

# House Research Act Summary

**CHAPTER:** 490

**SESSION:** 2000 Regular Session

**TOPIC:** Omnibus Tax Bill

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## **Article 1: 2000 Sales Tax Rebate**

### **Overview**

This article provides for a 2000 sales tax rebate that would be paid automatically to individuals who had income tax liability in 1998, who filed a claim for the 1998 property tax rebate, who had social security income in 1998, or who filed an income tax return in order to claim a refund of withheld or estimated taxes or a refundable tax credit. Dependents with wage income would receive a rebate equal to 35% of the table amount. The minimum and maximum rebates are \$168 and \$2,400 for married couples filing joint returns and heads of household, and \$95 and \$1,200 for other filers.

1 **Statement of purpose.** Describes the Legislature's intent in enacting a sales tax rebate and asserts that it is:

reasonable to rebate sales tax;

reasonable to use estimates and averages to calculate individual rebates in the absence of a practical method of determining actual sales tax amounts paid by individuals; and reasonable to use the Department of Revenue's *Tax Incidence Report*, which analyzes the relationship between income and tax burdens, to estimate sales tax liability.

## 2 Sales tax rebate.

**Paragraph (a). Eligibility.** Defines a person eligible for a rebate as someone who:

filed for the 1998 property tax rebate before November 30, 2000;

filed a 1998 income tax return with at least \$1 of liability before refundable credits, before November 30, 2000, and was not claimed as a dependent on another return; or

had property taxes abated in 1998 as part of a tornado relief law.

**Paragraphs (b) and (c). Rebate schedule.** Provide tables showing the rebate amounts by taxable income. The minimum rebate is \$168 for married couples filing joint returns and head of household filers, and \$95 for single and married separate filers. The maximum rebate is \$2,400 for married couples filing joint returns and head of household filers and \$1,200 for single and married separate filers.

**Paragraph (d). Rebate for nonresidents.** Provides that individuals who were not residents of Minnesota for any part of 1998 who paid more than \$10 of consumer sales tax in that year may apply for a rebate. The rebate for nonresidents equals the lesser of 29.7 percent of the amount for which a claimant has receipts or the amount the claimant would have qualified for if they had been Minnesota resident. Claimants must apply to the commissioner by November 30, 2000, or 30 days after enactment, whichever is later.

**Paragraph (e). Income.** States that the rebate tables are based on federal taxable income plus Minnesota additions, such as out-of-state tax exempt bond interest and the itemized deduction for state income taxes (line 4 on the 1998 form M-1). For part-year residents the rebate is apportioned by the percentage that the claimant's Minnesota assignable income is of total income.

**Paragraph (f). Minimum rebate, social security recipients.** Provides a rebate of \$95 to social security recipients who were Minnesota residents in 1998 but who did not claim a 1998 property tax rebate or have 1998 income tax liability. The department of revenue must direct deposit the rebate into the bank account of an individual who receives their social security benefits by direct deposit.

**Paragraph (g). Rebate for dependents.** Provides a rebate equal to 35% of the table amount for single filers for dependents who had wage income in 1998 (line 7 of federal form 1040). The rebate would be based on the dependent's 1998 federal taxable income plus Minnesota additions.

**Paragraph (h). Rebate for other income tax filers.** Provides the minimum rebate amount by filing status for individuals who file a 1998 Minnesota income tax return in order to claim a refund of withheld income taxes or estimated tax payments, or in order to claim a refundable credit (i.e. working family tax credit, dependent care credit, K-12 education credit). The rebate under this paragraph is not allowed for individuals claimed as dependents.

**Paragraph (i). Fiscal year taxpayers.** Extends the filing deadline for fiscal year taxpayers based on the starting date of the taxpayer's fiscal year 1998.

**Paragraph (j). Adjustment of rebate schedule.** Directs the commissioner of revenue to adjust the rebate schedule and percentages proportionately to keep the total rebate estimated on the day the rebate is processed within the originally estimated cost of the schedule. These adjustments are made for returns filed after January 1, 2000, but before June 1, 2000, and for dependent and other income tax filers.

**Paragraph (k). Payment date; interest.** Authorizes the commissioner to begin paying rebates by July 1, 2000. Interest accrues on unpaid rebates beginning January 1, 2001.

**Paragraph (l). Amended returns.** Provides that sales tax rebates will not be recomputed based on adjustments to a taxpayer's 1998 income tax return that are filed after the date the rebate is processed.

**Paragraph (m). Married claimants.** Directs the commissioner to issue a joint rebate to taxpayers who filed a joint return in 1998. Allows taxpayers who filed a joint 1998 return to request a check for one-half of the joint rebate, if the original check has not been cashed. Also allows the commissioner to issue separate rebate checks to taxpayers who filed a joint return in 1998 but separate returns in 1999, or who notify the commissioner of separate addresses.

**Paragraph (n). Deceased claimants.** Allows the commissioner to issue separate checks to beneficiaries of estates entitled to rebates if probate has closed before the rebate check was received. Requires the estate to provide documentation to the commissioner.

**Paragraph (o). Data practices.** Provides the rebate is covered by the data practices law that applies to other tax data.

**Paragraph (p). Delinquent taxes.** Provides that the commissioner may retain the rebate to offset delinquent taxes.

**Paragraph (q). Lapse of right to rebate.** Provides that the right to the rebate lapses and the rebate reverts to the general fund for rebate checks not cashed by July 1, 2002.

**Paragraph (r). Appeal of rebate amount.** Provides a mechanism for taxpayers to protest if they did not receive a rebate or if they received an incorrect amount. The regular administrative and court appeal rights apply.

**Paragraph (s). Revenue recapture.** Payment of the sales tax rebate is subject to revenue recapture. It is the responsibility of the claimant agency to remit non-debtor spouses' shares of offset rebates.

**Paragraph (t). Fiscal year accounting; appropriation.** Specifies the rebate is an adjustment to fiscal year 2000 sales tax revenues and appropriates the amount necessary to make the rebate payments.

**Paragraph (u). Theft of rebates.** Provides that the commissioner may issue an order of assessment for the appropriate amount for a rebate check that is forged, improperly endorsed, or determined to have been issued in error or overstated. The assessment must be issued within two years unless cashing the check constituted forgery or theft, in which case no statute of limitation applies. The assessment can be appealed administratively and judicially, and collection may be commenced under chapter 289A.

**Paragraph (v). Commissioner's authority.** Authorizes the commissioner to take whatever action is deemed necessary to pay the rebate. Allows the commissioner, in consultation with the department of finance and state treasurer, to contract with a private vendor to process, print, and mail the rebate checks and receive and disburse state funds when checks are cashed.

**Paragraph (w). Payment by EFT.** Authorizes the commissioner of revenue to pay the rebate by electronic funds transfer to individuals who received their 1999 income tax refund by electronic funds transfer.

- 3 **Appropriations.** Appropriates \$1,730,600 to the commissioner of revenue to administer the rebate. Provides for up to \$50,000 of this amount to be transferred to the legislative auditor to audit the appropriations to the Department of Revenue for the administration of the 1997 and 1998 property tax rebates, and the appropriation for the administration of the 1999 sales tax rebate to determine whether the funds appropriated were expended consistent with the purposes of the appropriation. The legislative auditor is directed to report the findings of the audit to the Legislature by January 1, 2001. Appropriates \$278,000 to the state treasurer to pay the cost of clearing rebate checks through commercial banks.

## **Article 2: Agricultural Assistance**

## Overview

Provides for a program of agricultural tax relief for 2000 for farms located in counties which were presidentially declared disaster counties in 1999, or which were contiguous to a Minnesota-declared presidential disaster county. 31 counties will receive relief under this program. Farmers will receive a payment equal to \$4 for each acre covered under crop insurance for 2000 crop year. The maximum payment is \$5,600 per individual or per married couple. This agricultural assistance program is similar in design to the agricultural assistance program of 1999, except that it is available in only 31 counties, and is based upon the acres of land that are covered by crop insurance.

Also extends the deadline for filing for the 1999 agricultural assistance to June 30, 2000.

- 1 **1999 agricultural assistance program.** Clarifies that farmers who take care of other farmers' livestock (feedlot operators) qualify as "livestock producers" for purposes of the 1999 agricultural relief payments to farmers. Effective retroactively to April 23, 1999.
- 2- **Filing extension.** Extends the time for filing for the
- 3 1999 agricultural assistance payments to June 30, 2000.
- 4 **Appropriation.** Extends the availability of the appropriation for the 1999 agricultural assistance payment to June 30, 2001.
- 5 **Agricultural Assistance in 2000.**

**Subd. 1. Paragraph (a). Definition.**

**Paragraph (b). "Acre"** means an acre of agricultural land within a qualified county as reported on a schedule of crop insurance.

**Paragraph (c). "Commissioner"** means the commissioner of agriculture.

**Paragraph (d). "Crop insurance"** means federal multiple peril crop and revenue insurance, hail and wind crop insurance, or catastrophic crop insurance.

**Paragraph (e). "Person"** includes individuals, fiduciaries, estates, trusts, partnerships, joint farm ventures, and corporations.

**Paragraph (f). "Qualified counties"**

means counties which were declared as disaster counties in Minnesota by a presidential declaration in 1999, or were contiguous to one or more of those disaster counties declared under a 1999 Minnesota presidential declaration. The 31 qualifying counties are specifically named in the law.

**Subd. 2. Payment.** Provides that every person who operates a farm in a qualified county who has obtained crop insurance on that farm may apply to the commissioner for payments. The payment equals \$4 multiplied by the number of acres covered under crop insurance. In no case shall total payments for any single acre exceed \$4.

The commissioner shall prepare application forms and make them available. The application must include the applicants's social security number or federal employer ID number and a copy of the schedule of crop insurance for crop year 2000. The commissioner shall make the payment by October 1, 2000, to each eligible person who applies by August 15, 2000, or within 45 days of the application if it is received after August 15, 2000. No applications will be accepted after September 30, 2000.

**Subd. 3. Limit.** Provides that no individual or married couple may receive total payments exceeding \$5,600, whether individually, through ownership share of another farm, or both.

**Subd. 4. Penalties.** Provides that if the claims for payment were excessive and were filed with fraudulent intent, the claim must be disallowed in full. If the claim has been paid, the commissioner of agriculture will notify the commissioner of revenue and the amount disallowed must be recovered by assessment and collection procedure, within two years after a check is cashed, except in the case of theft or forgery. The assessment may be appealed administratively and judicially.

6 **Appropriation.** (a) Appropriates the amount necessary to make the payments for farm tax relief under section 5 from the general fund to the commissioner of agriculture for fiscal year 2001, and allows the amounts to be expended until June 30, 2001.

(b) Appropriates the amount necessary to administer

the agricultural assistance program under section 5 from the general fund to the commissioner of agriculture, provided that the amount shall not exceed \$50,000. Effective day following final enactment.

### **Article 3: 1999 Sales Tax Rebate**

#### **Overview**

Extends the filing deadline for the 1999 sales tax rebate to June 30, 2000. This article also makes clarifying and administrative changes in the 1999 rebate recommended by the Department of Revenue.

#### **1 1999 Sales Tax Rebate.**

**Extension of time to file.** Extends the time allowed to file for a 1999 sales tax rebate to June 30, 2000. The deadline for filing under present law is June 15, 1999. These late filers would receive the rebate amount based on the tables used for the 1999 rebate. They would have until July 1, 2001, to request a rebate or a corrected rebate, if they did not receive a rebate or the correct amount. Rebates to late filers bear interest beginning October 1, 2000.

**Administrative changes.** This section also makes various retroactive changes related to the administration of the 1999 sales tax rebate:

**Fiscal year taxpayers.** Extends the filing deadline for fiscal year taxpayers based on the starting date of the taxpayer's fiscal year 1997.

**Deceased claimants.** Allows the commissioner to issue separate checks to beneficiaries of estates entitled to rebates if probate has closed before the rebate check was received. Requires the estate to provide documentation to the commissioner.

**Overpaid rebates.** Provides that the commissioner may issue an order of assessment for the appropriate amount if a rebate check is determined to have been issued in error or overstated. The assessment must be issued within two years. The assessment can be appealed administratively and judicially, and collection may be commenced under chapter 289A.

