HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 2457 **DATE:** May 3, 2006

Version: Delete everything amendment

Authors: Krinkie

Subject: Omnibus Tax Bill

Analyst: Joel Michael, 651-296-5057
Karen Baker, 651-296-8959
Steve Hinze, 651-296-8956
Pat Dalton, 651-296-7434
Nina Manzi, 651-296-5204
Tim Strom, 651-296-1886

This publication can be made available in alternative formats upon request. Please call 651-296-6753 (voice); or the Minnesota State Relay Service at 1-800-627-3529 (TTY) for assistance. Summaries are also available on our website at: www.house.mn/hrd.

Table of Contents

Bill

Article 1: Income, Franchise, and Estate Taxes 3 1

Article 2: Property Taxes 7 17

Article 3: Education Aids and Levies 13 34

Article 4: Local Government Aid 14 39

Article 5: Truth in Taxation 15 42

Article 6: Levy Limits 17 50

Article 7: Sales and Use Tax 18 54

Article 8: Sustainable Forest Resource Incentive Program 21 61

Article 9: Miscellaneous 22 63

Article 1: Income, Franchise, and Estate Taxes

Overview

Conforms Minnesota's income tax to the increased federal standard deduction for married filers, and to federal law changes enacted since April 15, 2005.

Reduces individual income tax rates from 5.35%, 7.05% and 7.85% to 5.0%, 6.75% and 7.85%, beginning in tax year 2008.

Excludes military pension income from Minnesota's income tax, with the full exclusion phased-in from 2006 to 2009.

Allows an individual income tax deduction for health insurance premiums, beginning in tax year 2008.

Increases the deduction for charitable contributions made by non-itemizers from 50 percent to 100 percent of contributions in excess of $500, beginning in tax year 2008.

Requires amounts deducted in computing federal taxable income for tickets to professional sporting events to be added back to taxable income.

Increases the income level at which the K-12 education credit begins to phase out from $33,500 to 185% of the federal poverty guidelines, beginning in tax year 2006.

Clarifies that foreign earnings allowed to be repatriated under the 85 percent dividends received deduction in the American Jobs Creation Act of 2004 must be added back to federal taxable income.

Accelerates the phase-in of single factor sales apportionment under the corporate franchise tax by three years from tax year 2014 under present law to 2011 under the bill.

1 Update of tax administration provisions. Adopts federal tax administrative provisions made between April 15, 2005, and December 31, 2006, that Minnesota references for state tax administration purposes under chapter 289A. None of the three federal acts enacted since April 15, 2005, changed federal provisions that Minnesota provisions refer to in chapter 289A.

Effective the day following final enactment.

2 Update to federal definition of taxable income. Adopts all of the federal changes to taxable income effective at the same time the federal changes were effective. The three new federal laws and important changes were:

- The Energy Tax Incentives Act of 2005 , Public Law 109-58, enacted August

8, 2005, generally provides for the acceleration of the deduction of capital expenditures for companies providing energy and energy services to U. S. consumers and was generally effective for expenses incurred under contracts entered into after April 11, 2005.

- The Katrina Emergency Tax Relief Act of 2005 , Public Law 109-73, enacted September 23, 2005, provides additional tax incentives for individuals and corporations to make charitable contributions after August 25, 2005, and before January 1, 2006, and additional tax relief to victims of the hurricane. Generally effective between August 25, 2005, and January 1, 2007.

The Gulf Opportunity Zone Act of 2005 , Public Law 109-135, enacted December 21, 2005, provides similar tax provisions available under the Hurricane Katrina bill to Hurricane Rita and Wilma victims and charitable givers. Also allows additional section 179 expensing or 50 percent bonus depreciation on business property placed in service in the areas damaged by Hurricane Katrina (between August 28, 2005, and December 31, 2007, for equipment and December 31, 2008, for structures).

3 Additions to federal taxable income; individuals. Strikes the addition to Minnesota taxable income for the difference between the current federal standard deduction for married filers and the standard deduction for married filers in effect before enactment of WFTRA, effective in tax year 2006. This has the effect of conforming Minnesota's standard deduction for married filers to the federal standard deduction for tax years 2006 to 2008, years in which Minnesota would otherwise allow a lower standard deduction for married filers than is allowed at the federal level.

Also strikes the adjustment to the calculation of the addition to Minnesota taxable income for state income and sales taxes deducted at the federal level that was enacted in 2005 because Minnesota did not conform to the increased standard deduction.

