

HOUSE RESEARCH

Bill Summary

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Article 1: Income and Franchise Taxes

Overview

Requires Wisconsin to pay interest on income tax reciprocity payments, and terminates the reciprocity agreement if Wisconsin does not agree.

Excludes dividends paid by members of insurance holding companies to their parent

company from taxable income.

Extends coordinating language for foreign operating companies (FOCs) that were also foreign sales corporations (FSCs) in 1993 and 1994.

Clarifies that single sales factor apportionment only applies to mail order businesses that make retail sales.

- 1 Foreign sales corporations.** Extends the subtraction of 1.23 times the extraterritorial income exclusion to corporations that had an foreign operating corporations (FOC) that also was a foreign sales corporation (FSC) in tax years 1993 or 1994. This is intended to gross up the new 15% exclusion to be equivalent to the level of the 80% FOC exclusion that was available when the FSC was operated. Under present law this authority applies only to FOCs that were also FSCs in tax year 1992.
- 2 Income tax reciprocity.** Provides that interest on income tax reciprocity payments due from Wisconsin to Minnesota accrues beginning July 1 of the tax year, beginning with the payment due in December 2002. Terminates the income tax reciprocity agreement with Wisconsin if Wisconsin does not agree to the payment of interest by October 1, 2002. Suspends through the 2003-2004 school year language that makes higher education tuition reciprocity reimbursement payments contingent on income tax reciprocity if income tax reciprocity is terminated.
- 3 Corporate AMT, definitions.** Provides that for purposes of determining the corporate alternative minimum tax, the 90 percent limitation does not apply to dividends received from a property casualty insurance company subsidiary, if the dividend is eliminated on a federal consolidated return or as a federal dividend deduction for affiliated groups.
- 4 Corporate AMT, dividend deduction.** Provides that for purposes of determining the AMT, corporations may exclude dividends received from a property casualty insurance company subsidiary and the 90 percent limitation does not apply, if the dividend is eliminated on the federal consolidated return or as federal dividend deduction for affiliated groups.
- 5 Mail order business.** Clarifies that the single sales factor apportionment formula only applies to mail order businesses making retail sales as defined under the sales tax.
- 6 Insurance groups.** Allows a 100 percent dividend deduction dividends received from a property casualty insurance company subsidiary, if the dividend is eliminated on a federal consolidated return or as a federal dividend deduction for affiliated groups. This reinstates the dividend deduction that applied to these insurance company subsidiaries before the repeal of the corporate franchise tax on insurance companies in 2001. Life insurance companies would not qualify.

Article 2: Federal Update

Overview

Updates Minnesota's income tax and property tax refund to conform to federal provisions enacted in the Victims of Terrorism Tax Relief Act of 2001 and the Job Creation and Worker Assistance Act of 2002, with the exception of 30% bonus depreciation and treatment of certain foreign source (subpart F) income.

Federal 30% bonus depreciation is subject to an 80% add-back, with the amount added back allowed as a subtraction in equal parts over the next five tax years.

Subpart F income is required to be calculated as though the provisions of the Job

Creation and Worker Assistance Act were not in effect.

1 Federal update; administrative. Updates the administrative chapter Internal Revenue Code reference to federal changes through March 15, 2002. Since there has been no federal tax administration legislation enacted since the last update, this change does not have any substantive effect on the Minnesota administration provisions in chapter 289A.

2 Citation to Federal Withholding Tax Regulations. Updates a citation to the federal regulations that establish the due date for employer withholding tax deposits. Effective the day following final enactment.

3 Net income. Conforms to federal changes to the definition of net income made in the Victims of Terrorism Tax Relief Act of 2001 and the Job Creation and Worker Assistance Act of 2002.

Changes made under the Victims of Terrorism Act include:

- Exempts from income tax individuals who died as a result of wounds or injuries sustained in the September 11 terrorist attack on the United States, the subsequent anthrax mailings, or the Oklahoma City bombing of April 19, 1995. The exemption applies in the year of death and the preceding tax year. The time for filing for refunds is extended to January 23, 2003, for Oklahoma City bombing victims;
- Excludes from income tax death benefits paid by employers to survivors of victims; and
- Exempts from income tax disaster relief payments made by charitable organizations, common carriers, and federal, state, and local governments to victims and families of victims.

Changes made under the Job Creation and Worker Assistance Act include:

- Extends the net operating loss carryback period from two to five years for losses occurring after September 10, 2001 and before September 11, 2004;
- Allows elementary and secondary teachers to deduct up to \$250 of expenses from taxable income.
- Provides that income from the discharge of indebtedness of an S corporation that is excluded from the S corporation's income is also excluded from shareholder income, and does not increase the basis of any shareholder's stock in the corporation;
- Extends the exclusion of foster care payments from taxable income to payments made by qualified placement agencies (as well as by States and local governments);
- Limits use of the nonaccrual experience method of accounting to the performance of qualified services and to services provided by certain small businesses;

4 Depreciation addition; individuals. Requires individuals to add to taxable income 80 percent of federal bonus depreciation allowed under the Job Creation and Worker Assistance Act of 2002.

5 Subtractions from taxable income; individuals. Allows individuals to subtract the 80 percent of bonus depreciation that is required to be added back to taxable income in equal parts in the five tax years following the year of the add-back.

Also deletes obsolete language providing for the subtraction of early 1980s IRA, Keogh, and

	Minnesota state and local pension contributions that were not deductible in the year of contribution. Any amounts remaining as of tax year 2000 were allowed to be subtracted in full in that year, with a one-year carryforward and the subtraction sunset for tax years beginning after December 31, 2001.
6	Additions to taxable income; corporations. Requires corporations to add to taxable income 80 percent of federal bonus depreciation allowed under the Job Creation and Worker Assistance Act of 2002. Also requires inclusion in taxable income any certain additional foreign source (subpart F) income that results when subpart F income is calculated without regard to the Job Creation and Worker Assistance Act.
7	Subtractions from taxable income; corporations. Allows corporations to subtract the portion of bonus depreciation that was added back to taxable income in equal parts in the five tax years following the year of the add-back. Also allows exclusion from taxable income any decrease in certain foreign source (subpart F) income that results when subpart F income is calculated without regard to the Job Creation and Worker Assistance Act.
8	Income tax definitions. Updates the income tax chapter Internal Revenue Code reference to federal changes through March 15, 2002. This incorporates the income exemptions for victims of terrorism into Minnesota's individual alternative minimum tax.
9	Young child credit. Increases the amount of deemed expenses used in calculating the young child credit from \$2,400 (the old federal dependent care credit maximum) to the new federal dependent care credit maximum (\$3,000 beginning in tax year 2003).
	The young child credit is allowed to married couples with a child under age one. The credit is subject to the same income-based phaseout as the dependent care credit. For tax year 2003, the phaseout will begin when income equals \$19,470, and couples with income over \$33,120 are not eligible for the credit.
10	Individual alternative minimum tax; depreciation adjustment and technical. Requires the 80 percent bonus depreciation addition to be included in alternative minimum taxable income, and the related five year subtraction to be excluded from alternative minimum taxable income.
	Also deletes outdated subtractions from alternative minimum taxable income for holocaust victim payments and for early 1980s pension contributions. Holocaust victim payments are now excluded from federal alternative minimum taxable income, which is the starting point for Minnesota's calculation. A one-time subtraction for any outstanding early 1980s pension contributions that were not deducted at the time of contribution was allowed in tax year 2000, with the subtraction sunset after 2001.
11	Corporate alternative minimum tax; depreciation adjustment. Requires the addition of 80 percent of bonus depreciation to be included in alternative minimum taxable income, and the related five year subtraction to be excluded from alternative minimum taxable income.
12	Federal update; property tax refund. Updates the property tax refund chapter Internal Revenue Code reference to federal changes through March 15, 2002. This conforms to changes enacted as part of the Victims of Terrorism Tax Relief Act of 2001 and the Job Creation and Worker Assistance Act of 2002.

Article 3: Sales and Use Taxes

Overview

Makes a number of changes to correct unanticipated consequences of the adoption of various provisions related to the Uniform Sales and Use Tax Act (Streamlined Sales Tax Project.), particularly in the areas of "prepared food" and the taxation of delivery and

installation charges.

Eliminates the reduction of the accelerated June sales tax payment from 75% to 65% but maintains the total repeal of this provision beginning with June 2004 payments. Delays the repeal of the June accelerated payment safe harbor and penalty provisions until after June 2003 payments.

Uncaps the Indian casino payments to counties.

Includes businesses with an affiliated entity which has a physical presence in this state in the definition of retailer required to collect the Minnesota sales tax.

Narrows the school meals exemption to exclude all vending machine sales, and all food sold at colleges and universities except meals served to students as part of a board contract. Provides sales tax exemptions for the following purposes:

- tickets and admissions to cultural events sponsored by the University of Minnesota
- sales of some additional energy efficient heaters and furnaces; and
- certain instructional materials used by post-secondary students.

Provides for or amends sales tax exemptions for several different construction projects.

Proposes or amends local lodging tax and local sales tax provisions.