**2 Application of other law.** Provides these rebates would not be subject to the \$1.3 billion limit on the total amount of rebates. Interest would be paid on unpaid amounts after October 1, 2000.

**3 Appropriation.** Appropriates money sufficient to pay the additional rebates.

**4 Effective date.** Day following final enactment.

### **Article 4: Income and Franchise Taxes**

#### **Overview**

This article decreases individual income tax rates from 5.5 percent, 7.25 percent, and 8.0 percent to 5.35 percent, 7.05 percent, and 7.85 percent.

The article also:

Increases the working family credit rates so that all claimants receive at least 25% of the federal earned income tax credit;

expands the marriage penalty credit to apply to taxable pension and social security income as well as earned income;

allows a 30% employer transit pass credit;

makes various technical and policy changes recommended by the department of revenue;

directs the commissioner of revenue to study alternatives to attaching the federal return to

Minnesota income tax return, the effectiveness of volunteer taxpayer assistance programs, and the feasibility of allowing electronic filers to designate how a portion of their taxes will be used.

- 1 **Requirement to file electronically.** Requires return preparers to file Minnesota returns electronically if they prepare the following number of returns:

Tax Year	Number of Returns
2000	500
2001	250
2002 and later	100

This requirement does not apply if the taxpayer indicates that the taxpayer does not want the return to be filed electronically

- 2 **Withholding EFT.** Clarifies that an employer must deposit Minnesota wage withholding by electronic funds transfers on amounts withheld in the year and not on the amounts deposited in the year. For example, if the employer withholds Minnesota taxes on December 20, 1999, and deposits the taxes on January 4, 2000, the employer would have to electronically transfer the withholding only if they were required to electronically transfer for calendar year 1999. Effective for wages paid after December 31, 1999.
- 3 **Payment of estimated taxes.** Deletes an obsolete reference to an election to file a single corporate franchise tax return. Effective day following final enactment.
- 4 **Penalty for underpayment of individual income tax.** Exempts individual income tax from the underpayment penalty of 3% per month (up to a 24% total penalty) during the 6 month extension period, if 90 percent of the tax is paid by the due date. This conforms to the treatment under the federal income tax.
- 5 **Subtractions from federal taxable income.** Allows one new subtraction from federal taxable income and modifies three existing subtractions.

The change to **clause (4)** allows individuals a one-year carryforward for the tax year 2000 one-time subtraction for early 1980s additions to taxable income, if the one-time subtraction is greater than their taxable income in tax year 2000. The 1999 tax law authorized a one-time subtraction to be taken in tax year 2000 only for individual retirement account (IRA), self-employed retirement plan (Keogh), public employee pension contributions, and ACRS depreciation that were deductible in the early 1980s for federal purposes but not for state purposes because the state did not immediately adopt the rules under the federal Economic Recovery Tax Act of 1981. Before the 1999 change taxpayers were allowed to deduct these contribution as they received distributions from the plans or at the end of the ACRS recovery period.

The change to **clause (8)** provides that long-term care insurance premiums could either be subtracted from taxable income or used to claim the long-term care insurance credit, but not both. Effective beginning in tax year 2000.

**The new clause (13)** allows individuals to claim a subtraction for the federal small ethanol producer credit. Effective beginning in tax year 2000, expires following tax year 2007.

- 6 **Corporate franchise tax minimum fee.** Clarifies that the corporate franchise tax minimum fee is a tax and must be added back to federal taxable income if it was deducted for federal income tax purposes. Effective beginning in tax year 2000.
- 7 **Subtraction, corporations.** Allows corporations to claim a subtraction for the federal small ethanol producer credit. Effective beginning in tax year 2000, expires following tax year 2007.
- 8 **Corporate ACRS.** Allows corporations to claim in tax year 2001 the remaining amount of their ACRS depreciation for assets placed in service in tax years 1981 through 1987. After the federal Economic Recovery Act of 1981, Minnesota did not adopt the new ACRS rules until tax year 1983

and for corporations, only a percentage of federal recovery amount was allowed. The remaining amounts were allowed to be deducted at the end of the federal recovery periods. This subtraction does not apply to properties that were sold before the end of tax year 2001. These properties would be subject to the adjustment of the amount of taxable gain, as under present law.

- 9- **Minimum contacts.** Clarifies that the presence of mobile property in Minnesota may subject a taxpayer to the income and franchise tax; clarifies the language that requires taxpayers to file a return if they have transactions with customers in Minnesota involving intangible property where the receipts are attributed to Minnesota; adds several statutory references; and deletes the clause providing that "business from within this state" for financial institutions includes receiving deposits from customers in this state. Changes unitary "group" to unitary "business" and makes other nonsubstantive changes to improve clarity. Effective for tax years beginning after December 31, 1999.
- 11
- 12 **Income tax rates.** Reduces the individual income tax rates:  
the 5.5% rate is reduced to 5.35%;  
the 7.25% rate is reduced to 7.05%; and  
the 8.0% rate is reduced to 7.85%.
- 13 **Indexing.** Makes conforming changes in the indexing provisions to reflect that the income tax rate changes requires updating the tax brackets as they appear in statute to the amounts in effect under current indexing for tax year 2000.
- 14 **Credit for taxes paid to other states.** Deletes an obsolete statutory reference. Effective the day following final enactment.
- 15 **Nonresident's credit for taxes paid to domicile state.** Allows a credit for taxes paid to another state. This credit applies if the following requirements are met:  
The taxpayer is a non-resident. (The general credit for taxes paid to another state provides an equivalent credit to Minnesota residents.)  
The tax results from gain realized on the sale of a partnership interest that is assignable to Minnesota.  
The taxpayer's state of residence does not allow a credit for this Minnesota tax paid. The Minnesota tax that assigns gain on the sale of a partnership interest is used by only a few states. Some states limit their credits for taxes paid to other states to taxes that would apply under their own state laws. For taxpayers in these states, Minnesota's tax on gain from sales or exchanges of partnership interests can result in taxation of the gain by both states.  
The credit equals the tax paid to the state of domicile (this will be the state of residence for most taxpayers) apportioned so that only the amount attributable to the Minnesota share qualifies for the credit. This is done by multiplying the gain by a fraction equal to the Minnesota gain over federal adjusted gross income. The credit may not exceed the other state's tax if the Minnesota gain were subtracted.  
The credit may be claimed even if the state of domicile assessed the tax after the running of the Minnesota statute of limitation.
- 16 **Transit pass credit.** Allows employers an income tax credit equal to 30 percent of the cost of transit passes provided to employees. This credit applies to both the corporate franchise tax (for C corporations) and the individual income tax (for sole proprietors, partnerships, and S corporations). The credit does not apply to any amount the employer recoups from employees by selling the passes (i.e., the credit applies to the "bargain" or reduction in the price, if the employer sells the passes to employees). The definition of transit passes is taken from federal tax law, except they must be for use in Minnesota. It includes both public and privately owned systems; the vehicles must seat 6 or

more individuals besides the driver.

- 17 **Working family credit.** Increases the percentage of earnings used in calculating the working family credit, so that for all claimants the credit equals at least 25 percent of the federal earned income tax credit. Increases the credit phase-out rate so that the maximum income eligible for the credit remains unchanged.

**Working Family Credit Parameters, Current Law and Proposed**

<b>Filers with no dependents</b>	<b>Current Law</b>	<b>Proposed</b>
Maximum earned income, tier 1	\$4,620	\$4,620
Working family credit rate, tier 1	1.1475%	1.9125%
Minimum earned income, tier 2	N/A	N/A
Maximum earned income, tier 2	N/A	N/A
Working family credit rate, tier 2	N/A	N/A
Phase-out floor	\$5,770	\$5,770
Phase-out rate	1.1475%	1.9125%
Maximum eligible income	\$10,390	\$10,390
Maximum credit	\$53	\$88
<b>Filers with one dependent</b>	<b>Current Law</b>	<b>Proposed</b>
Maximum earned income, tier 1	\$6,920	\$6,920
Working family credit rate, tier 1	7.45%	8.5%
Minimum earned income, tier 2	\$12,060	\$12,060
Maximum earned income, tier 2	\$13,450	\$13,450
Working family credit rate, tier 2	8.5%	8.5%
Phase-out floor	\$15,080	\$15,080
Phase-out rate	5.13%	5.73%
Maximum eligible income	\$27,413	\$27,413
Maximum credit	\$634	\$706
<b>Filers with two or more dependents</b>	<b>Current Law</b>	<b>Proposed</b>
Maximum earned income, tier 1	\$9,720	\$9,720
Working family credit rate, tier 1	8.8%	10%
Minimum earned income, tier 2	\$14,860	\$14,860
Maximum earned income, tier 2	\$16,800	\$16,800
Working family credit rate, tier 2	20%	20%
Phase-out floor	\$17,890	\$17,890
Phase-out rate	9.38%	10.3%
Maximum eligible income	\$31,145	\$31,145
Maximum credit	\$1,243	\$1,360

- 18 **Working family credit; appropriation.** Provides that the open appropriation for paying working family credit refunds includes any amounts appropriated from the Temporary Assistance to Needy Families (TANF) federal block grant funds for this purpose.
- 19 **TANF appropriation for working family credit expansion.** Appropriates money to pay the increased working family credit refunds to claimants with children proposed in this article from the Temporary Assistance to Needy Families (TANF) federal block grant funds.

- 20 **Long-term care insurance credit; inflation protection.** Allows the credit for policies in which the policyholder was offered the option of purchasing inflation protection. Prior law required the policy to include inflation protection in order for premiums to qualify for the credit. The change makes the credit consistent with federal provisions under which policies qualify for the medical expense deduction.
- 21 **Long-term care insurance credit.** Allows the credit on a per beneficiary, rather than a per policy, basis. Some companies write joint policies for married couples; this change would allow each spouse to claim the credit.
- 22 **Marriage penalty credit; definitions.** Expands the definition of earned income used in determining the marriage penalty credit to include taxable pension income and taxable social security income. The credit amount would be determined based on the distribution between the spouses of earned income, taxable pension income, and taxable social security income.
- 23- **Marriage penalty credit.** Adjusts the marriage penalty credit lookup table and minimum taxable  
24 and earned income requirements to reflect the changes to the income tax rates proposed in this article for tax year 2000; the maximum credit is \$268. For future tax years directs the commissioner to update the table to reflect the relationship between the marginal tax rates in effect.
- 25 **AMT rate.** Reduces the alternative minimum tax (AMT) rate from 6.5% to 6.4%.
- 26 **Individual alternative minimum tax.** Allows a deduction from alternative minimum taxable income for the regular tax subtraction the taxpayer is allowed for early 1980's Minnesota additions for IRA, Keogh, state government pensions, and percentage accelerated cost recovery (ACRS) depreciation. Also makes a conforming change in the definition of tentative minimum tax to reflect the change in the AMT rate.
- 27 **AMT credit.** Makes a conforming change in the AMT credit to reflect the change in the AMT rate.
- 28 **Assignment of nonbusiness income for nonresidents.** Changes the provision which assigns non-business income for non-residents, in response to the Minnesota Supreme Court decision in *Benda v Commissioner of Revenue*. In this case the court held the term "compensation for labor or personal or professional service" did not include wages paid to a corporate executive for managerial or administrative work. The change replaces these terms with the term "wages" thus requiring wages earned by all employees for work in Minnesota to be assigned to Minnesota. However, this would not apply to deferred compensation or stock options (earned by an individual who was a resident of Minnesota), if compensation was paid (or the stock options were taxable) to the individual in a tax year after the recipient ceased being a Minnesota resident. Effective for wages received after the day following final enactment, except that the requirement to withhold is effective for wages paid after December 31, 2000.
- 29, **Nonwage withholding rates.** Changes the statutorily set rates of Minnesota withholding on certain  
31- types of payments to conform to the income tax rate reductions enacted in the 1999 legislative  
32 session. Reduces the withholding tax rates as follows:
- on supplemental wage payments not tied to a specific wage period from the current 7% to 6.25%;
  - on payments to jockeys and trainers from 7% to 6.25%; and
  - on lottery winnings from 8% to 7.25%.
- 30 **Withholding for non-residents.** Provides that employers are not required to withhold Minnesota income taxes for nonresidents working in Minnesota if the employer does not expect to pay the nonresident income that exceeds the Minnesota filing requirement.
- 33 **Enterprise zone credit.** Conforms the enterprise zone credit rate to the proposed maximum income tax rate of 7.85%.

