HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 711 **DATE:** March 10, 2011

Version: As amended by H0711A1 amendment

Authors: Wardlow and others

Subject: Income tax exclusion for capital gains

Analyst: Nina Manzi (651) 296-5204
Joel Michael (joel.michael@house.mn)

Overview

Allows an income tax subtraction for 60 percent of net capital gains, defined by reference as gains that qualify for the maximum 15 percent federal rate.

1 **Income tax subtractions; capital gains.** Provides a subtraction from Minnesota taxable income of a percentage of net capital gains. The subtraction percentage is 20 percent in tax year 2011, 40 percent in tax year 2012, and 60 percent in tax year 2013 and following years.

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

2 **Alternative minimum taxable income.** Provides for the amount allowed as a capital gains subtraction in section 1 to also be subtracted from alternative minimum taxable income. This is necessary to avoid shifting individuals who claim the subtraction in section 1 onto the alternative minimum tax.