously excluded subpart F income from qualified investment
PL 115-97 §14213	Subpart F modification of stock attribution rules for determining status as a controlled foreign corporation (CFC)
PL 115-97 §14214	Subpart F modification of the definition for US shareholder
PL 115-97 §14215	Subpart F elimination of the requirement that a CFC must be controlled for 30 days before the subpart F inclusions apply
PL 115-97 §14501	Restrictions on insurance business exception to passive foreign investment company rules (PFIC)
PL 115-123 §40411	Extension and phase-out of energy credit

Property tax refund income definition and exemption amounts. Minn. Stat. § 290A.03, subd. 3, was amended to modify the definition of household income under the property tax refund for renters and the homestead credit refund program to (1) eliminate the addition for the domestic production deduction that was repealed by PL 115-97 and (2) include alimony received by the claimant. The section also allows alimony to be paid to be excluded from household income. The definition of the exemption amount is modified to reflect the new dependent exemption amount under Minn. Stat. § 290.0121. Effective beginning with refunds based on property taxes payable in 2020 and rent paid in 2019.

Gross rent amount; cost of living adjustment. Minn. Stat. § 290A.03, subd. 12, was amended by setting the gross rent amounts for nursing homes, intermediate care facilities, and adult foster care homes at the 2018 amounts and converts indexing to C-CPI-U. Effective for adjustments beginning with refunds based on taxes payable in 2020 and rent paid in 2019.

Federal conformity; PTR. Minn. Stat. § 290A.03, subd. 15, was amended to update the cross reference to the Internal Revenue Code to mean the Internal Revenue Code of 1986 as amended through December 31, 2018 for purposes of the property tax refund chapter. Effective beginning with refunds based on property taxes payable in 2020 and rent paid in 2019.

Scope; Estate Tax. Minn. Stat. § 291.005, subd. 1, was amended to update the cross reference to the Internal Revenue Code to mean the Internal Revenue Code of 1986 as amended through December 31, 2018. Corrects the spelling of the word “includable.” Effective May 31, 2018, except that the changes incorporated by federal changes are effective retroactively at the same time the changes became effective for federal purposes.

Sales Tax Exemptions for Like-Kind Exchanges. Minn. Stat. §§ 297A.68, subd. 25; and 297B.03, were amended to allow for the exemption from sales tax specified transactions that qualify for like-kind exchanges of personal property under the Internal Revenue Code as amended through December 16, 2016. Effective retroactively for sales and purchases made after December 31, 2017.

Special Provision for Tax Year 2017. For taxable year 2017, Minnesota statutes do not conform retroactively to the federal Bipartisan Budget Act of 2018 (PL 115-123) sections 40202 and 40203, the mortgage insurance premium deduction and tuition subtraction, respectively. Effective retroactively for taxable years beginning after December 31, 2016, and before January 1, 2018.

Revisor Instruction; inflation indexing. The Commissioner of Revenue must notify The Revisor of Statutes of the updated statutory amounts that are indexed for inflation under Minnesota Statutes, section 270C.22 in the 2019 Supplement of Minnesota Statutes. The Revisor must publish them in the 2019 Supplement of Minnesota Statutes. Effective July 1, 2019.

Repealer. Repeals obsolete individual income tax additions found in Minn. Stat. § 290.0131, subs.: 7 (fines, fees and penalties), 11 (income attributable to domestic production), 12 (disallowed itemized deductions), and 13 (disallowed personal exemption); an obsolete individual income tax subtraction found in Minn. Stat. § 290.0132, subd. 8 (subnational foreign taxes); obsolete corporate tax additions found in Minn. Stat. § 290.0133, subs. 13 (income attributable to domestic production), and 14 (fines, fees and penalties); and an obsolete nondeductible item found in Minn. Stat. § 290.10 subd. 1 also relating to fines, fees and penalties made obsolete by federal income tax changes and therefore repealed. Effective for taxable years beginning after December 31, 2018.

INDIVIDUAL INCOME AND CORPORATE FRANCHISE TAX

Beginning farmer definition. Minn. Stat. § 41B.0391, subd. 1, was amended to change the definition of “beginning farmer” for purposes of the beginning farmer income tax credits. A person no longer must be participating in a financial management program to be a beginning farmer, but instead must be enrolled in or must have completed such a program within ten years of their first year of farming. The Rural Finance Authority may waive the financial management program requirement if the farmer has a four year degree in an agricultural program or related field, reasonable agricultural job-related experience or certification as an adult farm management instructor. Effective for taxable years beginning after December 31, 2018. 2019 Minn. Laws, Ch. 38.