34 **Tax information sample study.** Requires the commissioner of revenue to study the preparation of the microdata sample of individual income tax returns. This study is to examine eliminating the requirement that taxpayers file a copy of their federal income tax returns with their Minnesota return. The study is to analyze:

The reliability of data from federal tapes as compared with data taken from federal returns filed with the Department;

Alternative sampling methods; and

Reliability of gathering federal return data, other than from returns filed with the department.

The results of the study are to be presented to chairs of the House and Senate tax committees and to the commissioner of finance. The commissioner is directed to prepare a bill for introduction in the 2001 legislative session, with the approval of the commissioner of finance, that would drop the statutory requirement that federal returns be filed if the commissioner determines that an alternative sample (i.e., one prepared after the federal returns are not required to be attached) is (1) as reliable as the existing sample and (2) available to department of finance and legislative staff.

35 **Temporary powers of the commissioner of revenue.** Authorizes the commissioner of revenue to conduct pilot studies. These studies must be approved by the chairs of the House and Senate tax committees. The authority to conduct these studies expires on June 30, 2002. The pilot studies would permit changes in the filing dates for payment of taxes or filing of returns. These pilot studies may not require filing or paying earlier than required by statute, unless the taxpayer agrees. The commissioner may compensate taxpayers for making earlier payments.

36 **Study of taxpayer assistance services.** Directs the commissioner to study the availability of taxpayer assistance services and report to the legislature by January 15, 2001. The study must evaluate:

the effectiveness of volunteers in achieving the department's mission of achieving full compliance with the tax laws;

the geographic distribution of taxpayer assistance sites throughout the state, in comparison to the distribution of low-income, elderly, and nonnative English-speaking taxpayers;

the criteria used at taxpayer assistance sites in determining eligibility for services;

the level of training provided to volunteers;

the effectiveness of grants awarded for taxpayer assistance services as authorized in the 1999 omnibus tax law; and

the availability of volunteers after April 15 to help taxpayers prepare property tax refund returns.

Requires the commissioner to invite testimony from those concerned with assistance services, and that the study recommend ways of improving taxpayer assistance services.

37 **Electronic checkoff study.** Directs the commissioner to report to the House and Senate tax chairs by February 1, 2001 on implementing an electronic income tax checkoff. The checkoff would allow electronic filers to direct a portion of their liability to accounts that are dedicated to specific programs or purposes.

## **Article 5: Property Taxes**

### **Overview**

Increases the education agricultural credit by \$11.5 million per year.

Makes changes to the senior property tax deferral program which generally expand eligibility to use the program by allowing homeowners with delinquent property taxes and delinquent special

assessments to participate, and also by allowing a higher amount of dollars to be deferred.

Requires the commissioner of revenue to study taxation of forest land and recommend changes and appropriates money to prepare the study.

Provides that certain leased or privately owned noncommercial aircraft storage hangars are classified as class 4c property (currently most are classified as commercial property).

Provides that appeals of utility property valuations must be brought against the commissioner of revenue rather than against the county, unless the county has changed the value placed on the property by the commissioner.

- 1- **Airflight property tax lien.** Clarifies that airflight property is valued for tax purposes as of January 2 in the assessment year. Under prior law, it was unclear if the lien for this tax attached on the January 2<sup>nd</sup> valuation date, on September 1<sup>st</sup> when the tax amount for the following year is determined, or some other date. New language clarifies that the lien for the tax attaches on the same date. Since this is a personal property tax, the lien attaches to all of the taxpayer's property within the state. Section 40(a) repeals special provisions under which the Attorney General is required to bring an action in court in order to enforce the tax. The tax, plus any applicable penalties and interest, will now be enforced under the general statutory lien and levy powers of the Commissioner of Revenue. Effective for taxes payable in 2001 and thereafter.
- 3 **Economic development; public purpose.** Allows a city with a population less than 5,000 and located outside the seven-county metro area to hold property for later resale for economic purposes for up to 15 years without being subject to property taxes. The limit remains at 8 years for all other political subdivisions. Effective for payable 2001 and thereafter.
- 4 **Electric utility peaking facility.** Exempts from property tax the attached machinery and other personal property of an electric utility peaking facility proposed to be constructed in Mower County if it:
  - is part of a simple-cycle combustion-turbine electric generation facility that exceeds 250 megawatts of installed capacity
  - uses natural gas as a primary fuel;
  - is located within 20 miles of parallel existing 16-inch and 12-inch (outside diameter) natural gas pipelines and a 345-kilovolt high-voltage electric transmission line; and
  - is designed to provide peaking, emergency backup, or contingency services, and has received a certificate of need under section 216B.243 demonstrating demand for its capacity.Construction of the facility must begin after January 1, 2000, and before January 1, 2004. The exemption does not include electric transmission lines and interconnections or gas pipelines and interconnections appurtenant to the property or the facility. Effective for assessment year 2001 and thereafter.
- 5 **Certificate of real estate value.** Limits the information required on a certificate of real estate value (CRV) to the information required as of the date of acknowledgment of the deed. Effective day following final enactment.
- 6 **Green acres.** Extends Green Acres treatment to noncontiguous agricultural land that is farmed with qualifying agricultural land, if the noncontiguous parcel is within four townships of the qualifying land. Prior law limited carryovers in these situations to noncontiguous land that was within two townships of the qualifying land. These changes parallel the 1998 changes in the agricultural homestead definition statute, under which noncontiguous land up to four townships away will be included in the agricultural homestead for property tax purposes. Effective for taxes payable in 2000 and thereafter.
- 7 **Homestead; general rules.** Makes two changes to the general homestead rule:

Clarifies that property held by a trustee under a trust is eligible for homestead classification if certain requirements are satisfied (see section 10 of this article).

Allows agricultural relative homestead classification to a farm which is being actively farmed by the grandson or granddaughter of the owner of the farm, or of the spouse of the owner of the farm.

8 **Homestead; family farm corporations.** Clarifies that the family farm corporation homestead provisions also include joint farm ventures and limited liability companies. Cross references this change to section 9, paragraph (g). The references to limited liability companies (in this section and in sections 9 and 10) were made effective contingent upon passage in the 2000 legislative session of H.F. No. 3312, which was passed and signed into law by the Governor as chapter 477.

9 **Special provisions for homesteads.** Extends agricultural homestead treatment to property that is actively farmed by the son or daughter of the owner, even if that son or daughter does not live on the property, and provides that the homestead is the homestead of the owner.

Also provides that a building site which includes, in addition to the residence of the owner, property used for noncommercial storage or drying of agricultural crops is considered part of the agricultural homestead when the owner also owns and actively farms noncontiguous property of 40 acres or more within four townships or cities.

Also extends the agricultural homestead classification (see paragraph g) to the shareholders of family farm corporations, joint farm ventures, limited liability companies, or partnerships even if the shareholders, members or partners do not live on the agricultural property, if all of the following criteria are met:

the shareholder, member or partner is actively farming the agricultural property;

the shareholder, member or partner of the agricultural property is a Minnesota resident;

neither the shareholder, member or partner, nor the spouse of the shareholder, member or partner claims another agricultural homestead in Minnesota; and

the shareholder, member, or partner does not live farther than four townships or cities, or a combination of four townships or cities, from the agricultural property.

This same treatment was given to owners of agricultural property (sole proprietors) in the 1999 omnibus tax law. The references to limited liability companies are made effective contingent upon passage of H.F. No. 3312 during the 2000 session, which was passed and signed into law by the Governor as chapter 477.

10 **Trust property; homestead.** Provides that real property held by a trustee under a trust may be classified as a homestead even though the occupant is not the technical legal owner of the property, if the requirements in this section are met. This section codifies and clarifies rules under court decisions and Department of Revenue interpretations on when trust property qualifies for homestead treatment. Trust property qualifies when one of the following is satisfied:

(1) The grantor or surviving spouse of the grantor of the trust occupies and uses the property as a homestead.

(2) A relative or surviving relative of the grantor who meets the relative requirements for the non-agricultural residential real estate, or the relative requirements for agricultural property, and occupies and uses the property for as a homestead.

(3) A family farm corporation, joint farm venture, limited liability company, or partnership operating a family farm, rents the real estate held by the trust, operates it as a family farm, occupies and uses the property as a homestead, and is actively engaged in farming on behalf of the corporation, joint farm venture, limited liability company, or partnership.

(4) A person (i.e., an unrelated person) who has received homestead classification for taxes payable

in 2000 based on an unqualified legal right under the terms of the trust agreement to occupy the property as that person's homestead, and continues to occupy and use the property as a homestead.

11 **Storage sheds, decks, etc.** Exempts from property taxes, a storage shed, deck, or similar improvement that is constructed on a site for a travel trailer, that is considered personal property, and has a total estimated market value of \$500 or less. Under prior law, these properties were taxable regardless of their market values.

12 **Class 3 (commercial-industrial) property.** Provides that contiguous parcels of commercial-industrial property owned by the same person or entity receive the first-tier value class rate on each separate business operated by the owner, if the business is housed in a separate structure. Since assessors have no records as to owner occupied businesses, property owners who have contiguous parcels of property that operate and constitute separate businesses must notify the assessor by July 1 to qualify for treatment beginning in the following taxes payable year. Effective for taxes payable in 2001 and thereafter.

Clarifies that parcels of commercial-industrial property separated by vacant land are considered to be non-contiguous and that connection only by power lines or pipelines is not sufficient to make the parcels contiguous.

Clarifies that one parcel, per county, per owner of taxable utility property consisting of fixtures (i.e., poles, wires or pipes) qualifies for the first-tier commercial/industrial utility class rate. This change is made effective beginning with taxes payable in 2000 since it clarifies the intent of the 1999 law change that combined taxable utility property in class 3 (before the change, most utility property was in class 5).

Clarifies the grandfather rules in the transit zone property classification so that certain property qualifies for the reduced rate so long as the entity that owned the properties on September 1, 2000, still owns them. These exemptions apply to a United Properties building in Golden Valley (clause (2)(D)) and to the Minnesota Life building in St. Paul (clause (2)(E)). Prior law required the entity constructing the buildings or a parent entity (in the case of Minnesota Life) to own the buildings. However, these requirements were not consistent with the actual financing and ownership arrangements for the buildings. The changes make it clear that these buildings will continue to qualify for the reduced (2.975%) class rate as long as the entity owning the building on September 1, 2000, continues to own the property.

13 **Class 4 property.** Provides that leased or privately owned noncommercial aircraft storage hangars and the land on which they are situated are taxed as class 4c at a class rate of 1.65 percent, provided that:

- (1) the land is on an airport owned or operated by a governmental unit, including the metropolitan airports commission (MAC); and
- (2) the land lease, or other ordinance or signed agreement restricting the use of the leased premises, prohibits commercial activity from taking place at the hangar.

This property was generally taxed at the commercial class rate under prior law.

Also requires that if a hangar classified under this 4c classification is sold after June 30, 2000, a copy of the bill of sale must be filed with the assessor by the new owner within 60 days of the sale.

This section does not change the exempt or taxable status of fixed-based operator or other commercial airport hangars. Effective for taxes payable in 2001 and thereafter.

14 **Education agricultural credit.** Increases the rate of the education agricultural credit from 54 percent to 70 percent for ag homestead land and buildings up to \$600,000 in market value. Increases the rate of the education agricultural credit from 50 percent to 63 percent for ag nonhomestead property. Treats ag homestead market value over \$600,000 the same as agricultural nonhomestead for the

purposes of the education agricultural credit.