1	Payments to counties. Allows all counties in which an Indian casino is located to qualify for a payment of ten percent of the state share of taxes generated from activities on Indian reservations. Eliminates the \$1.1 million appropriation cap on these payments. Effective for payments made after December 31, 2002.
2	June accelerated sales tax payment. Reinstates the requirement that 75 percent of the June accelerated sales tax payment be made in June. The percent had been lowered in last year's tax bill to 62 percent. The repeal of the June accelerated payment beginning with June 2004 payments remains in effect. Effective the day following final enactment.
3	Sales and purchases. Includes delivery charges for aggregate and concrete block in the services subject to sales tax. Includes installation charges in the services subject to tax if the installation would otherwise be taxable if done by the seller of the item to be installed. Effective for sales after June 30, 2002.
4	Prepared food. Modifies the definition of "prepared food" adopted in 2001 as part of the uniform definitions proposed by the Streamlined Sales Tax Project (SSTP) as follows: <ul style="list-style-type: none">• bakery items made by the seller (unless served with eating utensils);• unheated ready to eat meat and seafood prepared by the seller (unless served with eating utensils); and• foods containing raw eggs, meat, fish , or poultry that require cooking by the consumer to prevent food borne illnesses.

	The first two provisions are changes from current law while the third is a clarification of administrative practice under current law. The provisions related to bakery items and food requiring cooking by the consumer are in compliance with the provisions adopted by the Streamlines Sales Tax Implementing States on March 17, 2002, but the ready-to eat meat and seafood provision is not.
	With the exception of the ready to eat meat and seafood provision, the change would be effective July 1, 2002.
	The provision related to the unheated ready to eat meat and seafood would be effective for the period July 1, 2002, through December 31, 2005. December 31, 2005, is when the state must be in final compliance with other provisions of streamlined sales tax.
5	Definitions; retailer maintaining a place of business in the state. Provides that "retailer maintaining a place of business in the state" includes a business if an affiliated entity has a place of business in the state. Allows an affiliated retailer a safe harbor for non-collection of taxes prior to August 31, 2002, provided that the retailer applies for a sales tax permit by August 15, 2002.
6	Affiliated entities. Defines an entity to be an affiliate of a retailer if the entity and the retailer are related parties and either:
	<ul style="list-style-type: none"> • the entity sells basically the same products under basically the same name as the retailer (i.e., Widget Inc. and Widgets.com both selling variations on widgets and gizmos); or • the entity promotes the retailer's business or provides services to the retailer's customers (i.e., Widget Inc. takes returns for Widget.com).
	The retailer and entity are related parties if one of the following is true:
	<ul style="list-style-type: none"> • if one of the parties owns directly or indirectly at least 50 percent of the other party's outstanding stock; • if one of the parties is a partnership, estate or trust which owns directly or indirectly as least 50 percent of the capital, stock, or value of the other party; or • if an individual stockholder or the stockholder's family owns directly or indirectly at least 50 percent of the value of outstanding stock of both entities.
	States that an entity is an affiliate if it meets the affiliated entity definition at any point in the previous 12-month period.
7	Exempt meals. Narrows the sales tax exemption for meals served at colleges, universities and private career schools to only those meals served to students under a board contract. Clarifies that food sold from vending machines do not qualify for this exemption. Effective for sales and purchases made after June 30, 2002 but allows a one year transition period for existing contracts between vending machine companies and elementary and secondary schools.
8	Instructional materials. Exempts from the sales tax required instructional materials purchased by enrolled students for post-secondary course work. Effective for sales made after June 30, 2003.
9	Changes cross-references. Updates cross-references due to the change in section 3.
10	Energy efficient products. Adds two items to the list of energy efficient products which are exempt from the sales tax. Propane gas and fuel oil hot water heaters would be exempt if they have an energy factor of at least 0.62. Propane gas and fuel oil furnaces would be exempt if they have an annual fuel utilization efficiency greater than 92 percent. Effective for sales made after enactment, and before

	August 1, 2005.
11	Changes cross-references. Updates cross-references due to the change in section 3.
12	Nonprofit tickets and admissions. Expands the sales tax exemption for sales of admissions to events sponsored by arts organizations to include arts events sponsored by the University of Minnesota if held at a university owned facility.
13	Sales tax exemption; public housing. Clarifies that the sales tax exemption (enacted in the 2001 tax act) for construction materials for low income housing includes mixed use public housing developments where ownership is in a participating party or in a partnership of such an entity and the public housing authority. Under present law, ownership is required to be in the housing authority, an entity exercising the powers of a housing authority, a limited partnership of which the housing authority is the general partner, or a nonprofit corporation. This bill would permit other types of entities (e.g., a for profit corporation or other entity) to be an owner or a partner in a public housing project. This section is intended to clarify that the sales tax exemption applies to Holman replacement units in the city of Minneapolis.
14	Replacement agricultural processing facility. Provides an exemption from sales tax for construction materials used or consumed in the construction of a meat-packing or meat-processing facility that replaces a facility that was destroyed by fire and costs more than \$75,000,000. The facility is located in Albert Lea. Effective for sales after March 31, 2002 and before January 1, 2005.
15	Hydroelectric generating facility. Provides a sales tax exemption for materials and supplies used in the construction of hydroelectric generating facility which utilizes two turbine generators at a dam site existing on March 31, 1994. The facility must be located on publicly owned land within 2,500 feet of a 13.8 kilovolt distribution substation and must be eligible to receive a renewable energy production incentive payment. Effective for sales made after August 30, 2002 and before December 31, 2003.
16	Arts organizations exemption. Exempts from sales tax construction materials used in the construction or renovation of facilities by nonprofit arts organizations that receive financing through the 2000 bonding bill.
17	Refund; low-income housing. Uses a refund mechanism to administer the sales tax exemption provided in section 13.
18	Local admission and amusement taxes; exemption for arts organizations. Clarifies that admissions to cultural events sponsored by arts organizations listed in section 12 are exempt from any local taxes as well.
19	Authority to enter the Streamlined sales tax agreement. Instructs the commissioner to negotiate agreement with the intention of ensuring uniform sales tax treatment of similar transactions. Adds the house and senate tax chairs or their designees to the list of who represents the state on the voting body of the Streamlined Sales Tax Project. Currently the state is represented only by the commissioner of revenue or his/her designee.
20	Bloomington lodging tax. Allows the city of Bloomington to increase its lodging tax from one percent to two percent. Effective the day after approval by the city.
21	Citizen review panel; St. Paul. Changes the makeup of the citizen review board that recommends distribution of the portion of the St. Paul sales tax revenue which goes to neighborhood projects. Currently the board consists of 17 members, one from each district council. This provision would make it a 21 member board with three residents chosen from each of the seven city council wards. Effective upon approval by the city.
22	Effective Date. Changes the effective date on the definition of sales price adopted during the 2001

	session to allow a three-year transition period on the inclusion of delivery charges in the taxable sales price of aggregate and concrete block for contracts signed before January 1, 2002.
23	Duluth sales tax administration. Delays the requirement that the Department of Revenue administer all local sales taxes for the city of Duluth from January 1, 2003 to December 31, 2005.
24	Repealer (amended). Delays the repeal of the safe harbor and penalty provisions For June accelerated payments until that provision expires, beginning in June 2004. Delays the repeal of the River Centre construction sales tax exemption until December 31, 2002 for projects begun before June 30, 2001.
25	Rochester local lodging tax. Allows the city of Rochester to increase its lodging tax by one percent. Effective for lodging furnished on or after July 1, 2002.
26	Repealer. Repeals the exemption from sales tax for WATS telephone calls. Effective June 30, 2002.

Article 4: Property Taxes

Overview

Makes a number of alterations to the property tax system resulting from the property tax reforms of 2001, including an increase in the agricultural market value credit, a more generous treatment of properties classified as part homestead and part nonhomestead, and additional HACA for counties with a high concentration of public utility property.

Provides a personal property tax exemption for five proposed electric generation facilities, and eliminates the personal property tax on wind-generators and replaces it with a production tax.

Provides a new property tax classification for owner-occupied bed-and-breakfast facilities.

