

Minnesota Taxable Income

What is Minnesota taxable income?

Minnesota taxable income (MTI) is the tax base used to calculate Minnesota income tax liability. Minnesota taxable income equals federal taxable income after Minnesota additions and subtractions.

$$\begin{array}{|c|} \hline \text{Federal} \\ \text{taxable} \\ \text{income (FTI)} \\ \hline \end{array} + \begin{array}{|c|} \hline \text{Minnesota} \\ \text{additions} \\ \hline \end{array} - \begin{array}{|c|} \hline \text{Minnesota} \\ \text{subtractions} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Minnesota} \\ \text{taxable} \\ \text{income} \\ \text{(MTI)} \\ \hline \end{array}$$

What are Minnesota additions to taxable income?

Minnesota requires the following *additions* to federal taxable income for tax year 2012. These items are subject to Minnesota tax, but not federal tax.

- **State income tax deduction.** Filers who claimed a federal itemized deduction for state income taxes paid must add that amount to Minnesota taxable income. Taxpayers making this addition are always allowed to claim at least the full standard deduction for the tax year.
- **Bond interest and mutual fund interest dividends paid by non-Minnesota state and local governments.**
- **Expenses relating to income not taxed by Minnesota.**
- **Capital gain part of lump-sum distributions from qualified retirement plans.**
- **Fines and penalties allowed as deductions from federal taxable income.**
- **80 percent of the difference between federal and state allowances for bonus depreciation and section 179 expensing.**
- **Net operating losses allowed at the federal level under a different schedule than at the state level.**
- **The additional standard deduction amount allowed to married filers under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (TRUIRJCA).**
- **The amount of itemized deductions subject to limitation and personal and dependent exemptions subject to phaseout under federal law prior to enactment of TRUIRJCA.**

What subtractions does Minnesota allow from taxable income?

Minnesota allows the following *subtractions* from federal taxable income for tax year 2012. The estimated reductions in revenue shown below are taken from the Department of Revenue's *Tax Expenditure Budget for 2010-2013*. Revenue estimates made during the 2012 legislative session will differ because they will be based on a more recent economic forecast.

- **State income tax refund.** The federal income tax allows an itemized deduction for state income taxes. Minnesota requires itemizers to add back the amount deducted and allows a subtraction for amounts refunded in order to

avoid twice taxing the same income.

- **Subtractions required by federal law.** Federal law prohibits state taxation of these three types of income received by residents:
 - U.S. bond interest
 - Railroad retirement benefits
 - On-reservation earnings of enrolled tribal members
- **K-12 dependent education expenses** (\$14.8 million in fiscal year 2013). The deduction applies to school-related expenses, including tuition, textbooks, academic tutoring and camps, and instructional materials and supplies. The maximum deduction is \$1,625 for each child in grades K-6 and \$2,500 for each child in grades 7-12.
- **Compensation for military active service outside of Minnesota, including training** (\$4.9 million in fiscal year 2013).
- **Compensation for most military service in Minnesota** (\$3.8 million in fiscal year 2013). Allowed for state active service, federally funded state active service (generally floods, other disasters, and airport security), active service in the full-time military by Minnesota residents, and training pay.
- **50 percent of charitable contributions in excess of \$500** (\$6.4 million in fiscal year 2013). Allowed only for filers who do not claim federal itemized deductions—those who itemize have already deducted their charitable contributions in computing federal taxable income.
- **Minnesota elderly/disabled exclusion** (\$0.4 million in fiscal year 2013). Equals up to \$12,000 for low-income elderly and disabled filers with low amounts of Social Security and nontaxable pensions.
- **Job Opportunity Building Zone (JOBZ) income** (\$7.8 million in fiscal year 2013). Allowed for net income from a qualified business in a JOBZ, for net income from renting property for use by a qualified business, and for gain from the sale of property used by a qualified business.
- **Organ donation expenses** (less than \$50,000 in fiscal year 2013). Allowed for up to \$10,000 of expenses related to organ donation by the taxpayer or a dependent, including lost wages.
- **Gain on sale of farm property for insolvent taxpayers** (less than \$50,000 in fiscal year 2013). This subtraction is allowed for taxpayers who use the proceeds of the sale of a farm to pay off a mortgage, contract for deed, or lien on the property.
- **Foreign subnational income taxes** (\$100,000 in fiscal year 2013). Allowed for taxes paid to a foreign governmental unit, to the extent the taxpayer did not claim the federal foreign tax credit for the subnational taxes (estimate prepared by Department of Revenue in 2009 session).
- **National service education awards** (\$100,000 in fiscal year 2013). Allowed for scholarships received for AmeriCorps service.
- **Bonus depreciation, section 179 expensing, income from the discharge of indebtedness, and net operating losses.** Allowed for amounts included in Minnesota taxable income, but not federal taxable income, in earlier tax years.

For more information: Contact legislative analysts Nina Manzi at 651-296-5204 or Joel Michael at 651-296-5057. Also see the House Research publications *Income Tax Terms: Deductions and Credits*, August 2011; and *Minnesota's Elderly Exclusion* (web only) on the income tax page of the House Research web site: www.house.mn/hrd/hrd.htm.

The Research Department of the Minnesota House of Representatives is a nonpartisan office providing legislative, legal, and information services to the entire House.