- 15 **Wind energy conversion systems.** Requires the commissioner of revenue to assess the property of a wind energy conversion system. Under prior law, the county assessor was responsible for assessing the wind energy system.
- 16 **Proceedings and appeals; utility valuations.** Requires an appeal by a utility company of a value set by the commissioner of revenue to be brought against the commissioner and not against the county or taxing district in which the tax is levied. This applies to both commissioner's orders and recommended values. Under prior law, these appeals were required to be brought against the county or taxing district where the property tax payment is made (i.e., where the property is located). Due to the nature of utility property, these appeals were typically filed in many counties.
- This provision applies to all types of utility property including gas, water, pipeline, electric, wind energy, etc., but only if the appealed values have remained unchanged by the county. If the county changes any of the values (which they rarely if ever do, but could do so on those values which are "recommended orders"), then the action by the utility company must be against the county and/or the taxing district and not against the commissioner of revenue.
- It also requires the commissioner to notify by first class mail each county which would be affected by the appeal brought against the commissioner by any utility.
- 17 **Middle Mississippi River watershed management organization.** Defines the Middle Mississippi River watershed management organization as a special taxing district for purposes of property taxation and state aid.
- 18 **Overpayments.** Clarifies that the statute governing property tax overpayments only applies to overpayments due to receipt of a payment that exceeds the total amount of the tax required to be paid on the property tax statement. (Same effective date as section 19.)
- 19 **Refunds of mistakenly billed taxes.** Requires counties to refund mistakenly billed property taxes when the amount billed exceeds the accurate tax amount because the property was incorrectly classified, or because of a mathematical error. Limits "mathematical errors" to errors made when:
- converting market value to tax capacity or referendum market value;
  - applying the tax rate to the tax capacity or the referendum market value; or
  - calculating eligibility or amount of a credit.
- Limits refunds under this section to the tax year in which the error is discovered and the two previous tax years. Provides for an appeal mechanism. Effective for overpayment of taxes made the day following final enactment and thereafter, and applies only to taxes levied in 1999, payable in 2000, and thereafter.
- 20 **Senior deferral; program qualifications.** Allows a senior deferral to be granted as long as the total outstanding debt against the property does not exceed 75 percent of the assessor's estimated market value (EMV) of the property (provided the other qualifying conditions are met). Under prior law, the maximum allowable debt was 30 percent of EMV. Allows properties with delinquent taxes or delinquent special assessments to qualify for the program. This section is effective for current and future applicants and also applies retroactively in two cases:
- if a homeowner had initially qualified for taxes payable in 1999 or 2000 but had not been granted a deferral for payable 2000 due to the 30 percent debt limit restriction or delinquent taxes or special assessments; and
  - if a homeowner did not qualify to enter the program for payable 2000 due to the 30 percent debt limit restriction or delinquent taxes or special assessments.
- In both cases the homeowner may retroactively qualify for a payable 2000 deferral by applying to the commissioner of revenue by July 1, 2000. The homeowner will receive a refund for any excess taxes

already paid for taxes payable in 2000.

- 21 **Senior deferral program; inclusion of delinquent taxes and special assessments.** Allows program applicants to defer at time of entry into the deferral program any delinquent property taxes, special assessments, penalties, and interest on the property. Provides that the state will pay to the county the amount of those delinquencies, penalties, and interest, and it will become a lien in the same manner as any other deferral amounts. Effective retroactively to taxes payable in 2000.
- 22 **Senior deferral program; maximum allowable deferral.** Includes delinquent property taxes, delinquent special assessments, penalties and interest in the 75% of the estimated market value in calculating the maximum allowable total deferral on a property. Effective retroactively to taxes payable in 2000.
- 23 **Senior deferral program; annual deferral.** Strikes language that prohibits property taxes from being deferred in a year in which there are delinquent taxes, delinquent special assessments, penalties or interest. Effective retroactively to taxes payable in 2000.
- 24 **Senior deferral program; lien.** Adds deferred delinquent property taxes, special assessments, penalties and interest to the lien created by participating in the deferral program. Effective retroactively to taxes payable in 2000.
- 25 **Senior deferral; program termination.** Clarifies that in the case of properties with more than one qualifying homeowner, the deferral is not automatically terminated by the death of one homeowner. For example, in the case of a married couple in which both spouses qualify for the deferral, the deferral would not terminate upon the death of one of the spouses. Effective retroactively to taxes payable in 2000.
- 26 **Senior deferral; payment on termination.** Adds penalties, special assessments, and interest included in the total deferred amount in the amount payable when a participant leaves the program. Effective retroactively to taxes payable in 2000.
- 27 **Senior deferral; appropriation.** Expands the appropriation for the senior deferral program to include payment of delinquent taxes, delinquent special assessments, penalties, and interest. Effective retroactively to taxes payable in 2000.
- 28 **Dakota County; extension of certain penalties.** Extends the expiration date from December 31, 2000, to December 31, 2005, for certain administrative penalties that Dakota County is authorized to impose. These penalties, which are for violations relating to the protection of water resources and shoreline were authorized in the 1999 Tax Omnibus.
- 29 **Special assessment for 911 services; definition of "municipality."** Expands the definition of a municipality eligible to use the special assessment procedures of chapter 429 to include a county, for certain expenses related to the operation of enhanced 911 telephone services.
- 30 **Special assessment for 911 services; definition of "improvement."** Expands the definition of improvements eligible for special assessment to include certain county expenses related to addressing the needs of an enhanced 911 telephone service.
- 31 **Special assessment for 911 services; improvements authorized.** Expands the list of authorized improvements to include certain expenses related to addressing the needs of an enhanced 911 telephone service.
- 32 **Preparation of plans; notice of hearing.** Requires public hearing notices sent to affected property owners for a special assessment project to state that a reasonable estimate of the impact of the assessment will be available at the public hearing. Also requires a reasonable estimate of the total amount to be assessed, and a description of the methodology used to calculate individual assessments for affected parcels to be available at the hearing.
- 33 **Low-income tribal housing.** Extends to housing owned by the White Earth tribe's federally-recognized tribal housing entity and located on fee land the same property tax treatment currently

given to low and moderate income housing owned by statutorily defined housing and redevelopment authorities (HRAs). Makes the report the housing entity submits to the federal Department of Housing and Urban Development sufficient to meet the reporting requirements of state statute.

Low and moderate income housing owned by HRAs is not subject to property taxes; instead, the HRA pays 5 percent of the shelter rents for the housing as a payment in lieu of taxes, which is then split among the various taxing districts. Under prior law, tribally owned housing on fee land is taxed in the same manner as privately-owned housing. Housing on trust land, whether owned by the tribe or individuals, is not subject to property taxes.

34 **Moose Lake fire protection district; agreement.** Expands the Moose Lake fire protection district to include the entire town of Silver. Under prior law, the town of Silver could elect to include only a part of its territory within the protection district.

35 **Moose Lake fire protection district; tax.** Repeals authority given in 1987 session law for town of Silver to impose a property tax on property not in the district for providing fire protection services for that territory.

36 **Moose Lake fire protection district; public indebtedness.** Authorizes the district to issue certificates of indebtedness for capital equipment purchases. Certificates must be payable within five years. If amount exceeds 0.25 percent of the taxable property in the district, the board must publish a notice of intent to issue the certificates. The issuance of certificates must be approved by a majority of district voters in a special or general election if a petition signed by both 10 percent of voters from the last regular town elections and 10 percent of voters from the last city general election requests an election on the question. Principal and interest on the certificates will be paid by an ad valorem tax levied on all property in the district.

37 **Eveleth-Gilbert joint recreation board tax.** Provides that the Eveleth-Gilbert joint recreation board may levy a tax of up to \$125,000 per year for a maximum of 8 years on the taxable property within the boundaries of S.D. No. 2154, Eveleth-Gilbert, upon the agreement of the governing body or town board of each city and town located within that school district. The agreement may be by resolution or by a joint powers agreement under Minn.Stat. § 471.59.

If the tax is levied, it is in addition to all other taxes permitted to be levied for park and recreation purposes by the cities and towns and is to be disregarded in the calculation of any general overall levy limitations.

A city or town may withdraw its agreement to future taxes by notice to the recreation board and to the county auditor, unless provided otherwise by a joint powers agreement. The St. Louis county treasurer is to collect and pay the tax directly to the recreation board.

Applies in the cities of Eveleth, Gilbert, Leonidas, McKinley, and Iron Junction and in the towns of Biwabik, Clinton, and Fayal, all in St. Louis county. Effective for taxes payable in 2001 through taxes payable in 2008.

38 **Study of taxation of forest land.** Requires that the commissioner of revenue, in cooperation with the Minnesota forest resources council, to study the taxation of forest land in the state. The study is to review current property taxation practices in Minnesota, compare them with other states, and to recommend changes in tax policy that:

- encourage forest productivity;
- maintain land in forest cover;
- encourage the application of sustainable site level forest management guidelines;
- address impacts on local government revenues; and
- change tax rates.

The study must be completed and transmitted to the chairs of the House and Senate tax committees

by December 1, 2000. \$50,000 is appropriated for the cost of the study.

39 **Appropriation.** Transfers the balance of the property tax reform account to the general fund on July 1, 2000. Provides that any appropriations to the property tax reform account as a result of the November, 1999, forecast are canceled with the balance remaining in the general fund.

40 **Repealer.** Repeals various provisions.

**Paragraph (a)** repeals special provisions under which the Attorney General is required to enforce the airflight property tax.

**Paragraph (b)** repeals the transition class rates for apartment properties that previously qualified for preferential treatment under the low- and moderate-income rental housing provisions in class 4c or class 4d, but which cannot qualify for the low- and moderate-income rental housing property tax benefits under the new class 4d. As a result of 1999 legislation, the 2.4% class rate for regular apartments for taxes payable in 2000 and thereafter, is lower than the 2.6% and 2.5% transitional class rates provided in this section for taxes payable in 2000. Transition class rates are provided in this section for taxes payable in 1998, 1999, and 2000 only. The repeal is effective for taxes payable in 2000 and thereafter.

**Paragraph (c)** repeals a description of the conditions under which the substandard housing classification that was contained in Minn. Stat. § 273.13, subd. 25, para. (e), would have applied. Since the old paragraph (e) provisions no longer exist, this statute is irrelevant. These changes do not affect the provisions currently in Minn. Stat. § 273.1319 for noncompliant single family housing in Minneapolis and St. Paul. The repeal is effective the day following final enactment.

41 **Effective date.**

## Article 6: Levy Limits and Aids to Local Governments

### Overview

Adjusts the payment in- lieu of tax (PILT) payments on natural resource lands for previous inflation and provides for increases in future payments based on future inflation. These per acre payments have not increased since 1980.

Although levy limits are not extended, the special levy language is retained and expanded to include levies to pay for costs associated with operating regional jails and to repay revolving loans related to state and federal transportation and other capital projects.

Adjusts the county HACA cuts and the levy limit base cuts that were part of the state takeover of additional court costs enacted in 1999.

Permanently increases the LGA payments to the cities of Kelliher, Darwin, and Osseo.

Extends the low income apartment (4d) aid program for two more years, to 2003.

Allows additional one time aid payments to Lincoln county, the city of St. Cloud, and St. Augusta township to pay for certain costs.

Makes several technical corrections to levy limits and local government aid provisions as recommended by the department of revenue.

- 1 **Payments in lieu of taxes.** Provides that payments in lieu of taxes to a county or town for public hunting areas, game refuges, and goose management croplands are reduced by the amount of payments to that county or town for that year under the general payment in lieu of taxes (PILT) provision.
- 2 **County allocation.** Requires that payments under the PILT formula for public hunting areas, game refuges, and goose management croplands must be allocated within the county under the existing formula for those lands.
- 3 **Aid offset for court costs.** Increases a county's HACA by an amount equal to 7.5 percent of the

county's share of 1998 revenues for the fines transferred as part of the 1999 court takeover. States that a county can not get the increase under this provision if the actual HACA decrease due to the state court takeover was less than the calculated decrease because a county received insufficient HACA. Effective for aids paid in 2001 and future years.

4 **Special levy authority; regional jails and repayment of loans for certain capital projects.**

Retains and expands the special levies that would be outside levy limits if they are reimposed in the future. Current levy limits expire after taxes payable in 2000. Special levy authority is modified in two ways:

**Regional jails.** Extends the special levy authority for costs of operating county jails to regional jails. Counties currently have a special levy to cover the costs of operating levies for county jails to the extent that the expenses are related to a Department of Corrections (DOC) directive. Clarifies that for purposes of this special levy, district court orders are not DOC directives.