1	Manufactured homes; property taxes must be paid. Prohibits the department (i.e., the registrar of motor vehicles of the state) from issuing a certificate of title for a manufactured home unless the application is accompanied with a statement from the county auditor or treasurer where the manufactured home is located, stating that all personal property taxes have been paid on the unit.
	Effective for certificates of title issued by the department on or after July 1, 2002.
2	Manufactured homes; exemption. Exempts manufactured homes from the property tax payment requirement of section 1 if the home is sold by a manufactured home park owner as abandoned property or following the termination of a lease after the death of a tenant.
3	Electric rate reduction. Clarifies that the utility rate reductions mandated by the 2001 omnibus tax law due to changes in the treatment of public utility generation machinery are to be permanent reductions, and provides that a utility may voluntarily reduce rates by more than the mandated amount.
4 and 5	Jurisdiction of Small Claims Division for Property Tax Cases. Clarifies that appeals involving the valuation, assessment or taxation of real or personal property are allowed in the small claims division of tax court if the appeal involves: <ul style="list-style-type: none"> • the denial of a current year homestead application;

	<ul style="list-style-type: none"> • a single parcel containing one residential homestead dwelling unit; • a farm homestead; or • property having an estimated market value of less than \$300,000.
	In all other cases allowed in the small claims division, the amount in controversy must not exceed \$5,000. Effective retroactively for petitions pertaining to the 2002 assessment and thereafter.
6	Wind energy conversion systems. Exempts wind energy conversion systems from property tax, but the land on which the systems are located remains subject to property tax. Effective for taxes payable in 2003 and thereafter.
7	<p>Electric generation facility personal property; Waseca county. Exempts attached machinery and other personal property which is part of a combined cycle natural gas turbine electric generation facility of between 43 and 46 megawatts of installed capacity, that meets the following criteria at the time of construction:</p> <ul style="list-style-type: none"> • utilize a combined cycle gas turbine generator fueled by natural gas; • be connected to an existing 115-kilovolt high-voltage electric transmission line that is within one mile of the facility; • be located on an underground natural gas storage aquifer; • be designed as an intermediate load facility; and • have received, by resolution, the approval from the governing body of the county for the exemption of personal property under this subdivision.
	Provides that construction of the facility must be commenced after January 1, 2002, and before January 1, 2004. The exemption does not include electric transmission lines and interconnections or gas pipelines and interconnections appurtenant to the property.
	Effective for the 2002 assessment and thereafter.
8	<p>Electric generation facility personal property; Beltrami county. Exempts attached machinery and other personal property which is part of a simple-cycle combustion-turbine electric generation facility of more than 40 megawatts but less than 50 megawatts of installed capacity, that meets the following requirements at the time of construction:</p> <ul style="list-style-type: none"> • utilize natural gas as a primary fuel; • be located within two miles of parallel existing 36-inch natural gas pipelines and a 115-kilovolt high voltage electric transmission line; • be designed to provide peaking, emergency backup, or contingency services; and • satisfy a resource deficiency identified in an approved integrated resource plan filed under

	section 216B.2422.
	Construction of the facility must be commenced after January 1, 2001, and before January 1, 2005. Provides that property eligible for this exemption does not include electric transmission lines and interconnections or gas pipelines and interconnections appurtenant to the property or the facility.
	Effective for the 2002 assessment and thereafter.
9	<p>Electric generation facility personal property; Minneapolis (Crown hydro). Exempts attached machinery and other personal property which is part of a 3.2 megawatt run-of-the-river hydroelectric generation facility that meets the following criteria at the time of construction:</p> <ul style="list-style-type: none"> • utilize two turbine generators at a dam site existing on March 31, 1994; • be located on publicly owned land and within 1,500 feet of a 13.8 kilovolt distribution substation; and • be eligible to receive a renewable energy production incentive payment under section 216C.41
	Construction of the facility must be commenced after January 1, 2002, and before January 1, 2004. Provides that the exemption does not include electric transmission lines and interconnections or gas pipelines and interconnections appurtenant to the property or the facility.
	Effective for the 2002 assessment and thereafter.
10	<p>Electric generation facility personal property; small biomass facility; Shakopee. Exempts attached machinery and other personal property which is part of an electric generation facility that meets the following requirements at the time of construction:</p> <ul style="list-style-type: none"> • has a generation capacity of less than 25 megawatts; • provides process heating needs in addition to electrical generation; and • utilizes agricultural by-products from the malting process and other biomass fuels as its primary fuel source.
	Construction of the facility must be commenced after January 1, 2002, and before January 1, 2006. Provides that property eligible for this exemption does not include electric transmission lines and interconnections or gas pipelines and interconnections appurtenant to the property or the facility.
	Effective for the 2003 assessment and thereafter.
11	<p>Electric generation facility personal property; LTV. Exempts attached machinery and other personal property which is part of an electric generation facility sited on an energy park and that meets the following requirements at the time of construction:</p> <ul style="list-style-type: none"> • is located on an active or former mining or industrial site;

	<ul style="list-style-type: none"> • is within the taconite tax relief area; • has on-site access to existing railroad infrastructure; • has direct rail access to a Great Lakes port; • has sufficient private water resources on site; and • is designed to host at least 500 megawatts of electric generation.
	Construction of the first 250 megawatts at the facility must be commenced after January 1, 2002, and before January 1, 2005. Construction of up to an additional 750 megawatts must be commenced before January 1, 2010. Provides that property eligible for this exemption does not include electric transmission lines and interconnections or gas pipelines and interconnections appurtenant to the property or the facility.
	Effective for the 2003 assessment and thereafter.
12 - 13	Wind energy production tax. Imposes a production tax on the production of electricity from wind energy conversion systems that were installed after January 1, 1991. Rates of tax are established based on the scale of the wind energy conversion system. A large scale wind energy conversion system has a nameplate capacity of more than 12 megawatts. Large scale systems would pay .12 cents per kilowatt hour. A medium scale system has a capacity between two and 12 megawatts and would pay .036 cents per kilowatt hour. A small scale conversion system as a capacity of two megawatts or less and would pay .012 cents per kilowatt hour. Conversion systems with a capacity of .25 megawatts or less and small scale systems owned by a political subdivision would be exempt from the production tax. The tax would be paid to the county at the time and in the manner in which personal property taxes would be paid, and the revenues would be distributed among the taxing jurisdictions in proportion to their tax rates. A payment in lieu of wind energy production tax may be negotiated for systems installed or contracted for before January 1, 2002.
14	Limitation on homestead treatment. Provides that a property which is classified as part homestead and part nonhomestead shall be eligible for homestead classification on the greater of (a) the portion of the property actually used as a homestead, or (b) an amount equal to (i) \$60,000 for taxes payable in 2003, (ii) \$45,000 for taxes payable in 2004, and (iii) \$30,000 for taxes payable in 2005. For taxes payable in 2006 and subsequent years, only the portion of the property used for homestead purposes shall be eligible for homestead classification.
15	Property tax statements; notice to taxpayers. Provides that the property tax statement must contain a sentence notifying the taxpayer that the title to the manufactured home cannot be transferred unless the property taxes are paid. (See section 1.)
	Effective for tax statements issued in 2003 and thereafter.
16	Homestead classification; duplexes and triplexes. Clarifies in statute the current practice regarding duplexes and triplexes where one of the units is the owner's homestead, which is that the entire property receives homestead classification.
17	Class 4c; bed and breakfast establishments. Provides that residential "bed and breakfast" establishments that meet certain criteria qualify for class 4c, which is a class consisting of miscellaneous types of recreational property. Generally these properties are currently classified as class 3a (commercial); although this treatment is not uniform across the state. The class rate for 4c

	is 1.25 percent; and property in this clause is <u>not</u> subject to the state general tax. Class 3a property has a class rate of 1.5 percent of the first \$150,000 market value, and 2.0 percent on the value in excess of \$150,000, and is subject to the state general tax.
	Provides that residential real estate, a portion of which is used by the owner for homestead purposes, and that is also a place of lodging, qualifies for class 4c treatment, if all of the following criteria are met: <ul style="list-style-type: none"> • rooms are provided for rent to transient guests that generally stay for period of 14 or fewer days; • meals are provided to persons who rent rooms, the cost of which is incorporated in the basic room rate; • meals are not provided to the general public except for special events on fewer than seven days in the calendar year preceding the year of the assessment; • the owner is the operator of the property.
	Limits the market value subject to this classification to 5 rental units. Any units in excess of five, must be valued and assessed as class 3a commercial property. Provides that the portion of the property used for the purposes of a homestead by the owner must be classified as class 1a (the residential homestead class).
	Effective for assessment year 2002 and thereafter, for taxes payable in 2003 and thereafter.
18	Homestead market value credit. Clarifies that the homestead market value credit applies only to the portion of a property that is classified as homestead in the case of properties that are classified as part homestead and part nonhomestead. (This is how the credit is currently being administered by the Dept. of Revenue.)
19	Agricultural homestead market value credit. Increases the agricultural credit from 0.2 to 0.3 percent of the market value of an agricultural homestead, excluding the value attributable to the house, garage, and surrounding one acre of land, and increases the maximum credit from \$230 to \$345 per homestead. Reduces the credit by .05 percent of the market value over \$115,000, but limits the reduction to \$115.
20	Homestead and agricultural credit aid (HACA). Provides for a permanent increase in the HACA base amount for three counties (Clearwater, Kittson and Red Lake) where public utility property constituted over forty percent of the payable 2001 tax base. The increase is equal to 83% of the county tax revenues attributable to the reduced tax capacities of public utility property for taxes payable in 2002.
21	HACA calculation. Provides that payable 2001 tax capacities and tax rates will be used for the HACA calculation in the preceding section.
22	Lake improvement districts. Provides that if the county levies for a lake improvement district, the amount attributable for that purpose must be itemized separately from the remaining county levy amount on the proposed property tax notice (TnT). Under current law, the lake improvement levy amount is included as part of the total county levy amount.
	Notices of Proposed Property Taxes. Makes two technical changes to the parcel-specific notices of proposed property taxes:
	Replaces the actual and proposed amounts of state-determined general education tax with

	the actual and proposed amounts of state general property tax; and
	Updates references to tax amounts so that the amounts shown are net of the new residential and agricultural homestead credits, rather than the old education homestead credit.
23	Lake improvement districts. Requires the same separate itemization of a lake improvement levy amount on the property tax statement as required on the TnT notice (see section 22).
24	Deferral of property taxes; sunset date extended. Delays the deadline for transferring ownership of the Caponi Art Park, located in Eagan, for five years (from 2002 to 2007), without precipitating recapture of deferred property taxes.
	Modifies the requirement that the property will not be subject to deferred taxes if it is conveyed to a nonprofit foundation or corporation that "operates" the art park. Under current law the requirement is that the nonprofit foundation or corporation must be "created to own and operate" the park. The original intent was to establish a foundation for this purpose. The new language will allow it to be transferred to, and operated by, any nonprofit entity as defined under section 501 (c)(3) of the Internal Revenue Code.
	Effective the day following final enactment.
25	Cook county road and bridge. Authorizes the Cook County board to expend the proceeds of its road and bridge levy in any organized or unorganized township or portion of a township within the county. Current law limits the expenditure of the levy to the area within the township where the tax was levied.
26	Repealer. Repeals Laws 2001, First Special Session chapter 5, article 3, section 88. This provision authorized Chisago City to provide reimbursement for orderly annexation of property to the town of Wyoming for the period and in the amounts agreed to by the city and town under a joint powers agreement.