Angel Investment Credit. Minn. Stat. § 116J.8737, subs. 1, 2, 3, 4, 5, 6 and 12, were amended to allocate \$10,000,000 in credits for two taxable years: 2019 and 2021. No allocation was made for tax year 2020. The reporting requirements are adjusted accordingly. The changes allow for a classification of a “veteran-owned” business, which is a business that is at least 50% owned by a “veteran” as defined in Minn. Stat. § 197.447. Also allows qualified investors to invest \$7,500 in qualified greater Minnesota, veteran-owned, women-, or minority-owned businesses instead of \$10,000. Additionally requires 50% of the allocated \$10,000,000 credit amount to be reserved for qualifying investments in qualified greater Minnesota business and minority-owned, women-owned, or veteran-owned qualified small businesses in Minnesota. Gives the commissioner of the Department of Employment and Economic Development (DEED) the discretion to revoke credits for those businesses that do not file the annual report, and lowers the fine for late reports from \$500 to \$100. It also deletes obsolete references related to applications made for the credit in 2010. The changes made to subs. 1, 5, 6, and 12 are effective for taxable years beginning after December 31, 2018. The changes made to subs. 2, 3, and 4 are effective May 31, 2019. The change to subdivision 5 that reserves credit amounts for veterans was enacted in 2019 Minn. Laws, 1st Spec. Sess., Ch. 12.

WFC/TANF funding removal. Minn. Stat. §§ 256J.02, subd. 2, and 290.0671, subd. 6, were amended to remove TANF funding for the working family credit (WFC) in Minn. Stat. § 290.0671 and replace with general fund money. The sections are effective July 1, 2019. Minn. Stat. § 290.0671, subd. 6a, requiring the department to calculate the refundable portion of the working family credit that qualifies for payment with funds from the TANF block grant was repealed. Effective July 1, 2019.

Manufactured home park cooperative. Minn. Stat. § 273.124, subd. 3a, was amended to eliminate the prohibition against the inclusion of ground lease payments in the determination of taxes payable for shareholders of manufactured home park cooperatives when filing for the homestead credit refund. Minn. Stat. § 290A.03, subd. 13, was amended to conform to the change in this section. Effective beginning with claims for taxes payable in 2020.

Innocent Spouse Relief. Minn. Stat. § 289A.31, subd. 2, was amended to provide automatic innocent spouse and equitable relief of state income tax liability on the underpayment of tax when a taxpayer qualifies for that type of relief under the Internal Revenue Code, or when equitable relief under section 6015 (f) of the Internal Revenue Code is determined by the commissioner of internal revenue. The requirement to request a separate return within six years of the due date for the return when requesting allocation of liability is eliminated. Effective for returns first due for taxable years beginning after December 31, 2018.

Federal settlements. Minn. Stat. § 289A.38, subd. 7, was amended to provide specifically that taxpayers are required to report adjustments to the department following a settlement or compromise with the Internal Revenue Service under Internal Revenue Code §§ 7121 or 7122. Effective May 31, 2019.

Captive Insurance Companies. Minn. Stat. §§ 290.01, subds. 4a and 5c; 290.05, subd. 1; and 290.17, subd. 4, were amended to create two types of insurance companies: captive insurance companies and disqualified captive insurance companies. Captive insurance companies are licensed captive insurance companies, or an insurance company that derives less than fifty percent of its total premiums from outside the unitary business. A disqualified captive insurance company is a captive insurance company that pays less than .5 percent of its total premiums in premium tax, or receives less than fifty percent of its gross receipts from premiums. A captive insurance company will be treated like a traditional insurance company. A disqualified captive insurance company will be treated as part of the unitary group; and its income will be included in the combined return. Effective retroactively for taxable years beginning after December 31, 2016.

Social Security Subtraction. Minn. Stat. § 290.0132, subd. 26, was amended to increase the amount of the subtraction for certain taxpayers with taxable social security income. Also, makes a technical clarification to make it clear that only social security income that is included in federal adjusted gross income may be used to calculate the subtraction. The increase in subtraction is effective for taxable years beginning after December 31, 2018. The technical clarification is effective retroactively for taxable years beginning after December 31, 2017. The inflation adjustment in paragraph (f) is effective for adjustments beginning with taxable years beginning after December 31, 2019.

Married filing separately income tax bracket. Minn. Stat. § 290.0132, subd. 26, was amended to ensure the married filing separately bracket for the social security subtraction is exactly half of the married filing jointly bracket. Minn. Stat. § 290.06, subd. 2c and 2d, were amended to ensure the general tax brackets for married filing separately are exactly half of the married filing jointly brackets. Effective for taxable years beginning after December 31, 2018.