**Loans for certain capital projects.** Adds a special levy for repayment of a state or federal loan used to fund the local government portion of a state or federal transportation or other capital project. This special levy authority may only be used if the project was not initiated by the local government.

5 **Levy limit.** Makes a retroactive technical correction to the Pay 2000 levy limit calculation. Clarifies that the new taconite "mining effects" aid enacted during the 1997 legislative session was not to be subtracted in determining a city's levy limit.

At the time that the new aid was enacted levy limits were set to expire in 1999, prior to the aid first being paid. Levy limits were extended to 2000 during the following 1999 legislative session.

6 **City aid base.** Permanently increases the city aid base (the grandfathered portion of LGA) beginning with aid payable in 2001 for cities that meet certain criteria. The only city that qualifies for the additional \$32,000 of LGA under paragraph (l) is the city of Kelliher. The only city that qualifies for the additional \$7,200 of LGA under paragraph (m) is the city of Darwin. The only city that qualifies for the additional \$45,000 of LGA under paragraph (n) is the city of Osseo. These increases are funded out of the current city LGA appropriation.

7 **Local government aid appropriation.** Increases the local government aid appropriation by the amount necessary to fold-in local performance aid. Under a 1999 law, local performance aid was eliminated and the aid paid in 1999 was to be added to each city's local government aid payments beginning in 2000. However, the local government aid appropriation section was not amended to provide for this. Also changes the year in which low income apartment (4d) aid is added to LGA from 2002 to 2004. Effective for aid payable in 2000 and thereafter.

8-9 **Low-income (4d) apartment aid.** Extends the 4d aid program for two more years, through 2003. At that time, payments under this program will be added to city LGA payments.

10 **Terms.** Makes a technical correction to a cross reference in a PILT provision.

11-14 **Natural resources land payments in lieu of tax.** Provides for inflation adjustments of the amounts paid as payments in lieu of taxes for natural resources land beginning in 2001 and thereafter. Under prior law, the payments were \$3 per acre for acquired natural resources lands, 75 cents per acre of county-administered other natural resources land, and 37.5 cents per acre for commissioner-administered other natural resources land. The language provides for two alternative calculations of inflation depending on whether a provision that expands the definition of acquired natural resource lands to include consolidated conservation (ConCon) lands passed in another bill.

The ConCon provision passed in Chapter 485, section 16, subdivision 2, and was signed by the governor. Therefore the amounts will be increased by the increase in the implicit price deflator for the period starting with the first quarter of 1994 and ending with the third quarter of the calendar

year prior to the year in which the aid is paid. If the ConCon provision had not been enacted, the inflation adjustment would have covered the period starting with the first quarter of 1987 and ending with the third quarter of the calendar year prior to the year in which the aid is paid. The adjusted payments per acre are rounded to the nearest 1/10 of a cent. Administration of the programs is transferred from the Commissioner of Natural Resources to the Commissioner of Revenue.

- 15- **Hospital district levy.** Corrects a mathematical error made in converting mill rates to net tax capacity rates in 1999 legislation that increased the levy authority for a hospital district located in both St. Louis and Koochiching counties. The 1999 legislation was intended to increase the levy by approximately one-third, with the levy-authority increase specifically limited to ambulance acquisition and ambulance service purposes. To be consistent with the 1999 changes, the conversion of the hospital district's previously existing levy authority is effective for taxes payable in 2000 and thereafter, and the increased levy authority is effective for taxes payable in 2001 and thereafter.
- 16
- 17 **Capitol region watershed levy; administrative fund.** Sets the maximum dollar limit of the Capitol Region watershed district levy at \$200,000. Under general law, a watershed's levy may not exceed 0.02418 percent of taxable market value or \$125,000. Thus, this provision increases Capitol Region's levy by \$75,000 over general law. (Its levy is subject to the percentage limit.) Capitol Region watershed district is a newly created watershed and the increased levy will enable them to prepare a watershed management plan more quickly. Effective for taxes payable in 2001 and thereafter.
- 18 **Additional aid; Lincoln County.** Allows Lincoln county a one-time additional aid payment of up to \$150,000 spread over 2000 and 2001 to reimburse the county for costs associated with the Wind Tower lawsuit settlement. The county may pay a portion of this aid to Lake Benton township for its share of costs associated with this lawsuit. The money to make this aid payment comes from the portion of county criminal justice aid allocated to public defender costs; to the extent that there is unused revenue in this appropriation. Effective upon compliance of the county with Minnesota Statutes, section 645.021, subdivision 2 and 3.
- 19 **Local government aid to cities; city of St. Cloud and St. Augusta township (city of Ventura).** Allows additional one time payments in 2001 to these two municipalities for legal costs incurred related to the attempted municipal incorporation of St. Augusta township prior to the municipal board's termination. The payments are financed out of the general city LGA appropriation increase. Effective upon compliance of each municipality with Minnesota Statutes, section 645.021, subdivisions 2 and 3.
- 20 **County road and bridge levies.** Allows Lake of the Woods and Koochiching counties each to expend the proceeds of property taxes levied on property in unorganized townships for road and bridge purposes in any unorganized or organized township within the county. Prior law required that the funds be spent in the townships in which they were raised.
- 21 **Capital improvement plan definition.** Includes the St. Louis county heritage and arts center in the definition of "capital improvements" for purposes of the county capital improvement bonding law. This will allow the issuance of bonds for the center without holding a referendum, if an approved capital improvement plan includes the project. This only applies for bonds issued prior to July 1, 2001.

## **Article 7: Motor Vehicle Registration Tax**

### **Overview**

This article reduces the maximum registration tax on passenger automobiles to \$189 in the second year

after initial registration and \$99 in the third through tenth years. It appropriates money from the general fund to replace the reductions in revenues to the dedicated highway fund.

1 **Passenger automobile registration tax.** Limits the tax on registration of a passenger automobile (after the initial registration of a new automobile) to a maximum of \$189 in the second year of its life and \$99 in the third through tenth year of its life. It does not change the tax in the first year of registration or change the \$35 minimum tax that applies to all cars after ten years.

The change is effective for taxes due on and after July 1, 2000.

2 **Motor vehicle sales tax.** Dedicates 32 percent of revenue from the motor vehicle sales tax to the highway user tax distribution fund. This is intended to replace revenue reduced as a result of the tax change in section 1. Money in the highway user tax distribution fund is allocated to state highways and state aid to county roads and city streets.

The dedication would apply to revenue received beginning in fiscal year 2003.

3 **Appropriation.** Transfers \$149.804 million in fiscal 2001 and \$161.723 million in fiscal 2002 from the general fund to highway user tax distribution fund to replace revenue lost to the fund in those years as a result of the tax changes in section 1.

## Article 8: Sales and Use Taxes

### Overview

Reduces the percent of June sales tax liability that certain filers must remit before the end of June from 75 percent to 62 percent.

Makes several technical corrections to the sales and use tax and motor vehicle sales tax provisions as recommended by the department of revenue.

Expands a number of existing sales tax exemptions.

Adds a number of minor new exemptions to both the sales tax and the motor vehicle sales tax.

Prohibits local governments from imposing a local sales and use tax on motor vehicles and phases-out existing local taxes on motor vehicles.

Authorizes the commissioner of revenue to work with other states on a pilot project to simplify the sales tax collection system.

1 **Payment of newly mandated EFT payments.** Reduces the percent of the June sales tax liability that must be remitted before the end of June from 75 percent to 62 percent. Only filers with an annual liability of \$120,000 or more are subject to the June accelerated payment requirement. This portion of the section is effective beginning with the June 2002 liability.

Also changes the effective date for newly mandated sales tax electronic funds transfers so that the first required EFT payment is made for the period beginning in the new calendar year rather than the first payment due in the new calendar year. This portion of the section is effective the day following final enactment.

2 **Penalty for misusing exemption certificates for purchases of taxable services.** Clarifies that the penalty for the misuse of an exemption certificate to evade sales tax, applies to purchases of taxable services as well as to purchases of taxable property. Effective for exemption certificates used on or after July 1, 2000.

3 **Accelerated payment of June sales tax liability, penalty for underpayment.** Reduces the percent of June sales tax liability that must be paid before the end of June from 75 percent to 62 percent. Effective beginning with the June 2002 liability.

4 **Agricultural production.** Adds maple syrup harvesting to the definition of agricultural production. This definition is used to determine whether an agricultural business qualifies for the exemption on materials used in production. Effective for sales and purchases made after June 30, 2000.

- 5 **Farm machinery.** Adds equipment used for maple syrup harvesting to the definition of farm machinery. Adds equipment used for the production of trees and shrubs to the definition of farm machinery. Currently farm machinery is taxed at the rate one percent and will be exempt from taxation beginning July 1, 2000. These changes are effective for sales and purchases made after June 30, 2000.
- 6 **Refund; appropriation; agricultural processing facility.** Establishes the mechanism for the facility owner to apply for a refund on the sales tax paid on materials and equipment used in constructing agricultural processing facilities. The sales tax exemptions for construction materials and equipment for specific facilities are contained in sections 17 and 18. Effective for applications for refund made after June 30, 2000.
- 7 **Outstate transport and delivery.** Allows a nonresident to take possession of and use an aircraft for up to ten days in the state without being subject to the state sales tax if:
  - (1) the aircraft is removed by the purchaser from the state and is subsequently registered in another state or county; and
  - (2) the aircraft is used exclusively during that ten day period for training purposes.Effective the day after final enactment.
- 8 **Materials consumed in production.** Adds base blocks to the list of metal casting items that are exempt from the sales and use tax. Effective for sales and purchases made after June 30, 2000.
- 9 **Sales to governments.** Expands the sales tax exemption for government purchases to purchases by state agency libraries. Effective for sales and purchases after June 30, 2000.
- 10 **Sales to nonprofit groups.** Exempts the lease of motor vehicles to certain nonprofit groups from the general sales and use tax. This exemption only applies if:
  - the vehicle is a truck, bus, or a van that can carry at least nine passengers; and
  - the vehicle is used primarily to transport goods or people, other than employees, as part of its charitable, religious, or educational activities.Effective for sales and purchases after June 30, 2000.
- 11 **MTC bus exemption.** Clarifies that purchases and leases of Metropolitan Transit Council buses are exempt from sales tax. A 1997 law change had the unintentional effect of imposing sales tax on buses purchased or leased by the MTC. (The intent was to clarify that local governments are required to pay sales tax on their off-road vehicles.) This change corrects the oversight. Effective retroactively to July 1, 1997.
- 12 **Materials used to make residential property handicapped accessible.** Allows a sales tax exemption for veterans groups, or nonprofit groups organized for charitable, religious, educational, or civic purposes on purchases of materials and supplies used to make a private home handicapped accessible. This exemption is only allowed if the materials used in the modifications would have been exempt from the sales tax if purchased by the home owner. Effective for sales and purchases made after June 30, 2000.
- 13 **Cemetery upkeep.** Exempts lawn care and related services used in cemetery maintenance from the sales tax. Effective for sales and purchases made after June 30, 2000.
- 14 **Patent, trademark, and copyright drawings and documents.** Exempts from sales tax any drawings, diagrams, or related documents and copies of such documents sold by patent drafters. To qualify, the drawing or document must be sold for use in either:
  - patent, trademark, or copyright applications;
  - an application for FDA approval of a medical device; or
  - judicial or quasi-judicial proceeding, including mediation and arbitration, relating to a patent,

trademark, or copyright.

Effective after June 30, 2000.