Requires amounts deducted in computing federal taxable income for tickets to professional sporting events to be added back to taxable income. This addition also includes amounts spent for food and beverages at the sporting events. Under federal law, 50 percent of the amount paid or incurred for these tickets is deductible by a business that uses the tickets for entertainment. When the tickets are given as gifts (i.e., the donor does not accompany the recipient to the event) the tickets may be deducted in full, subject to annual dollar limits per donee.

4 Subtractions from taxable income; charitable contributions; military pensions; health insurance premiums. Expands the charitable contribution subtraction for non-itemizers and allows new subtractions for military pensions and health insurance premiums.

Charitable contribution subtraction for non-itemizers. Increases from 50 percent to 100 percent the share of charitable contributions in excess of $500 made by non-itemizers that is allowed as a subtraction from Minnesota taxable income. Under present law, individuals who claim itemized deductions at the federal level may deduct 100 percent of charitable contributions. The federal itemized deduction flows through to Minnesota taxable income, providing a state tax benefit for itemizers. At the state level, taxpayers who claim the federal standard deduction rather than itemized deductions may subtract from taxable income 50 percent of total charitable contributions in excess of $500. Thus, a non-itemizer

who makes $2,000 of contributions in a tax year may subtract $750 (50 percent of the amount over $500). Effective beginning in tax year 2008.

Military pension subtraction. Allows an income tax subtraction for military retirement pay, for individuals retired from regular active duty, the National Guard, and the Reserves, including the retirement pay received by the veteran's dependent survivors under the Survivor's Benefit Plan (SBP). Phases-in the subtraction over a four-year period, using the lesser of the following percentages and amounts for each year:

2006	25%	$7,500
2007	50%	$15,000
2008	75%	$22,500
2009 and following years	100%	no maximum

Health insurance premiums subtraction. Allows a subtraction for health insurance premiums, to the extent not deducted at the federal level and not used to claim the long-term care insurance credit in Minnesota. Under present law, self-employed individuals may deduct the full cost of health insurance premiums in determining federal taxable income, and individuals who claim itemized deductions may deduct health insurance premiums as a medical expense, but only to the extent that medical expenses exceed 7.5 percent of their adjusted gross income. This provision would allow deduction of health insurance premiums paid by non-itemizers who are not self-employed, and premiums paid by itemizers that fall below the 7.5 percent adjusted gross income threshold. Effective beginning in tax year 2008.

5 Additions to taxable income; corporations. Clarifies that foreign earnings allowed to be repatriated under the 85 percent dividends received deduction in the American Jobs Creation Act of 2004 (section 965 of the Internal Revenue Code) must be added back to federal taxable income. The 2005 federal update bill inadvertently omitted this Internal Revenue Code reference. This section also requires corporations to add back amounts deducted for tickets to professional sporting events similar to the provision for individuals under section 0.

6 Update to other references to the Internal Revenue Code in chapter 290. Adopts federal changes to federal adjusted gross income used for computing individual alternative minimum tax and household income which is used to compute the dependent care and K-12 education credit; changes to the federal earned income tax credit; and changes to the federal definition of "qualified research expenses." The main changes to federal adjusted gross income are described in section 0.

For the federal earned income credit that Minnesota uses as a basis for the Working Family Credit, individuals who lived in the Hurricane Katrina, Rita, or Wilma disaster areas are allowed to elect to use their 2004 earned income rather than 2005 earned income in calculating their 2005 credit.

The federal definition of "qualified research expenses," which Minnesota uses to compute the Minnesota C corporation Research and Development Credit, was changed, effective for amounts paid or incurred after August 8, 2005, to allow 100 percent of amounts paid to small businesses, universities and federal labs for qualified energy research as a qualifying

research expense (old law allowed only 65 percent of amount paid).

7 Income tax rates; nonresident ratio. Reduces the individual income tax rates from 5.35, 7.05, and 7.85 percent to 5.0, 6.75, and 7.85 percent, effective in tax year 2008. Also adjusts the ratio used in determining liability for nonresidents and part-year residents for the new subtractions in section 0.

Also removes the new military pension subtraction proposed in section 0from both the numerator and denominator of the ratio used to calculate a part year or nonresident individual's Minnesota income tax.

