## 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 (FTI) after Minnesota additions and subtractions.

**What are Minnesota additions to taxable income?**

Minnesota requires various *additions* to federal taxable income for tax year 2016. 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**
- **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**
- **Expenses relating to income not taxed by Minnesota**
- **80 percent of the difference between federal and state allowances for bonus depreciation and section 179 expensing**
- **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**
- **Domestic production activities income allowed as a deduction from federal taxable income**

**What subtractions does Minnesota allow from taxable income?**

Minnesota allows various *subtractions* from federal taxable income for tax year 2016. The estimated reductions in revenue shown below are taken from the Department of Revenue’s *Tax Expenditure Budget for 2016-2019*, unless otherwise noted. Subtractions for tax year 2016 include:

- **State income tax refund.** The federal income tax allows an itemized deduction for state income taxes paid. 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
- **Military retirement pay**, including payments to survivors of military retirees ($22.6 million in fiscal year 2017).
- **K-12 dependent education expenses** ($18.1 million in fiscal year 2017). 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 performed by Minnesota residents, including training** ($12.4 million in fiscal year 2017).
- **50 percent of charitable contributions in excess of $500** ($9.3 million in fiscal year 2017). 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.
- **Compensation for Minnesota National Guard and reserve service** ($6.0 million in fiscal year 2017). Allowed for state active service, federally funded state active service (generally floods, other disasters, and airport security), and training pay.
- **Minnesota elderly/disabled exclusion** ($0.6 million in fiscal year 2017). 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** ($200,000 in fiscal year 2017). 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.
- **National service education awards** ($200,000 in fiscal year 2017). Allowed for scholarships received for AmeriCorps service.
- **Railroad maintenance expenses** ($200,000 in fiscal year 2017). Allowed for amounts claimed as a credit at the federal level (estimate derived from Department of Revenue processing report).
- **Foreign subnational income taxes** (less than $100,000 in fiscal year 2017). 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 derived from Department of Revenue processing report).
- **Gain on sale of farm property for insolvent taxpayers** (less than $50,000 in fiscal year 2017). 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.
- **Organ donation expenses** (less than $50,000 in fiscal year 2017). Allowed for up to $10,000 of expenses related to organ donation by the taxpayer or a dependent, including lost wages.
- **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 analyst Nina Manzi at 651-296-5204. Also see the House Research publications *Income Tax Terms: Deductions and Credits*, August 2014; and *Minnesota’s Elderly Exclusion* (web only) on the income tax page of the House Research website: [www.house.mn/hrd/](http://www.house.mn/hrd/).