Medical Cannabis Manufacturers. Minn. Stat. §§ 290.0132 and 290.0134, were amended to add new subdivisions to allow medical cannabis manufacturers a subtraction equal to the amount of expenses that would have been deductible under the Internal Revenue Code, but are not allowed for federal income tax purposes under section 280E of the Internal Revenue Code because they are related to the business of medical cannabis. Effective retroactively for taxable years beginning after December 31, 2018.

Schedule of rates for individuals, estates, and trusts. Minn. Stat. § 290.06, subd. 2c, was amended to lower the 2nd tier income tax rate bracket from 7.05 to 6.8 percent, for all types of individual filers, estates, and trusts. Also adjusts the brackets downward for all tiers. Lastly, it makes some technical changes for cross references that were made. Effective for taxable years beginning after December 31, 2018.

Accelerated recognition. Minn. Stat. § 290.06, subd. 2c, was amended to provide for the representation of accelerated installment sale receipts in the nonresident apportionment fraction of taxpayers who pay income taxes on accelerated installment sale gains under Minn. Stat. § 290.0137. Minn. Stat. § 290.0137 was also amended to delete the phrase “allocable amount” which is rendered unnecessary as the allocation rules under Minn. Stat. § 290.06, subd. 2c, provides for the applicable standard. Effective May 31, 2019.

Working Family Credit Expansion. Minn. Stat. § 290.0671, subd. 1, was amended to expand the working family credit to provide for families with 3 or more children. The amount of earned income used to calculate the credit is also increased and a phase-out threshold is provided for all tiers. Changes to subdivision 1 are effective for taxable years beginning after December 31, 2018.

529 Plan Credit Threshold. Minn. Stat. § 290.0684, subd. 2, was amended to fix the phase out threshold for married filing joint so there will not be a gap area due to inflation. Effective for taxable years beginning after December 31, 2019.

Mutual Fund Managers. Minn. Stat. § 290.191, subd. 5, was amended to include “person” in the definition of a mutual fund manager, and update the United States Code reference for mutual funds. Previously, a mutual fund manager definition only included corporations. Effective for taxable years beginning after December 31, 2018.

Debt financed stock. Minn. Stat. § 290.21, subd. 4, was amended to exclude debt-financed stock under section 246A of the Internal Revenue Code from the dividend received deduction. Effective for taxable years beginning after December 31, 2018.

Payments to horse racing license holders. Minn. Stat. § 290.92, subd. 28, was amended to correct a cross reference that was moved in a prior session. Effective May 31, 2019.

Qualified small business property. Minn. Stat. § 291.03, subd. 9, was amended to modify the required 3-year holding period for qualified small business property by adding Internal Revenue

Code sections 2040 and 2044 for purposes of defining decedent's ownership interest. This modification will allow a decedent or decedent's spouse to satisfy the 3-year holding period through various ownership forms, including undivided, QTIP, trust, or joint interest in the property. It does not matter if the spouse predeceases or survives the decedent. Effective retroactively for estates of decedents dying after December 31, 2017.

Qualified farm property. Minn. Stat. § 291.03, subd. 10, was amended to modify the required 3-year holding period for qualified farm property, by adding Internal Revenue Code sections 2040 and 2044 for purposes of defining a decedent's ownership interest. The modification will allow a decedent or a decedent's spouse to satisfy the 3 year holding period through various ownership forms. It does not matter if the spouse predeceases or survives the decedent. Effective retroactively for estates of decedents dying after December 31, 2017.

First time homebuyer. Minn. Stat. § 462D.03, subd. 2, was amended to allow a taxpayer to designate the required beneficiary at the same time as they file their income tax return. Effective May 31, 2019.

Launch Minnesota: Innovation Grants and the research and development credit. An uncodified session law provided for the creation of a new division entitled "Launch Minnesota" within the Department of Employment and Economic Development to create and administer a grant program for "Innovation Grants", which may be paid to eligible applicants for research and development expenses, direct business expenses, and the purchase of technical assistance or services from public higher education institutions and nonprofit entities. The law prevents expenditures funded by the grant program from eligibility for the research and development tax credit under Minn. Stat. § 290.068. Additionally, taxes imposed by federal, state, or local government entities may not be reimbursed by the Innovation Grant program. Effective July 1, 2019. 2019 Minn. Laws, 1st Spec. Sess., Ch. 7, Art. 2, Sect. 8, Subd. 6(b).

Special waiver of income tax penalties for years 2017 and 2018. A new uncodified section that waives underestimated tax penalties if the tax is less than \$1,000, and the taxpayer submits a request for waiver, attesting that the underpayment of estimated tax is due to uncertainties in tax planning resulting from the enactment of Public Laws 115-63, 115-97, 115-123, and 115-141. Effective retroactively for taxable years beginning after December 31, 2016, and before January 1, 2019.