Article 5: K-12 Education Levies and Revenues

Overview

This article makes changes to school district levy programs.

1	Integration revenue. Increases the integration revenue for the Minneapolis school district by \$35 per pupil unit (roughly \$1.9 million). The increase is provided entirely through a local property tax levy, first effective for fiscal year 2003.
2	Building lease; TIES. Allows the member school districts of TIES (technology and information education systems) to make a lease levy for the purchase of a building to be used for staff development purposes. Requires TIES to apportion the lease costs back to its member districts.
3	Tax levy for judgment. Allows the member districts of an intermediate school district to levy for any judgments entered against the intermediate school district. Allows the levy to be spread over a three-year period upon approval of the commissioner of children, families and learning.
4	Safe schools levy. Raises the crime levy by \$19 per pupil unit, from \$11 to \$30 per pupil unit. Renames the crime levy the "safe schools" levy.
5	Referendum conversion adjustment for interest earned. Allows a school district to levy for a portion of the loss in interest earnings due to the elimination of the general education levy. Caps the statewide levy authority at no more than \$3 million per year. Requires the department of children, families and learning to scale back each district's levy authority so that the \$3 million target can be maintained.

6	Disabled access levy; Westbrook-Walnut Grove. Allows independent school district No. 2898, Westbrook-Walnut Grove, to notwithstanding the eight year time limit on levying for disabled access improvements. It is estimated that the district will levy \$100,000 in pay 03 and \$75,000 in pay 04 under this exemption.
7	Disabled access levy; Pine City. Allows independent school district No. 578, Pine City, to notwithstanding the eight year time limit on levying for disabled access improvements. It is estimated that the district will levy \$39,000 in pay 03 and \$39,000 in pay 04 under this exemption.
8	Interactive web-based and independent study programs. Extends the provision of additional revenue to school districts and charter schools with pupils participating in interactive web-based programs for one year, through fiscal year 2003.
9	Reimbursement for web-based and independent study programs. Makes the fiscal year 2002 appropriation for grants to schools with pupils participating in web-based programs available through June 30, 2003.

Article 6: Aids and Levies

Overview

Makes technical corrections to aid and levy limit calculations related to the property tax reform passed as part of the 2001 Omnibus tax bill. Also makes several other changes to levy authority and aid programs such as:

- allowing a special levy for required police and firefighter relief association pensions contributions;
- providing school districts, cities and counties additional levy authority to compensate for lost tree growth revenue;
- delaying the implementation of the out-of-home placement aid program for one year, to calendar year 2004;
- allowing an adjustment to payable 2003 levy limits for excess levies in payable 2002 due to misreporting of jail levies by some counties; and
- granting an LGA city aid base increase of \$200,000 to the city of Hermantown.

1	Police and Firefighters relief association. States that any property tax levies to fund required contributions for police and firefighter relief association may not be reduced due to a general or special law.
2	Tree growth replacement revenue. Beginning with taxes payable in 2003, allows a school district to levy an additional amount equal to the amount of tree growth revenue it receives in payable 2002. Tree growth revenue is eliminated beginning in payable 2003.
3	Disparity reduction aid. Increases each unique taxing area's disparity reduction aid to 87 percent of the 2001 amount for all unique taxing areas in which the total tax rate for taxes payable in 2002 exceeds 135 percent.
4	Aid offset for out-of-home placement costs. Delays the HACA reduction to offset the new out-of-home replacement aid until 2004. Clarifies that the HACA reduction to offset the new out-of-home replacement aid can not exceed the amount of 2004 HACA left after it is reduced for the prospective court takeovers authorized in the 2001 special session.
5	Special levies. Makes the following adjustments to special levies allowed outside of levy limits: Court administration costs. Adjusts the allowed special levy for county court administration

	costs to the costs net of the county's share of 2001 court fine and fee revenue. This parallels the change made in the levy limit base adjustment for the court takeover in section 7. Effective beginning with Pay 2003 levies; and
	Police and firefighter's relief association. Allows a new special levy for any increased levy need to meet required contributions for police and firefighter relief associations, in excess of any levy for this purpose in 2001, payable in 2002. Effective beginning with Pay 2003 levies.
6	Levy limit base. Increases the levy limit base for taxes levied in 2002, payable in 2003 by the amount of tree growth tax a county or city receives in payable 2002 and for the amount of mobile home HACA received by a city in payable 2001. City mobile home HACA payments were eliminated beginning in 2002 and tree growth revenue payments are eliminated beginning in 2003.
7	Levy limits; adjustments for state takeovers. Increases each county's levy limit base in payable 2002 by an amount equal to its 2001 share of court fee and fine revenue. When the adjustment to county levy limits were made in 2002 for the state takeover of court administration, no allowance was made for the transfer of fine and fee revenue as well. Effective retroactively for taxes payable in 2002 and 2003.
8	Levies in excess of levy limits. Makes adjustments to levy limits for several counties with an excess levy in Pay 2002 due to misreporting of jail levies. This occurred in several counties and was not discovered until March 2002 when it was too late to reduce the spread levy in 2002. The adjustments include:
	<ul style="list-style-type: none"> • clarifying that the starting point for calculating a county's levy limit in for taxes levied in 2002, payable 2003 is its Pay 2002 adjusted levy limit base after it is corrected for any excess levy in Pay 2002 due to misreporting of jail levies; and • a one-time adjustment in levy authority in Pay 2003 equal to to the amount of excess levy spread in Pay 2002. This one time adjustment can be spread over three years if both the county and the commissioner of revenue agree.
9	Local government aid; city aid base. Makes three changes to language defining "city aid base" for purposes of local government aid:
	<ul style="list-style-type: none"> • Replaces language referring to individual paragraphs with a generic reference to all applicable paragraphs within the subdivision; • Amends language within paragraph (g) to reflect the two-year delay (enacted in 2000) for when "existing low-income housing aid" is to be folded into each city's local government aid base. Effective for aid payable in 2002 and thereafter. • Allows a permanent increase to the city of Hermantown's city aid base equal to \$200,000. When city HACA payments were eliminated in 2002, an extra payment made to Hermantown to offset some county tax rate disparities was also unintentionally eliminated.
10	Reimbursement for certain out-of-home placement costs. Delays the implementation of this program until aids payable in 2004. Clarifies the calculation of the maximum percent of reimbursement under this program. Changes the starting date for the counties to provide annual out-of-home placement costs to include data for CY 2001.
11	Apartment Tax Base Replacement Aid annual amount. Provides that if no percent increase is provided in law for the out-of-home replacement aid program that the funding of the program will

	remain at the amount from the previous year. Effective for aids payable in 2005 and thereafter.
12	Apartment Tax Base Replacement Aid to county HACA. Clarifies that this aid amount is added to a county's HACA in 2003 and 2004 <u>after</u> the HACA household growth factor is applied to the previous year's HACA payment.

Article 7: Economic Development

Overview

This article allows the use of border city development zone incentives for new housing developments. 20-year tax abatements are allowed for a qualifying businesses. The article allows uncapping of the original tax rate of TIF district to eliminate deficits caused by tax reform without first requiring that any available increments be pooled to eliminate deficits. Duration extensions are provided for four TIF districts (two in Minneapolis, West St. Paul, and Rushford) to eliminate deficits caused by tax reform. A \$2.6 million grant is provided to fund the Washburn-Crosby project in Minneapolis.