- 15 **Machinery and equipment for ski areas.** Provides a sales tax exemption for machinery, equipment, fuel, electricity, and water additives used at ski areas. The items are exempt if used directly for tramways, or for snow making and snow grooming operations of ski slopes or trails. Under prior law, ski areas only had an exemption for electricity used in snow making. The exemption is effective for sales made after June 30, 2000.
- 16 **Feed for poultry raised for human consumption.** Exempts from sales tax, the sale of poultry feed if the poultry is raised for human consumption. Under prior law, the feed was exempt if the poultry was raised commercially. This would exempt feed used to raise poultry for personal use. Effective for sales and purchases made after June 30, 2000.
- 17 **Construction materials and equipment; agricultural processing facility.** Allows a sales tax exemption for materials, supplies, and equipment used to construct and equip a pork processing facility that meets the following criteria:
- the facility will cost at least \$4 million;
  - the facility is owned and operated by a cooperative; and
  - the facility can process at least 400 hogs daily.
- The exemption applies to purchases by the facility or by a contractor, subcontractor, or builder. The tax must be paid up front and the facility owner must apply for a refund. This exemption applies to the Prairie Farmers Cooperative facility. Effective for sales and purchases made after January 1, 2000, and before December 31, 2000.
- 18 **Construction materials and equipment; agricultural pork and beef processing facility.** Allows a sales tax exemption for materials, supplies, and equipment used to construct and equip a pork and beef processing facility that meets the following criteria:
- the facility will cost at least \$1.5 million;
  - the facility is a C corporation with less than 20 owners of which at least one-half are full- or part-time farmers; and
  - the facility can process at least 50 hogs and 30 beef animals weekly.
- The exemption applies to purchases by the facility or by a contractor, subcontractor, or builder. The tax must be paid up front and the facility owner must apply for a refund. This exemption applies to Lorentz Meats. Effective for sales and purchases made after December 1, 1999, and before December 31, 2000.
- 19 **Definition of a sales for purposes of calculating motor vehicle sales tax.** Exempts transfers of motor vehicles between individuals from the motor vehicle sales tax if the transfer is a gift and the parties sign an affidavit to that effect at the time the title is transferred. Under prior law, only transfers between spouses or between a parent and child or gifts to certain nonprofit organizations were exempt. Effective for transfers beginning July 1, 2000.
- 20 **Motor vehicle exemptions.** Expands the exemption from motor vehicle sales taxes to the following vehicles:
- vehicles transferred between related companies to be consistent with the occasional sale exemption allowed for corporate mergers, liquidations, and reorganizations; and
  - trucks and vans that can carry at least nine persons sold to a nonprofit group, provided that the vehicle is used primarily to transport goods or individuals, except employees, as part of its charitable, religious, or educational activities.

Effective for sales and purchases made after June 30, 2000, except for the provision related to transfers between companies which is effective the day following final enactment.

- 21 **Local sales tax on motor vehicles prohibited.** Prohibits any political subdivision from imposing a tax on the sale, transfer, or use of a motor vehicle greater than \$20 per vehicle. Effective July 1, 2000.
- Subd. 1. Sales tax prohibited; phaseout.** Provides a mechanism for reducing the tax over four years if it currently exceeds this limit. If a local government is currently imposing such a tax it must be reduced by 25 percent per year beginning in 2001. By January 1, 2004, no local government may impose a tax on motor vehicles except as provided in subdivision 2.
- Subd. 2. Excise tax on motor vehicles authorized.** Permits a political subdivision whose tax is terminated under subdivision 1 to impose by ordinance an excise tax of up to \$20 per motor vehicle that is purchased or acquired from any person engaged within the territory of the political subdivision in the business of selling motor vehicles at retail. Requires the tax proceeds to be used for the same purposes for which the tax terminated under subdivision 1 was used.
- 22 **Development of sales and use collection system.** Authorizes the commissioner of revenue to enter into agreements with other states to develop a simplified sales and use tax collection system. The bill also authorizes the state to participate in any temporary pilot project to test the proposed system. A number of states are working together to develop a "no burden" sales tax collection system. This would reduce the burden of sales tax collection on multi-state businesses and may enhance the future ability of the states to collect taxes currently due on remote sales.
- Subd. 1. Authorization to enter into multistate discussions.** Allows the commissioner to enter into discussions with other states on developing a multistate, streamlined system for collecting sales taxes. If the discussions result in the states issuing a joint request for information from public and private parties, the department must publish the request in the State Register.
- Subd. 2. Limited test authorization.** Allows the state to enter into a joint agreement to participate in a temporary pilot project of any proposed system. Exempts the pilot project from the provisions of chapters 289A and 297A as needed, except as they relate to rates or exemptions. Requires the project to terminate by December 31, 2001.
- Subd. 3. Disclosure.** Requires that any agreements entered into under this section must comply with the provisions of chapter 270B (Tax Data; Classification and Disclosure).
- Subd. 4. Report on project.** Requires the commissioner to report to the chairs of the house and senate tax committees by March 1, 2002, describing the status of the discussions, the proposed system if any, and a recommendation on state participation in the proposed system.

## **Article 9: Health Care Taxes**

### **Overview**

This article exempts HMOs and nonprofit health service corporations from the premium tax for two additional years of exemption (CY 2001 and CY2002). It clarifies that payments under the federal employees health plans are exempt for all types of health plans, extending a tax court ruling that applied to staff model health plans.

- 1 **Premium tax; HMOs and nonprofits.** Provides that health maintenance organizations (HMOs), community integrated service networks, and nonprofit health service corporations (e.g., Blue Cross and Delta Dental) are exempt from the insurance premium tax for calendar years 2001 and 2002. This section repeals the trigger language that required the commissioner of finance to impose the premium tax when she finds the health care access fund to be in structural deficit. Starting in 2003, the insurance premium tax will be imposed on HMOs, community integrated service networks, and nonprofit health service corporations at a one percent rate. This is consistent with the current projections by the department of finance.
- 2 **Definition of patient services.** Clarifies that services to nursing homes and examinations for

employment, litigation, utilization review, and insurance are not considered patient services and do not have to be reported by health care providers as gross revenues. Under prior law, providers reported the receipts for these services and then excluded them under the exemptions provision.

- 3 **Exemptions.** Exempts payments received under the Federal Employees Health Benefits Act (FEHBA) from the MinnesotaCare tax. Under federal law, no state may impose a tax on a FEHBA carrier or a plan subcontractor. A 1999 tax court decision held that application of the tax to a staff model health plan company violated the federal statute. This section extends the exemption to all hospitals and health care providers. This section also repeals the exemption for nursing homes and utilization and other reviews. Section 2 excludes these services from the definition of patient services.
- 4 **Provider tax refunds.** Clarifies that all refunds of the provider tax, including those due to the research credit, are to be paid from the health care access fund. Effective retroactive to January 1, 1999.

## **Article 10: Special Taxes**

### **Overview**

Decreases the lawful gambling tax rates.

Makes technical changes to the cigarette and tobacco taxes as recommended by the Department of Revenue.

Repeals the June accelerated payment for cigarette, tobacco, and alcoholic beverage excise taxes.

- 1 **Reporting.** Requires additional information to be included in the SCORE report which counties submit annually to the state. The counties must report for the previous year how the SCORE grants were spent, including:
  - the number of employees performing SCORE planning, oversight and administration;
  - the percentage of those employees' work time allocated to SCORE planning, oversight and administration;
  - the specific duties and responsibilities of those employees; and
  - the amount of staff salary for the SCORE duties of those employees.
- 2 **Mortgage registry and deed tax; amendments.** Clarifies the definition of "amendment" for purposes of the mortgage deed and registry tax. This chapter was recodified in 1999 and this is merely a technical correction to that recodification.
- 3 **Lawful gambling tax.** Reduces the tax on paddlewheels, raffles, and bingo from 9 percent of gross profit (gross receipts minus prizes) to 8.5 percent.
- 4 **Gambling tax credit for certain raffles.** Allows licensed organizations to claim a credit equal to the state gambling taxes imposed on the receipts from a raffle in which the net profits are donated to benefit the victims of illness, crime, accident, fire, or natural disaster. Under present law the receipts from such a raffle would be subject to a tax of 9.0 percent of gross profit (gross receipts minus prizes), with no credit allowed.
- 5 **Pull-tab and tipboard tax.** Reduces the tax on pull-tabs and tipboards from 1.8 percent of ideal gross (gross receipts if all pull-tabs or tipboards in a package are sold) to 1.7 percent. Makes corresponding changes in the refunds for unsold pull-tabs and tipboards.
- 6 **Combined receipts tax.** Reduces the tax on combined receipts (gross receipts from pull-tabs and tipboards received by an organization with more than \$500,000 in gross receipts from these sources in a year) as shown in the following table.

<b>Tax</b>	<b>Current Rate</b>	<b>Proposed Rate</b>
Paddlewheel, raffles, bingo	9% of gross profit	8.5%
Pull-tabs, tipboards	1.8% of ideal gross	1.7%

Combined receipts tax:

\$500-700,000	1.8% of amount over \$500,000	1.7%
\$700-900,000	\$3,600 plus 3.6% of amount over \$700,000	\$3,400 + 3.4%
Over \$900,000	\$10,800 plus 5.4% of amount over \$900,000	\$10,200 + 5.1%

- 7 **Definition of "consumer."** Clarifies that "consumer" means an individual who has title to or possession of cigarettes or tobacco products for personal consumption rather than for sale, for purposes of determining cigarette and tobacco products taxes. Effective the day following final enactment.
- 8 **Definition of "invoice."** Defines the term "invoice" for the cigarette and tobacco products taxes. Effective July 1, 2000.
- 9 **Definition of "retailer."** Defines "retailer" for the cigarette and tobacco products taxes to include persons licensed under chapter 461. Effective the day following final enactment.
- 10 **Definition of "stamp."** Authorizes the commissioner of revenue to adopt stamps, other than adhesive stamps (as required by present law), to indicate that the tax has been paid. This will allow the commissioner to authorize use of stamps other than heat applied stamps. Other sections of the article make conforming changes by striking references to heat applied stamps.
- 11 **Definition of "unlicensed seller."** Defines the term "unlicensed seller" for the cigarette and tobacco products taxes.
- 12- **Heat applied stamps.** Strikes a reference to heat applied stamps, permitting use of any stamps  
16 approved by the commissioner of revenue.
- 17 **June accelerated payments.** Repeals the June accelerated payments of the excise tax on cigarettes. Effective for the June 2002 payment.
- 18 **June accelerated payments.** Repeals the June accelerated payments of the excise tax on tobacco products. Effective for the June 2002 payment.
- 19 **Maintenance of invoices.** Requires retailers and sub-jobbers to maintain copies of  
  
invoices for all cigarettes or tobacco products at each licensed place of business or at a central location. If the invoices are maintained at a central location, they must be made available at the retail location within one hour at the request of the commissioner. Removes the requirement that invoices list the name and address of the seller and the date of purchase. This requirement is moved to the definition of "invoice."
- 20 **Definition of contraband.** Includes in the definition of contraband for purposes of cigarette and tobacco taxes any cigarettes for which there is no invoice. Effective July 1, 2000.
- 21 **Seizure of contraband.** Provides that in a court hearing related to contraband seizure under cigarette and tobacco tax provisions, the issue to be decided is whether the alleged contraband is contraband as defined in statute and not whether there was an intent to evade the tax. Effective for alleged contraband seized on or after the day following final enactment.
- 22 **Repealer.** Repeals:  
  
Section 270.083, an obsolete statute that requires the commissioner to annually examine the accounts of railroads and other corporations that are subject to the gross earnings tax.  
Sections 297F.09, subdivision 6; and 297G.09, subdivision 5, provisions requiring accelerated payments of June liability under the cigarette and alcoholic beverage excise taxes. Effective June 2002.

**Article 11: Local Development**

## Overview

The article extends the sunset for housing improvement districts and allows development authorities to carry out the operations of these districts.

It also makes a number of minor, procedural, and clarifying changes in the tax increment financing (TIF) law. It simplifies the tax increment financing (TIF) reporting requirements by combining the two separate statutes requiring TIF financial reporting. The information that must be published in the newspaper is simplified.

The article also eliminates the 11 year duration limit (from the date of plan approval) for economic development districts and reduces the limit based on the first collection of increment from 9 years to 8 years. Properties containing unused or underused tank facilities qualify as redevelopment districts. A district that is subject to percentage pooling restrictions may use up to an additional 10 percent of its increment for low income rental housing outside of the district.

The article appropriates:

\$5 million for redevelopment grants to the city of Richfield to acquire houses in areas that will have high levels of low frequency noise from the new North-South runway at the Minneapolis-St. Paul airport

\$30 million for the Minnesota Iron & Steel project in Itasca county.