1	Border city exemption. Expands the types of property that qualify for the property tax exemption under the border city development zone law to include housing (apartment buildings, homestead, and non-homestead residential). Under present law, this authority applies only to commercial and industrial property.
2	Border city sales tax exemptions. Authorizes border city development zone allocations to be used to grant sales tax exemptions for building materials for housing in the zone.
3	Increment pooling. Provides that in determining whether a city may pool tax increments among its districts to pay deficits in one district, the existence of a guarantee of obligations by the individual or entity that would receive the payment under the pooling provision does not provide a basis for denial of the authority to pool by the Department of Revenue.
4	TIF deficit reduction. Allows cities to use the deficit reduction provisions that apply to tax increment financing districts without being required to pool available increments from other districts first to reduce the deficits. The provision also enables the authority to amend its tax increment financing plan to establish an affordable housing account to which increments will be pledged.
5	Extended duration abatements for qualified businesses. Allows up to 20-year property tax abatements for qualified businesses. "Qualified business" is defined as a business with at least 50 percent of its payroll payable to employees who are engaged in manufacturing, agricultural processing, mining, research and developing, warehousing, or qualified high technology. This authority expires on July 1, 2004.
6	Housing replacement TIF districts. Increases the parcel limit from 100 to 200 parcels for the housing replacement tax increment financing district provision for the cities of Minneapolis, St. Paul, and Duluth.
7	<p>Albert Lea TIF. Authorizes the city of Albert Lea to establish a redevelopment TIF district that is exempt from various restrictions under general law:</p> <ul style="list-style-type: none"> • Blight test. General law requires each non-contiguous part of a redevelopment TIF district to meet one of the law's "blight tests" (i.e., the rules that define the types of geographic areas that contain blighting conditions permitting establishing these districts). This provision allows the city to create a redevelopment district consisting of two defined areas (a "redevelopment parcel" and a "reconstruction parcel"). Both areas would not be required to independently satisfy one of the blight tests. If the "redevelopment parcel" meets the basic

blight test (70% of the area of its parcels are occupied by buildings and 50% of the buildings are structurally substandard), then, the entire district qualifies as a redevelopment district, even though the percentage tests are not met for the overall district.

- **Spending to cure blight.** General law requires redevelopment districts to use 90 percent of their increment revenues for "the cost of correcting conditions that allowed designation of" the district (i.e., blight, such as the presence of structurally substandard buildings). The bill would deem that any amounts spent for site acquisition, preparation, or installing public utilities within the area of the district as satisfying the blight correction requirement.
- **5-year rule.** The bill extends the "5-year rule" to ten years. Under general law, the 5-year rule essentially requires development activity for a TIF district to be finished within a five years after certification of the district's original tax capacity. After this 5-year period has expired, increments may only be spent to pay off obligations that were incurred to fund work done during the five-year period. When these obligations are paid (or enough money has been collect to pay them), the district must be decertified.

Effective date. Upon local approval by the city of Albert Lea.

- 8 East Hennepin/University TIF.** Authorizes the Minneapolis Community Development Agency (MCDA) to extend the duration of the East Hennepin and University tax increment district for a period of up to seven years or until all amounts payable to developers into the agency to reimburse the provision of a \$1.1 million loan from the city of Minneapolis home funds are repaid. The maximum amount of increment may not exceed the loss in increment that resulted from the 2001 property tax reform over the district's term without the extension.

Effective date. Effective upon local approval by the city, county, and school district.

- 9 Southeast Minneapolis Industrial Area TIF.** Authorizes the MCDA to extend the duration of the Southeast Minneapolis Industrial Area Redevelopment Area Phase IV tax increment financing district. The district must terminate, upon payment in full of the MCDA tax increment revenue note in the amount of \$1 million. The maximum amount of increment may not exceed the loss in increment that resulted from the 2001 property tax reform over the district's term without the extension.

Effective date. Effective upon local approval by the city, county, and school district.

- 10 Washburn-Crosby Mill project.** Provides for a grant of \$2.6 million from the general fund to the Washburn-Crosby Mill City Museum project.

- 11 Rushford TIF.** Authorizes the city council of Rushford to extend the duration of its downtown TIF district by up to two additional years.

Background information. This district is a redevelopment district. It was established in 1980 and is scheduled to be decertified in 2006. In 1995, the city issued general obligation bonds, secured by increments from the district, that had maturities extending through 2008 or two years after decertification of the district. The bonds payable in 2007 and 2008 were to be paid with increments accumulated before the district's decertification in 2006. The 1997-98 property tax class rates changes caused a significant reduction in increments from the district. The city did not qualify for a state deficit reduction grant under the grant fund established by the 1997 legislation, because entitlements to grants are calculated on an annual basis while the TIF district is an active district. In each year of its life, the district collected sufficient increments to pay the obligations due in that year. But the district was not able to accumulate sufficient increments to pay the obligations due after

	decertification, in calendar years 2007 and 2008. The bill would extend the duration by two years to provide sufficient increments to pay these obligations.
	Effective date. Effective upon local approval by the city, county, and school district.
12	Dakota County TIF. Authorizes Dakota County to extend the duration of the Community Development Agency's South Robert Street redevelopment district for up to five additional years. The maximum amount of increment may not exceed the loss in increment that resulted from the 2001 property tax reform over the district's term without the extension.
13	Repealer. Repeals the requirement that early decertification of TIF districts must be approved by the commissioner of revenue. This provision is retroactive to the effective date of the provision, enacted in the 2001 tax bill. This requirement was intended to prevent an early decertification from increasing a state grant from the TIF deficit fund. The phase 1 budget bill repealed the grant fund.

Article 8: Minerals Tax

Overview

Restores 77 percent of the taconite aid payments to school districts that were shifted to cities and towns in the tax law. Provides that the remaining 23 percent is distributed annually to the Northeast Minnesota Economic Trust Fund (i.e., the 2002 Fund). Also makes a one-time deposit of almost \$10 million to the Fund freed up by

Extends the five cent per ton distribution to the Taconite Environmental Fund through 2003 (producer invest

Extends the Northeast Minnesota Economic Protection Trust Fund by 25 years, from 2003 to 2028. Authorizes from the corpus of the fund under certain conditions.

Renames the "Northeast Minnesota Economic Protection Trust Fund Act" the "Douglas J. Johnson Economic Trust Fund Act"

Makes numerous technical changes.

1	Taconite deductions. Restores (along with section 2) the school levy and aid offsets for taconite school aids and replacement aid for the Deer River school district. These aids are returned to school districts from the cities and towns begin receiving these amounts in 2003. (The same change is made for the other taconite school districts in section
2	Taconite payment. Provides that the taconite school aids cannot reduce the voter approved referendum, facilities debt levies by more than 50 percent. To the extent that the taconite school aids allocated to levy reduction exceed excess is distributed to the cities and towns in the affected school districts. The levy offset is equal to 77 percent of aids distributed in 2002; the remaining 23 percent (approximately \$2.5 million) is deposited to the economic development section 15.
3	Occupation Tax; Corrects References. Corrects a cross reference that should have been updated when clauses referenced were reordered several years ago.
4	Occupation Tax; Corrects References; Deletes Depreciation Deduction. Makes two changes: <p style="margin-left: 40px;">Corrects a cross reference that should have been updated when clauses in the section being referenced were years ago;</p> <p style="margin-left: 40px;">Eliminates obsolete depreciation deductions. The producers that were eligible to take these deductions have</p> <p>Effective for taxes payable May 1, 2002, and thereafter.</p>
5	Taconite school aids minimum guarantee. Reduces the minimum guarantee of taconite school aids by 23 percent to 31.2 percent of the 1983 distribution), to adjust for the reduction in aids under section 2.

6	<p>Collection and payment of production tax. Provides that the payable 2003 taconite production tax will be paid in installments. The first payment must be made on or before February 24; the second payment on or before August 24. A producer of taconite or iron sulfides is responsible for paying the production tax. The current statute does not specify the date of payment. Effective for years beginning after December 31, 2001.</p>
7	<p>Taconite school aid distribution. Reduces the cent per ton distribution of taconite school aids by 23 percent to a total of 1.75 cents per ton in aids under section 2. Eliminates the 2003 scheduled transfer of taconite school aids to cities and towns. Provides that the distribution ordinarily designated for repayment of levy reduction in 2003 will be added to the funds available to the Northeast Minnesota Economic Protection Trust. (This is approximately \$10 million.)</p>
8	<p>Taconite production tax; rate of distribution to counties. Explicitly states the rate of distribution to counties for the taconite production tax, rather than providing the rate by reference to a formula determined in 1987. The rates currently stated in section 12 for each subdivision are superseded by the reference in section 12 that freezes the distribution at the 1987 rate. The new rate was actually in effect from 1987 to the present. Effective the day following final enactment.</p>
9	<p>Taconite production tax; rate of distribution for property tax relief. Reorders language to state the rate of distribution rather than by reference. Incorporates the formula currently located in paragraph (d) directly into the rate in paragraph (c).</p>
	<p>Amends paragraph (c) to explicitly state the actual rate of distribution of the taconite production tax for property tax relief having the rate determined by reference from section 12. Further adjusts the rate for the 23 percent factor resulting from the distribution. Effective the day following final enactment.</p>
10	<p>Taconite economic development fund. Eliminates the industry production floor of 30 million tons for the 30.1 cent per ton distribution to the Taconite Economic Development Fund in 2003 only. Further provides that no distribution shall be made if the producer does not timely pay its tax.</p>
11	<p>Taconite environmental fund. Extends the five cent per ton distribution to the Taconite Environmental Fund by 2003 distribution. Eliminates the requirement that no distribution will be made in any year in which total industry production is below 30 million tons.</p>
12	<p>Taconite production tax; deletes formula regarding frozen rates. Deletes the paragraph containing rate formulae that are now directly stated in the proper sections (see sections 8 and 9). Effective the day following final enactment.</p>
13	<p>Taconite railroad aid. Reduces the taconite railroad aid "grandfather" distribution to school districts by 23 percent to 1.75 cents per ton under section 2. Provides for a one time payment to the Town of Balkan of \$100,000.</p>
14	<p>Citation. Renames the "Northeast Minnesota Economic Protection Trust Fund Act" the "Douglas J. Johnson Economic Protection Fund Act".</p>
15	<p>Northeast Minnesota economic protection trust fund (2002 Fund). Extends the 2002 fund for an additional 26 years to 2028. Paragraph (b) authorizes the board to expend on economic development projects: (1) up to 20 percent of the corpus of the 2002 fund, and (2) the additional amounts made available under sections 7 and 17. The projects must be approved by at least ten members of the IRRRB board (i.e., a super majority) None of the monies may be used for administration of the board or for any facility currently owned or operated by the board.</p>
	<p>Paragraph (c) provides that upon recommendation by a unanimous vote of all members of the IRRRB, the board may expend any amount of the corpus of the fund on economic development projects qualifying under section 298.292. Under paragraph (d) a portion of the corpus is allowed to be spent.</p>
	<p>Effective January 1, 2003.</p>
16	<p>Taconite aid reimbursement. Contains a technical cross-reference to the taconite replacement aid for the Deer Lake area.</p>
17	<p>Additional school district distribution. Provides that the difference between the taconite school aids that would have been distributed in 2004 under the law in effect in 2000 and the amount of aids distributed as provided in this article, will be added to the funds available for expenditure from the Northeast Minnesota Economic Protection Trust (approximately \$2.5 million). This difference will be distributed approximately 2/3 to the Taconite Environmental Protection Fund and 1/3 to the Northeast Minnesota Economic Protection Fund.</p>

18 Revisor instruction. Provides that in the next edition of the Minnesota Statutes, the revisor shall change the phrase "Minnesota Economic Protection Trust Fund Act" to "Douglas J. Johnson Economic Protection Trust Fund Act" in the Minnesota Statutes.

Article 9: Department of Revenue Policy Provisions

Overview

Makes various policy changes recommended by the Department of Revenue. Changes include:

- Extending the sunset for publication of names of delinquent taxpayers to June 30, 2003;
- Allowing a sales tax exemption for postage on direct mail materials.

- 1 Time for offset of federal refunds.** Provides that state claims against federal tax refunds can be submitted and federal tax refunds can be offset for ten years after the date of assessment. Effective for claims for federal offset claims submitted before and pending on the date of final enactment, and for claims submitted on or after the day following final enactment.
- 2 Expiration date for publication of names of delinquent taxpayers.** Extends the sunset of the authorization for publication of delinquent taxpayer lists for one year, to June 30, 2003.
- 3 Determination of validity of property tax assessments.** Changes the filing deadline for contesting a property tax assessment for manufactured homes assessed as personal property from September 1 to October 1 of the year in which the tax becomes payable. Effective for taxes payable in 2003 and thereafter.
- 4 Determination of validity of property tax assessments.** Changes the filing deadline for contesting a property tax assessment from March 31 to April 30 of the year in which the tax becomes payable. Effective for taxes payable in 2003 and thereafter.
- 5 Agricultural property tax second half due date.** Provides that all split-class parcels that are classified as part agricultural and part non-agricultural have a second half property tax due date of November 15 instead of October 15. Under current law the due date is November 15 only if at least 50 percent of the parcel's market value is classified agricultural. When the split is close to 50/50, the due date for the parcel could change from year to year due to market value fluctuations. The change should simplify payment obligations for taxpayers. Effective for taxes payable in 2003 and thereafter.
- 6 Extension to file fiduciary, partnership, or S corp income tax returns.** Changes the criterion for receiving an automatic six-month extension to file a Minnesota fiduciary, partnership, or "S" corporation income tax return from having received a federal extension to having paid at least the amount of tax due for the year by the original due date of the return. Effective for returns due after December 31, 2002.
- 7 Exemption for amounts paid for legend drugs.** Provides that hospitals, surgical centers, and health care providers that deduct the cost of legend drugs from gross revenues subject to the MinnesotaCare tax, must reduce the deduction by the amount of reimbursements that are exempt from the tax under other exclusions. Effective for payments received after December 31, 2001.
- 8 Formula to calculate amounts paid for legend drugs.** Provides a formula for computing the exemption for amounts paid for legend drugs where the taxpayer cannot determine the actual amount paid. Effective for payments received on or after July 1, 2002.
- 9 Fur clothing delivered outside of Minnesota.** Adds a definition of "delivered outside of

	Minnesota" for purposes of application of the gross receipts tax on fur clothing. Effective date is January 1, 2002.
10	Exemption for fur clothing delivered outside of Minnesota. Provides that payments received for fur clothing delivered to a location outside of Minnesota are not subject to the gross receipts tax on fur. Effective for payments received on or after January 1, 2002.
11	Private telecommunication service. Removes from the definition of a private communication service language relating to services used to carry traffic over the Internet since federal law prohibits imposition of a sales tax on Internet access charges. The language was developed jointly by industry and the Streamlined Sales Tax project. Effective date is retroactive for sales and purchases occurring after July 31, 2001.
12	Delivery charges. Provides a sales tax exemption for delivery charges (postage) associated with direct mailing of printed materials if (1) the charges are separately stated, and (2) the mailing is to a mass market or uses a mailing list provided at the direction of the customer. This is a correction of an unanticipated consequence of including delivery charges in the definition of sales price. The change was adopted last year to bring the state into conformity with the Streamlined Sales Tax Project (SSTP) allowed definitions of sales price. Effective retroactively to sales made after December 31, 2001. Sunsets after December 31, 2005; the date by when the state must be in final compliance with other provisions of streamlined sales tax.
13	Liquor tax exemption for foreign diplomats. Allows an exemption from the liquor tax for foreign diplomats receiving direct shipments of alcoholic beverages from a foreign nation. This will be consistent with the treatment by the Department of Public Safety under Minn. Rule 7515.0910. Effective the day following final enactment.
14	Pooling for TIF Deficits. Clarifies that when districts pool increments from other TIF districts in order to make up a deficit they are to include amounts collected in prior years that are currently available. Effective retroactively to January 2, 2002, and thereafter to be consistent with other changes in the 2001 Omnibus Tax Law.

Article 10: Department of Revenue Technical Provisions

Overview

Makes technical changes and corrections recommended by the Department of Revenue

1	Police State Aid Formula. Replaces language requiring police state aid to include to be increased by an amount equal to the self-insurance tax received in fiscal 2001 with an increase of \$100,000. In 2001 the automobile self-insurance tax was repealed for years beginning after December 31, 1999. Those tax proceeds went to police state aid. As part of the repeal, the legislature directed that each year the department increase the apportionment to police state aid by an amount equal to the self-insurance tax received in fiscal 2001. Actual 1999 liabilities with one case under review total \$99,900. This section is effective beginning with fiscal year 2003.
2	Referendum Tax Base Replacement Aid. Clarifies that referendum tax base replacement aid for schools is based on the same tax base exclusions as apply to school district referendum tax levies. In the case of seasonal recreational residential properties, only the prior-year referendum levy amounts applicable to the noncommercial properties (i.e., private cabins) are used in determining the new aid. Effective retroactively for taxes payable in 2002 and thereafter.
3	Effect of Tax Liens Against Unrecorded Interests in Real Estate; Perfection of Tax Liens Against Personal Property. Makes two changes:

	Clarifies that recorded tax liens have priority over unrecorded interests in real estate to the same extent that judgments and attachments have priority over such interests under the Minnesota recording act. Effective for tax liens already of record and for tax liens filed on or after the day following final enactment.
	Clarifies that the only place to file tax liens against personal property is with the Secretary of State, to conform to the newly revised Article 9 of the Uniform Commercial Code. This portion of the amendment is effective for tax liens filed on or after the day following final enactment.
4	Property Used to Generate Hydroelectric or Hydromechanical Power. Combines two subdivisions that provide a property tax exemption for property used to generate hydroelectric and hydromechanical power. With the repealer in section 32 eliminates language exempting property used to generate hydroelectric and hydromechanical power from payments in lieu of property taxes. Effective the day following final enactment.
5	Valuation Notices. Updates the minimum age of a homestead property at which a notation of potential eligibility for an exclusion under the "This Old House" provision must be included with the valuation notice from 35 years to 45 years. This is consistent with the current eligibility requirements for a "This Old House" exclusion. Effective retroactively for notices required to be mailed in 2002 and thereafter.
6	Utility Personal Property. Clarifies that, within the definition of class 3 commercial properties, the limit of one first tier amount reduced rate per county applies to the personal property, and not the real property, of electric and pipeline systems. Effective retroactively for taxes payable in 2002 and thereafter.
7	Attached Machinery Aid ("AMA"). Restores language instructing the commissioner of children, families and learning to pay attached machinery aid (AMA) to school districts. This language was inadvertently stricken in the 2001 omnibus tax act. Effective retroactively for aids and credits payable in 2002 and thereafter.
8	Temporary Aid; Court Administration Costs. Corrects references within the computation of additional homestead and agricultural credit aid for a county in a judicial district that does not transfer its costs to the state by January 1 of 2004 or 2005. This provision was added by the 2001 omnibus tax act. The current references are to nonexistent paragraphs within the statute. Effective retroactively to July 1, 2001, the effective date of the 2001 omnibus tax act, and thereafter.
9	Levy Limits; natural disasters. Corrects references to the definition of the special levy for natural disasters, from clause (6) to clause (7). Effective for taxes payable in 2002 and 2003.
10	Individual income tax late filing penalty. Clarifies that the new 5 percent late filing penalty that applies uniformly to all tax types in Chapter 289A is imposed for individual income tax on October 15 instead of April 15. The October 15 due date was inadvertently repealed in the 2001 session. Effective the day following final enactment.
11	Household income for dependent care credit. Clarifies that the income measure used for computing the dependent care credit does not include restitution and damages received by victims of the World War II Holocaust. Holocaust restitution and damages become exempt or nontaxable income for the purposes of federal adjusted gross income under 2001 federal tax legislation, but without this change would be included in the income measure for the dependent care credit. This change will also apply by reference to the K-12 education credit. Effective for tax years beginning after December 31, 2000.
12	Marriage penalty credit calculation. Corrects the formula used by the Department of Revenue in determining the table used by taxpayers to compute the marriage penalty credit to reflect the method

	used to calculate the original 1999 statutory table. This change is retroactively effective for tax years beginning after December 31, 2000.
13	Marriage penalty tables. Removes language that became redundant when the marriage penalty credit table that previously appeared in statute was replaced by the formula used to calculate the credit. Effective for tax years beginning after December 31, 2000.
14	Corporate alternative minimum tax, definitions. Deletes a reference to Minnesota charitable contributions in the calculation of alternative minimum taxable income for corporations, making the corporate alternative minimum tax consistent with the corporate franchise tax with respect to charitable contribution deductions. The 2001 omnibus tax law replaced the corporate franchise tax deduction for Minnesota charitable contributions with the apportioned deduction of federally-allowed charitable contributions.
15	Nonresident gambling winnings. Clarifies that a nonresident who wins money by betting while in Minnesota generates Minnesota assignable income. Effective for tax years beginning after December 31, 2001.
16	Trade or business income. Corrects the statement to read that a trade or business physically located exclusively without this state is carried on within and without this state if sales or receipts are allocated within this state. The section currently states that such a trade or business is doing business within and without the state if sales or receipts are allocated without this state. Effective for tax years beginning after December 31, 2001.
17	Household Income for Property Tax Refund. Clarifies that the income measure used for computing the property tax refund does not include restitution and damages received by victims of the World War II Holocaust. Holocaust restitution and damages become exempt or nontaxable income for the purposes of federal adjusted gross income under 2001 federal tax legislation, but without this change would be included in the income measure for the property tax refund. Effective the day following final enactment.
18	Effective Date of 2001 Changes to the Target Property Tax Refund. Clarifies that the changes made in 2001 to the target property tax refund are effective beginning with refunds payable in 2002.
19	Fur Clothing Use Tax. Adds a subdivision to provide that a person who receives fur clothing for use or storage in Minnesota from a furrier who is not subject to the tax on fur clothing, is subject to a use tax. A person who pays a tax on the transaction to another jurisdiction is entitled to a credit for the tax paid to the other jurisdiction. Effective for fur clothing purchased and brought into Minnesota after January 1, 2002.
20	Collection of Use Tax. Adds a subdivision to provide that a furrier with nexus in Minnesota, who is not subject to the tax on fur clothing, is required to collect the use tax. Effective for fur clothing purchased and brought into Minnesota after January 1, 2002.
21	Credit for Tax Paid to Another Jurisdiction. Provides a credit to a furrier who pays a tax on a transaction involving fur clothing to another jurisdiction.
22	Application of Other Chapters. Clarifies that the criminal penalty, enforcement, interest, appeals, and refund provisions of chapter 289A, and the civil penalty provisions that apply to withholding and sales tax, also apply to the special fur clothing tax.
23	State Airports Fund. Changes a reference from "aviation fuel tax fund" to "state airports fund," consistent with other references to this fund.
24	Biosolids construction materials. Strikes language relating to an expired sales tax exemption for materials used to construct buildings to house biosolids equipment.
25	Insurance Premiums Tax. Correct an erroneous cross reference put in place in the 2000 insurance

	tax recodification. This section is effective retroactively to tax years beginning on or after January 1, 2001 (the effective date of the recodification).
26	Local Government Aid; Net Tax Capacity. Clarifies that class rates in effect for taxes payable in the year of the aid distribution are to be used in computing a city's "net tax capacity" as that figure is used in the local government aid formula. Effective for aid payable in 2002 and thereafter.
27	Local Government Aid; City Aid Max. Clarifies that the maximum 2002 aid for a non-first class city equals 40% of its payable 2001 net levy; plus 40% of its payable 2001 HACA; plus all of its 2001 LGA. Also removes references to repealed and obsolete statutes. Effective for aid payable in 2002 and thereafter.
28	Aid amount. Corrects the formula used to calculate the city and county apartment tax base replacement aid to reflect the actual formula agreed to during the 2001 special session. Effective beginning with aids payable in 2003, the first year of this aid program.
29	Addition of Apartment Tax Base Replacement Aid to city LGA. Clarifies that when the apartment tax base replacement aid is added to a city's city aid base, the total allowed LGA for the city is also increased by the same amount.
30	Limited Market Value Report. Extends the date by which the commissioner of revenue must report to the legislature on the use of limited market value and "this old house" from February 1 to March 1. Also corrects references to those programs. No effective date is specified, therefore the changes will impact the reports required in 2003 and thereafter.
31	Income tax subtraction for foreign taxes. Changes the effective date for the subtraction for foreign taxes that was enacted last year from tax years beginning after December 31, 2001, to tax years beginning after December 31, 2000, which was the original intention of last year's legislation.
32	<p>(a) Repealer. Repeals, effective the day following final enactment:</p> <ul style="list-style-type: none"> • § 272.02, subd. 40, which provided a property tax exemption for property used for hydromechanical or hydroelectrical power generation as now contained in Minn. Stat. § 272.02, subd. 15; • § 295.44, which provided a property tax exemption for property used for hydromechanical or hydroelectrical power generation that would be contained in Minn. Stat. § 272.02, subd. 15, under changes in this bill. • § 290.01, subd. 19(g), which described the computation of the subtraction for early 1980s assets which were depreciated by the federal percentage accelerated cost recovery system (ACRS). This subtraction was allowed in full for tax years beginning before December 31, 2000, and is therefore now obsolete; • § 290.01, subd. 32, which was a definition of Holocaust victims' settlement payment which became unnecessary after these payments were excluded from taxable income at the federal level in 2001; <p>(b) Repealer. Repeals language that references the repealed Minnesota charitable contribution deduction allowed under the corporate franchise tax. The 2001 omnibus tax law allowed an apportioned federal charitable contribution deduction in place of the Minnesota computation for a charitable contribution deduction was repealed. Effective for tax years beginning after December 31, 2001.</p>

(c) **Repealer.** Repeals obsolete sales tax rules. The repealed rules are Minn. Rules § 8130.1400; 8130.2100; 8130.2350; 8130.2600; 8130.3000; 8130.3850; and 8130.5000. Effective the day following final enactment.

Article 11: Local Laws

Overview

This article authorizes a local sales tax for three years in five cities in the St. Cloud area and allows the city of Moorhead to impose a special C/I property tax to eliminate TIF deficits caused by the 2001 tax reform.

1 Moorhead tax levy. Authorizes the city of Moorhead to levy a property tax on commercial industrial (C/I) and public utility property to pay for pre-existing TIF obligations. The maximum amount of this levy is limited to the reduction in the tax increments resulting from the class rate changes in the 2001 tax bill and the elimination of the state general education levy. Because C/I properties in Moorhead qualify for the border city, state-paid disparity credits, the cost of this levy will be paid by the state, rather than C/I property owners. The disparity credit pays all of the tax to the extent it exceeds an effective tax rate of 2.3 percent.

2 St. Cloud area cities; taxes authorized. Authorizes cities in the St. Cloud area to impose local sales and use taxes to fund a regional airport as well as local projects in each community. Effective January 1, 2003 through December 31, 2005, for each city, upon compliance of the governing body in the city with Minn. Stat. § 645.021, subdivision 3, and passage of the authorizing referendum.

Subd. 1. Sales and use tax. Allows the cities of St. Cloud, Sartell, Sauk Rapids, Waite Park, St. Joseph, and St. Augusta to impose a local sales tax of ½ of one percent. Allows St. Cloud and Sartell to impose the tax based on voter approval at referendums held in 2000 and 1999 respectively. Requires the remaining cities to seek voter approval at a referendum held at a general election before allowing them to impose the tax.