The article repeals mined underground space TIF districts.

Special TIF district exemptions are provided for five cities:

Brooklyn Park (economic development; green acres property)

Fountain (district extension to correct mistake)

Mendota Heights (pre-1982 pooling rule exemption)

St. Paul (housing district income limits)

Winona (pre-1982 pooling rule exemption)

- 1 **Qualified housing district.** Extends the definition of "qualified housing district" to include single family home ownership projects in which at least 95 percent of the home purchasers have incomes at or below the greater of (1) 70 percent of the area median gross income or (2) the statewide median gross income. The income limit is adjusted for family size.
- 2 **Authority.** Defines "authority" to mean an economic development authority or a housing and redevelopment authority for purposes of the housing improvement area statute.
- 3 **Implementing entity.** Defines "implementing entity" to mean the city or authority designated in the enabling ordinance as responsible for implementing and administering the housing improvement area.
- 4 **Ordinance.** Provides that the governing body of a city may adopt an ordinance establishing one or more housing improvement areas. The ordinance must designate the implementing entity.
- 5-10 **Implementing entity.** Replaces references to "city" with "implementing entity" in the housing improvement area statute. This will permit an economic development authority or a housing and redevelopment authority to operate a housing improvement area.
- 11 **Sunset.** Extends the sunset on the authority to establish housing improvement districts without special legislation from June 30, 2001, to June 30, 2005, after which special legislation would be required.
- 12 **HRAs, mined underground space authority.** Eliminates the authority of housing and redevelopment authorities (HRAs) to exercise mined underground space authority powers. Section 44 repeals this authority and the associated TIF districts. This law was enacted in the

1985 legislative session for a potential development in Minneapolis. It has never been used.

13 **TIF mined underground space district.** Eliminates a reference to mined underground space districts. Section 44 repeals the authority to establish these districts.

14 **Redevelopment definition.** Expands the areas that qualify as redevelopment districts to include unused or underused tank facilities adjacent to railroad facilities. Properties on which the tank facilities have been removed also qualify. The tank facilities must have a capacity larger than 1 million gallons to qualify. This section also allows a redevelopment district to qualify by using more than one of the three tests (blight, railroad facilities, or tank facilities) to qualify parts of a district.

**Background.** Under prior law, areas could qualify as redevelopment districts under either of two tests: (1) the blight test, which requires 70% of the area to be occupied by buildings and improvements and 50% of the buildings to be structurally substandard; or (2) vacant, unused, or inappropriately used railroad facilities. This section adds another test for qualifying a district.

15 **Housing districts.** Adds a definition of housing project to clarify and specify which developments meet the requirements for spending housing district increments on low and moderate income housing. This is effective retroactive to the original effective date of the requirement.

16 **TIF mined underground space district.** Eliminates a reference to mined underground space districts. Section 44 repeals the authority to establish these districts.

17 **Administrative expenses.** Clarifies that administrative expenses do not include amounts spent on physical development and relocation benefits paid for locations outside of the district, but within the project area. Principal payments on bonds would not be administrative expenses. Effective retroactive for all TIF districts.

18 **Tourism facilities.** Makes a conforming change in the definition of "tourism facility" to be consistent with the 1999 prohibition on using increments for social and recreational facilities. The 1999 law limited use of increments to privately owned meeting facilities. Amusement and recreational facilities and cultural facilities are not permitted, regardless of whether they are publicly or privately owned. This change is effective for requests for certification received after June 30, 2000, although if the authority has a letter of intent from the developer as of December 31, 1999, social and recreational facilities would qualify even in a new district.

**Definition of qualifying counties.** In addition, this section clarifies which counties qualify to use economic development districts for tourism type projects. Prior law requires a county to derive at least 15 percent of its earnings from tourism related entities. However, as a practical matter, no government data series was available to verify which counties satisfied this requirement. This section designates counties within development regions 2, 3, 4, and 5 as qualifying. This includes 26 counties: Aitkin, Becker, Beltrami, Carlton, Cass, Clay, Clearwater, Cook, Crow Wing, Douglas, Grant, Hubbard, Itasca, Koochiching, Lake, Lake of the Woods, Mahnomon, Morrison, Otter Tail, Pope, St. Louis, Stevens, Todd, Traverse, Wadena, and Wilkin. To qualify, a county is also subject to a restriction (under prior law) that its income be less than 85 percent of the state median. These tourism projects may not be located in cities with populations that exceed 20,000.

19 **County road costs.** Increases from 30 days to 45 days the time that counties have to submit proposed road improvements to be included in the TIF plan. It also clarifies that the county board may require the tax increment financing authority to pay the cost of county road improvements if the improvements are not scheduled for construction within five years under the county capital improvement plan or within five years under any other formally adopted county plan.

20 **Notification of counties.** Requires notification of counties and school districts to be sent to the county auditor and clerk of the school district, rather than the boards. County and school district staffers are directed to provide the materials to the boards. In addition, the city is required to provide a draft of the TIF plan. Prior law only required information on economic and fiscal impacts to be provided. This section also clarifies that waiver of the 30 day period may only be made by the boards (not the staff) submitting written comments.

21 **Waiver.** Allows waiver of the 30-day notice requirement to individual county commissioners of housing districts and redevelopment districts. Notice for these types of districts are required to be given to the individual county commissioners in whose districts the TIF district is located. Prior law did not permit this 30-day period to be waived, but does permit the 30-day notice period to the county and school boards to be waived. The change in this section provide equivalent waiver authority for the two notices. This change is made retroactive to the original notice requirement to validate previous waivers.

22 **But-for test.** Eliminates a provision that would allow a municipality to approve a TIF plan (without a but-for finding) by simply failing to act for 60 days after the TIF authority submitted the plan. This section also eliminates a reference to mined underground space districts. Section 44 repeals the authority to establish these districts.

23 **Publication requirement.** Clarifies and changes the information that must annually be published in the newspaper by a TIF authority for each TIF district. A TIF authority would be required to publish for each TIF district the following information (whether this is a new or existing requirement is listed in parentheses after each item):

- Original tax capacity (existing law);
- Total tax capacity (new);
- Captured tax capacity (existing law);
- Month and year of the first increment (new);
- Required decertification date for the district (new);
- Principal and interest to be paid on bonds for the year (new); and
- Effect of fiscal disparity option (a) on property taxes (existing law).

This section eliminates the following items that prior law required be published:

- Outstanding bonded indebtedness (annual principal and interest payments would be reported instead);
- Increments paid to other governmental bodies;
- Administrative costs; and
- Increments paid for activities located outside of the TIF district.

This section also repeals the separate financial reporting requirements. These are combined in section 24.

24 **Financial reporting.** Expands and clarifies the financial information that must be reported annually by TIF authorities to the State Auditor. These reports would no longer need to be provided to the school district. The following items are added to the statute (although in some cases the State Auditor has required, under her general powers, this information to be reported):

- Captured net tax capacity that is shared with affected taxing districts;
- Date of approval of the TIF plan;
- Date of the authority request to the county to certify the district;
- Date the county certified the district;

Month and year of the receipt of the district's first increment;

Break-downs of the separate components of tax increment: (1) taxes paid, (2) interest or other investment earnings, (3) proceeds from sales of property acquired with increments, and (4) repayments of loans and other advances made with increments;

Revenues of the district, other than tax increments: (1) proceeds of sales of property not acquired with increments, (2) special assessments, (3) grants, (4) transfers from funds not exclusively associated with the district;

Transfers to funds not exclusively associated with the district;

Payments with increments for activities outside of the district; and

Additional details on the components of bond payments, by type of bond, and for pay-as-you-go contracts.

- 25 **Economic development districts duration.** Repeals the 11 year duration limit for economic development districts. This duration limit is calculated from the date of approval of the TIF plan. The nine year limit, measured from the date of receipt of the first increment, is reduced to eight years. However, these districts will still be entitled to receive nine years of increment, since eight years is measured from the receipt of the first increment and the full increment in the last year is allowed to be received. This section also clarifies that waiver of increments does not affect the duration limit. Prior law allowed housing, redevelopment, and hazardous substance districts or subdistricts to waive increment, but only in return for a 5 year reduction in their duration limits.
- 26 **Spending on housing outside of project area.** Allows increments to be spent on qualifying low income housing that is located outside of the project area. To qualify the housing must meet the requirements for the federal low income housing tax credit as provided under section 28.
- 27 **Enforcement of housing district income limits.** Provides violations of the housing district income limits are subject to the law that governs all other TIF provisions and transfers responsibility from the commissioner of revenue to the state auditor. Prior law provided that the sanction for violating the income limits was that the district reverted to being an economic development district (with a shorter duration limit and an inflation adjustment of original tax capacity). When this law was enacted (1989), it was permissible to use economic development districts for housing developments. In 1990, the law was amended to prohibit this use and the general enforcement provisions were enacted. This enforcement provision for housing districts was not, however, changed. This change is effective for violations occurring after July 1, 2000.
- 28 **Pooling of TIF, housing.** Authorizes the authority for a district subject to the post-1990 pooling restrictions to increase the pooling percentages by 10 percentage points, if the increments are used for a low income housing development. Prior law limited these TIF districts to spending no more than 20% (25% for redevelopment districts) of their increments on activities located outside of the geographic area of the district. The amount available to be pooled is also reduced by administrative expenses. Housing districts are not subject to these pooling restrictions, but the amounts must be spent on low and moderate income housing. The change in section allows the converse situation; other types of districts will be able to pool up to an additional 10 percent of their increment, if the amounts are spent on housing that meets the requirements of the federal low income housing tax credit. This credit generally is limited to rental housing for families with incomes below 60 percent of the area median income.
- The section provides that the pooling exemption is limited to increments equal to the qualified basis under the federal tax credit, less the amount of any federal tax credit. This generally will restrict the exemption to the portion of the building that is devoted to income and rent

restricted units. Effective for increments spent after July 1, 2000.

- 29 **Adjustments to original net capacity.** Eliminates the adjustment to original net tax capacity for economic development districts and the provision setting mined underground space district's net tax capacity at zero. Under prior law, the original net capacity of an economic development district was adjusted by the average growth in market value in the district in the five years before certification. This was intended to prevent economic development districts from capturing inflationary type growth, rather than growth attributable to development.
- 30 **Enforcement provision, cross reference.** Provides that taxpayers may bring private lawsuits for damages for TIF violations involving collection of increment. The cross reference in existing law limits these lawsuits to issues involving expenditure of increment. This is an apparent mistake in the appropriate cross reference in the 1990 legislation. (This has no effect on actions to enforce by the law by county attorneys or the attorney general.) This change is effective for violations occurring after the day following final enactment.
- 31 **Cross reference.** Strikes a reference to a financial reporting subdivision repealed by section 44.
- 32 **Increments after duration limit.** Authorizes the authority or municipality to enter an agreement with the county to repay increments mistakenly paid by the county after the maximum duration limit of TIF district has been reached. If the overpaid increments are voluntarily repaid, the municipality will receive its share of the increments.
- 33 **Abatement, purposes.** Allows abatement to be used to phase-in property tax increases that are caused by large increases in market value. A qualifying increase of 50 percent or more is required. This authority allows the county, school, and city to abate part or all of the tax resulting from the market value increase. The cost of this will be borne by other local property taxpayers in the political subdivisions granting the abatements.
- 34 **Abatement and TIF.** Allows abatement to be used for property in a TIF district, if the period of the abatement will not occur until after the TIF district is decertified. This will allow a political subdivision to enter into an abatement agreement that takes effect after the TIF district is decertified. Under prior law, the abatement could not be approved until the TIF district had ended. This will allow use of TIF and abatement to be combined to provide assistance to a project.
- 35 **Abatement duration limit.** Allows extension of the maximum abatement term from 10 years to 15 years, if only one or two of the political subdivisions containing the parcel grant an abatement (e.g., the city and county approve, but the school district does not). If after an extended abatement is granted the third political subdivision grants an abatement, the extension of the duration is reduced by each year that the third political subdivision grants an abatement. For example, assume the city and county approve a 15 year abatement because the school does not grant an abatement. A year later the school district grants a 3 year abatement. The maximum term for the city and county abatement, then, would be reduced to 12 years (i.e., the 15 year maximum reduced by the 3 years of the school abatement).
- 36 **TIF grant program, definition.** Provides that the statutory definition of increments applies to the TIF grant program. This definition applies regardless of whether the statutory definition applies to the district or revenues, because they pre-dated the effective date of the statutory definition.
- 37 **Brooklyn Park, TIF.** Extends the 1998 law expanding the permitted uses of green acres parcels to an economic development district in Brooklyn Park. This 1998 change allowed green acres parcels to be included in a TIF district for distribution facilities. The 1998 law was effective only for new districts (requests for certification made after April 30, 1998).