Requires the tax to be imposed and administered according to the general statutory provisions, except as it relates to the referendum in the city of Sartell. Sartell is exempted from the general requirement that the authorizing referendum list the specific projects to be funded by the sales tax. Sartell's referendum did list the general projects listed in subdivision 2, paragraph (d), but it included funding of a regional civic center rather than funding of a regional airport and library system.

Subd. 2. Use of revenues. Requires the revenues raised from the taxes authorized in any city be used first for construction, expansion, and improvement of the St. Cloud regional airport.

Revenues in excess of the monies needed to fund the projects listed above shall be returned to each city based on an applicable joint powers agreement. Each city may use this excess revenue to fund projects of regional significance in the city, as outlined in their authorizing referendum.

The authorized local projects for the city of St. Cloud are enumerated in paragraph (c) and include:

- road improvement specified in the bill or of regional significance; and
- park and trail improvements listed in the city capital improvement plan.

The authorized local projects for the city of Sartell are enumerated in paragraph (d) and include:

- construction, expansion, and improvement of a community center; and
- park land acquisition and improvement.

The other cities may authorize the use of excess revenues for one or more of the following local projects of regional significance provided that the specific project is approved by the voters under subdivision 3:

- acquisition and improvement of parks and open space;
- purchase, construction, and renovation of buildings and land for arts, libraries or community centers; and
- major road improvements.

Subd. 3. Separate referenda required. Requires each city to pass an authorizing referendum and to have a separate vote on each project to be funded with the surplus revenue. Allows the tax to be used to pay debt on a previously funded qualifying project. The question must include the cost of each project and make it clear that authorizing use of a sales tax for any of these projects also indicates approval to share sales tax revenues with the other cities to fund the regional airport. The actual method of sharing the revenue will be agreed upon by the participating cities under a joint powers agreement.

Subd. 4. Imposition and termination of tax. The taxes in all cities terminate after December 31, 2005.

Article 12: Miscellaneous

Overview

Modifies the Minnesota estate tax so that it remains as it was before the enactment of the federal Economic Growth and Tax Relief Reconciliation Act of 2001 set in motion the repeal of the federal estate tax.

Provides for transfers to the budget reserve account in 2003, 2004, and 2005

Restores funding for the Department of Revenue's tax compliance efforts

Adjusts the net debt limit for the Minneapolis school district to reflect the loss in net tax capacity caused by the 2001 property tax rate compression

Makes clarifying changes relating to date practices recommended by the Department of Revenue

Removes the sunset from the solid waste management tax exemption for compost waste

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| 1 | <p>Budget Reserve Increase. Directs the commissioner to transfer the following amounts to the budget reserve account:</p> <ul style="list-style-type: none">• \$3.9 million on June 30, 2003;• \$12.3 million on June 30, 2004; and• \$12.0 million on June 30, 2005. |
| 2 -
4 | <p>Minnesota Conservation Fund. Changes the disposition of the portion of the county conservation fees that are deposited in the Minnesota conservation fund. Currently, one-half of these fees are forwarded to the state for deposit in the Minnesota conservation fund. With the change, the forwarded fees will be split equally between the conservation fund and the general fund. Additionally, current law requires that if any portion of the locally retained fees are not encumbered within one year from when they were deposited in the respective county's general fund, they must be forwarded to the state for deposit in the conservation fund. The disposition of those amounts is also changed so they will go one-half to the conservation fund and one-half to the general fund. Effective for fiscal year 2003 and thereafter.</p> |
| 3 | <p>Data Classification. Clarifies that information provided related to the special fur clothing tax is classified as nonpublic data. Effective the day following final enactment.</p> |
| 4 | <p>Informant Data. Clarifies that informant data means informing on a "person" instead of just a "taxpayer," because the informant statute covers nontax laws administered by the Department of Revenue as well as tax laws. The amendment also clarifies that this statute does not apply to property taxes. Effective the day following final enactment.</p> |
| 5 | <p>Data on Exempt Organizations. Clarifies that information relating to an organization's exempt status, typically obtained from the organization or from the Internal Revenue Service, is public data. Effective the day following final enactment.</p> |
| 6 | <p>Sales Tax Permit Information. Clarifies that the reinstatement of a revoked sales tax permit is public information. Effective the day following final enactment.</p> |
| 7 | <p>Exchange of data between departments of labor and industry and revenue. Amends existing law that authorizes the departments of revenue and labor and industry to exchange taxpayer identity information on employers and employees for specified purposes. Adds to current law that information may be exchanged for purposes of the minimum wage law and chapter 181 on miscellaneous employment laws.</p> |
| 8 | <p>Requirement to file an estate tax return. Clarifies that the filing requirement for a Minnesota estate tax return is the amount under federal law in effect before enactment of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). The 2001 legislature did not update the estate tax for EGTRRA's changes, but the general code reference for chapter 289A (which includes the filing requirement for estate taxes) was updated for EGTRRA. As a result, the filing requirement</p> |

	<p>was subject to two conflicting references to the Internal Revenue Code: one that included EGTRRA and one that did not. This section explicitly sets the filing requirement based on the size of the federal gross estate, rather than by reference to a federal filing requirement. Filing is triggered by a gross federal estate of</p> <ul style="list-style-type: none"> • \$700,000 for deaths in 2002 and 2003; • \$850,000 for deaths in 2004; • \$950,000 for deaths in 2005; and • \$1,000,000 for deaths in 2006 and following years.
9	<p>Exclusions from gross estate. Excludes from an individual's Minnesota gross estate pensions exempt from income tax.</p>
10	<p>Minnesota estate tax. Sets Minnesota's estate tax equal to the state credit allowed under the federal estate tax prior to the federal changes enacted in 2001. In effect this retains Minnesota's estate tax as it was before the Economic Growth and Tax Relief Reconciliation Act of 2001 began the phaseout of the state credit allowed under the federal estate tax.</p>
11	<p>Compost waste tax exemption. Deletes the December 31, 2002 sunset of the exemption of compost waste from the solid waste management tax.</p>
12	<p>Lawful gambling. Expands the definition of lawful expenditures to include certain rents.</p>
13	<p>School district formula adjustments. Requires the commissioner of children, families and learning to May 15, 2002. Specifies that the adjustment applies retroactively to July 1, 2001.</p>
14	<p>Thief River Falls; nonprofit corporation established.</p>
	<p>Subd. 1. Authorization. Authorizes the city of Thief River Falls to incorporate a nonprofit corporation to operate a community or regional center.</p>
	<p>Subd. 2. Board of directors. Provides for a five-member board appointed by the city council. Up to three members of the city council may serve on the board. Prohibits compensation but allows expenses.</p>
	<p>Subd. 3. Articles and bylaws. Directs the entity to be incorporated under chapter 317A and comply with that chapter except as otherwise provided in this section.</p>
	<p>Subd. 4. Employees. Specifies that the nonprofit's employees are not public employees and do not participate in retirement, deferred compensation, insurance or other plans available to public employees.</p>
	<p>Subd. 5. Statutory compliance. Requires the nonprofit to comply with certain provisions in the statute governing ratification and continuation of nonprofit corporations created by political subdivisions:</p> <ul style="list-style-type: none"> • Section 465.719, subdivision 9 - the nonprofit must comply with all laws with which the region nine development commission must comply, unless the resolution creating it specifically exempts it from a law and then the resolution must make a detailed and specific

finding that the nonprofit cannot fulfill its purpose if it is subject to the law. Prohibits exemption from the open meeting law, data practices law, or records management act. Provides for challenges to a resolution that exempts the nonprofit from a law.

- Section 465.719, subdivision 10 - if the nonprofit is exempted from any law that applies to the development commission, the development commission must revisit each exemption every three years and either ratify the exemption or remove it.
- Section 465.719, subdivision 11 - if the nonprofit receives tax revenues from the development commission, they must be used only for a public purpose.
- Section 465.719, subdivision 12 - requires an annual audit of the nonprofit by a CPA or the state auditor if the nonprofit receives public money.
- Section 465.719, subdivision 13 - provides that the state auditor has the same powers with regard to the nonprofit as the state auditor has with regard to the development commission.
- Section 465.719, subdivision 14 - addresses data classification for data created, collected, or maintained by the nonprofit.

15 Appropriation. Appropriates \$585,000 in fiscal year 2002 and \$7,015,000 in fiscal year 2003 to the department of revenue for tax compliance activities. Provides that base funding for these activities in the next biennium is \$4,750,000 each year.

Requires the commissioner to include these tax compliance activities in a report on compliance activities mandated in 2001.

Provides that the state employee hiring freeze does not apply to the compliance activities in this section.

Provides for a cancellation from the budget reserve account to the general fund if the legislative auditor determines that actual revenue collections from tax compliance activities funded in 2001 and 2002 are less than anticipated. The amount to be cancelled to the general fund is the difference between the anticipated new general fund revenue and the actual new revenue. The legislative auditor's determination must be made in the February 1, 2003 report required by law in 2001.

16 Repealer. Repeals intent statement that estate tax is intended to be limited to the amount of the state death tax credit under the federal estate tax. This provision is obsolete, since the changes adopted in the 2001 tax bill and this bill did not conform to elimination of the state death tax credit. Doing so would have phased-out the Minnesota estate tax.