Prior law allowed green acres parcels to be included for manufacturing projects and qualified housing districts only. In addition, the 1998 change requires both manufacturing and distribution TIF projects on green acres parcels to pay at least 160 percent of the federal minimum wage to at least 90 percent of the employees.

38 **Fountain, TIF.** Allows the city of Fountain to extend the duration of an economic development district by one year (through 2008). The extension would not be subject to the state aid offset, since the extension is intended to offset a miscalculation of increment that resulted from division of a parcel in the district.

39 **Mendota Heights, TIF.** Exempts a Mendota Heights TIF district from the 1999 law governing pooling from pre-1982 TIF districts. In effect, it provides the sanction for pre-1982 pooling violations does not apply to this district. The 1999 legislation provided that districts with pre-1982 pooling violations must use their increments after 1999 only to pay pre-existing obligations. The bill, in addition, allows pooling of up to \$4.5 million in increment for Mendota Heights' freeway road project, a livable communities mixed used project. Effective upon local approval by the city.

40 **St. Paul HRA, TIF.** Authorized the St. Paul HRA to establish a housing TIF district for both rental and owner occupied housing. This district would be subject to more flexible income limits than are available under general law. This district must be located in a 15 acre area bounded by highway I-94, Jackson Street, and West Seventh.

The income limits are as follows:

<b>Number of units</b>	<b>Income Limit</b>
	(percent of area median income)
20%	50%
60%	115%
20%	no limit

General law allows 20 percent of the market value of improvements to be used for commercial development and non-low and moderate income housing. The section allows 20 percent of the housing units to be unrestricted by income. Since it is likely these units will have higher values than the income restricted units, the 20 percent of market value test would not be met. The bill allows an additional 20 percent of the fair market value of improvements to be in commercial or non-housing improvements.

The section provides that income restricted units, whether owner occupied or rental, are considered together in determining whether "the required total number of qualified units" is met. General law has separate limits for rental versus owner occupied housing.

41 **Winona TIF.** Deems expenditures made before 1998 on a wastewater treatment plant to be made within the geographic area of the TIF district and, thus, not to constitute pooling of increments from a pre-1982 district. This will, in effect, exempt the district from the 1999 law that requires pre-1982 districts that pooled increments to use all of their increments after 1999 to decertify the district.

42 **Redevelopment grants; Richfield.** Appropriates \$5 million in FY2001 to the Department of Trade and Economic Development (DTED) to make a redevelopment grant to the city of Richfield. This grant may be used only to acquire houses and apartment buildings in a two block wide area adjacent to the new North-South runway at the airport. The usual 50% local match requirement for these grants does not apply. The city is required to submit a detailed report on the plans for and use of the money to the chairs of the tax committees of the

legislature by December 15, 2000.

43 **Minerals 21<sup>st</sup> Century Fund.** Appropriates \$30 million in FY2001 to the Minnesota Minerals  
21<sup>st</sup> Century Fund. An entity controlling infrastructure financed by this appropriation must  
make the infrastructure available to other businesses or public authorities at the cost of  
operation and maintenance.

44 **Repealer.** Repeals the mined underground space authority law and the related TIF provisions.  
This change is effective the day following final enactment.

This section also repeals a financial reporting statute. Section 24 incorporates these  
requirements into the new unified financial reporting requirements. These reports were  
originally required to be made to the commissioner of revenue. This repeal is effective for  
reports filed beginning in 2001.

## **Article 12: Federal Update Overview**

Conforms the Minnesota income tax and other taxes to the 1999 changes in the Internal Revenue Code.

1, 4, **General update.** Updates the references to the Internal Revenue Code from December 31, 1998,  
and to December 31, 1999, for chapters 289A, tax administration provisions; 290a, property tax  
5 refund; and 291, estate tax to the changes made by the two federal bills enacted in 1999, a trade  
bill that contained a minor change and an "extender" bill that extended various sunset dates. These  
reference updates have little substantive impact on Minnesota. Effective day following final  
enactment.

2 **Taxable income.** Adopts the 1999 federal changes to federal taxable income, which is used as the  
basis for calculating Minnesota taxable income, and deletes back tax year references from 1986  
through 1996. The federal changes are:

Extends the ability of employees to exclude from their income nonemployment related  
employer provided undergraduate college education benefits of up to \$5,250 for courses  
beginning from May 31, 2001, through December 31, 2001.

Extends the ability to expense rather than capitalize and depreciate "brownfield" clean-up  
expenses for expenses paid or incurred from December 31, 2000, through December 31,  
2001.

Continues the suspension of the limit on percentage depletion to net income from an oil or  
gas well for independent marginal producers for tax years beginning between December  
31, 1999, and December 31, 2001.

Extends the ability of U.S. corporations with foreign banking and insurance subsidiaries to  
exclude the banking and insurance business income from U.S. taxable income for tax years  
beginning before January 1, 2002.

Provides that farmers' option to accelerate the receipt of a payment under a federal  
production flexibility contract will not accelerate the recognition of income until the option  
is exercised. Effective after December 17, 1999.

Provides that commodity derivative financial instruments held by commodity derivative  
dealers hedging transactions, and supplies consumed by a taxpayer in the ordinary course  
of business will generate ordinary income or loss rather than capital gain or loss. Effective  
for assets sold after December 17, 1999.

Provides that the character of income (ordinary or capital) realized on the sale of a  
financial asset by a flow-through entity will be the same as if the taxpayer had individually  
sold the asset. Effective for transactions on or after July 12, 1999.

Further limits the ability of accrual based taxpayers to use the installment method of reporting income. Effective for sales after December 17, 1999.

Reduces the tax basis of assets of a corporation whose shares are distributed by a partnership to another corporation if the recipient corporation controls the distributed corporation after the distribution. The reduction equals the excess of the partnership's basis in the stock over the corporate partner's basis in the distributed stock. Effective for distributions after July 14, 1999.

Limits the ability to receive the tax favored status as a real estate investment trust in a number of ways. Generally, effective for tax years beginning after December 31, 2000.

Prevents an increase in basis for a bundle of assets subject to a single debt that are distributed by a parent corporation to a number of subsidiaries who will be jointly and severally liable for the single debt which is transferred with the assets. Effective for transfers after October 18, 1998.

- 3 **Other Minnesota tax references to the Internal Revenue Code.** Updates all other references to the Internal Revenue Code in Chapter 290, Income and Franchise Tax, for federal changes to the Code made in 1999. The only federal change that substantively affects Minnesota is a change to the definition of "qualified child" for the federal earned income tax credit. This definition determines eligibility for the Minnesota working family tax credit. The change limited the ability of a foster child to be a "qualified child" to brothers, sisters, stepbrothers, or stepsisters of the taxpayer (or a descendent of the above). Effective for tax years beginning after December 31, 1999.

### **Article 13: Miscellaneous Overview**

This article makes minor changes in the revenue recapture act, and various other changes in the tax laws requested by the Department of Revenue. In addition, it transfers \$110 million from the workers compensation assigned risk plan to the general fund.

- 1 **Compromise of tax and fee claims.** Makes explicit the authority of the attorney general to compromise not only tax debts, but also fees, surcharges, and assessments, for any case referred to the attorney general by the commissioner of revenue. Effective for compromises entered into after the date of final enactment.
- 2 **Affidavits for lost warrants.** Provides that the commissioner of revenue need not obtain an affidavit from the commissioner of finance for lost tax refund and sales tax rebate checks, if the replacement check is made out to the same person.
- 3 **Retention of liens after partial write-off.** Clarifies that the commissioner of revenue is not required to release tax liens imposed after write-off if a valid balance due remains for any of the periods listed on the lien. Effective for debts written off on or after the day following final enactment.
- 4 **Vehicles exempt from tax and registration fees.** Expands the current exemption for motor vehicle tax and registration fees for vehicles owned by commercial driving schools to vehicles owned by an employee of the commercial driving school, provided that the vehicle is used exclusively for driver training.
- 5 **Federal tax offset fees.** Provides when the state uses the federal offset program (allowing state debts to be collected by offsetting federal tax refunds owed the debtor), the debt is reduced only by the amount the state actually receives. Since the IRS charges a fee for the offset, this essentially adds the IRS fee to the debt owed the state.

- 6 **Date of assessment.** Provides that taxes reported on a return or amended return filed by the taxpayer are assessed when the liability is entered into the records of the department of revenue, rather than on the date of filing of the return. Also clarifies that taxes reported on a commissioner-filed return are assessed as of the date of the return. Effective for assessments made on or after the day following final enactment.
- 7 **Revenue recapture; municipal ambulance services.** Adds municipal ambulance services to the list of claimant agencies under the revenue recapture act. This will allow these services to submit their unpaid bills to the department of revenue to be offset against tax refunds that the DOR pays to the debtor.
- 8 **Notice to spouses.** Makes the revenue recapture notice to the debtor also serve as notice to a spouse who does not owe the debt for court fines, fees, surcharges, and court ordered restitution. Under prior law, if a taxpayer/debtor received a tax refund in excess of an amount claimed by a state agency under the revenue recapture act, the revenue department was required to notify the taxpayer/debtor of the amount that was claimed by a state agency in payment of a debt to it.
- 9 **Revenue recapture fees.** Deletes duplicative language that allows claimant agencies to add the \$10 revenue recapture fee to the debt. This eliminates the possibility of double collection of the fee. Effective the day following final enactment.
- 10 **Notice of revenue recapture.** Clarifies that the revenue recapture notice must be given, regardless of whether all or only part of the refund has been offset. Also requires the notice to the debtor to include a statement of the right of the spouse who does not owe the debt to request her/his share be repaid.
- 11 **Authority to assess taxes.** Clarifies that the commissioner of revenue is not required to make determinations and assessments of state taxes in every case. Effective the day following final enactment.
- 12 **Interest on penalties.** Increases from 10 to 60 days the period in which non-timing related penalties may be paid without incurring interest on the penalty. Effective for penalties assessed after the date of final enactment.
- 13- **Petroleum tax; related fees.** Expand references to inspection fees in the petroleum tax to all fees.  
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- 17 **Implicit price deflator.** Defines "implicit price deflator" for purposes of the taconite production tax to be the gross domestic product implicit price deflator rather than the gross national product implicit price deflator. The domestic product is the measure most commonly used and referenced in statutory language.
- 18 **Distribution of state aid; Cass and Itasca counties.** Provides that state aid payments to Cass and Itasca counties will be paid two-thirds to Cass county and one-third to Itasca county. This distribution is in proportion to the number of casinos in these two counties. It will only apply to distributions for three years - 2001, 2002, and 2003. After that the distribution formula would revert to general law which provides that when a tribe has casinos in two or more counties, the aid is divided equally among the counties. The amount of this aid equals 10 percent of the state's share of taxes under the tax sharing agreement with the tribe. Effective on local approval by both Cass and Itasca counties.
- 19 **Transfer from workers' compensation assigned risk plan.** Directs the commissioner of finance to transfer \$110 million from the worker's compensation assigned risk plan to the general fund by July 15, 2000.
- 20 **Revisor's instruction.** Instructs the Revisor to codify changes to the insurance tax law in the recodified statute. The insurance tax recodification was enacted earlier in the 2000 session. To the extent the act amends insurance tax provisions repealed by the recodification, this instruction

clarifies that these are intended to be amendments of the new statute.

- 21 **Repealer.** Repeals a reference to the date of assessment of additional tax reported on an amended return that is rendered obsolete by section 3. Effective for assessments made on or after the day following final enactment.