8 K-12 education credit; phaseout. Changes the starting point for the credit phaseout from $33,500 to the greater of $33,500 or 185 percent of the federal poverty guideline, adjusted by family size. For 2006, 185 percent of the federal poverty guideline is at:

$24,420 for a family of two

$30,710 for a family of three

$37,000 for a family of four

and increases by $6,290 for each additional family member.

Under current law, the K-12 education credit begins to phase out when household income reaches $33,500. For families claiming the credit for one child, the credit phases out at a rate of $1 for each $4 of income over $33,500, and for families claiming the credit for two or more children, the phase-out rate is $2 for each $4 of income over $33,500. The income at which the credit is fully phased out depends on the number of children for whom the credit is being claimed. The credit is fully phased out when income reaches $37,500 for families with one or two children, and the phaseout extends by an additional $2,000 of income for each additional child for whom the credit is claimed.

Also provides definitions for "federal poverty guidelines," and "family size." The taxpayer, spouse, and dependents are counted in determining family size.

9 Marriage penalty credit. Strikes the adjustment to the calculation of the marriage penalty credit enacted in 2005 because Minnesota did not conform to the increase standard deduction. Effective beginning in tax year 2006.

10 Alternative minimum tax. Allows a subtraction of military pension income from alternative minimum taxable income, to complement its subtraction from federal taxable income as provided in section 0.

11 Scope of allocation rules. Clarifies that deductions definitely related to income items assigned to the taxpayer's domicile are also assigned to the state of domicile. Thus, such an item would be deductible for Minnesota purposes, only if the taxpayer's tax domicile is in Minnesota. Present law assigns deductions not definitely related to an item or class of income to the state of domicile. Effective the day following final enactment.

12 Single factor sales apportionment; regular corporations. Accelerates phase-in of single factor sales apportionment of income from an 8-year phase-in to a 5-year phase-in, still beginning with tax year 2007 for regular corporations, but reaching 100 percent sales apportionment in tax year 2011 rather than 2014. The current law and proposed phase-

schedules are as follows:

Tax year	Sales percentage, current law	Sales percentage, proposed
Present law	75%	75%
2007	78%	78%
2008	81%	82%
2009	84%	85%
2010	87%	95%
2011	90%	100%
2012	93%	100%
2013	96%	100%
2014	100%	100%

13 Update of references to Internal Revenue Code in the property tax refund chapter. Adopts the federal changes that affect household income, which uses the definition of federal adjusted gross income as a starting point.

14 Federal update; estate tax. Changes the date through which Minnesota incorporates the federal estate tax from April 15, 2005, to December 31, 2005. Since there has not been a federal change in the estate tax since the last update, this change does not have any substantive effect.

15 Estate tax correction. Replaces a reference to "gross" estate with "taxable" estate in the estate tax computation section. This corrects a drafting error in the 2005 special session tax act.

Article 2: Property Taxes

Overview

Makes a number of changes in state property tax law, including:

- Providing a classification reduction to properties of nonprofit community service-oriented organizations that make significant charitable contributions.
- Indexing the classification tiers for agricultural and residential homesteads.
- Establishing an aggregate resource preservation property tax law for certain property containing unmined commercial aggregate.
- Reduces the threshold for the number of qualifying units necessary for an apartment building or complex to qualify for class 4d from 75 percent to 20 percent.

1 First tier valuation limit; residential homestead property. Provides for the indexing of the limit for first-tier residential homestead classification. For each assessment year, the limit is $500,000 times the ratio of the previous assessment year's statewide average agricultural value per acre to the same measure for assessment year 2005. The limit is rounded to the

nearest $10,000. The limit is certified annually by the commissioner of Revenue. The estimated limit for pay 2007 under this provision is $550,000.

2 First tier valuation limit; agricultural homestead property. Provides for the indexing of the limit for first-tier agricultural homestead classification. For each assessment year, the limit is $600,000 times the ratio of the previous assessment year's statewide average agricultural value per acre to the same measure for assessment year 1999. The limit is rounded to the nearest $10,000. The limit is certified annually by the commissioner of Revenue. The estimated limit for pay 2007 under this provision is $970,000.

3 Aggregate resource preservation property tax law. Establishes an Aggregate Resource Preservation Property Tax Law for certain property containing unmined commercial aggregate. This program is similar to the Agricultural Green Acres program.

Subd. 1. Requirements. Provides that real estate is entitled to valuation under this program if all of the following requirements are met:

(1) the property is classified as residential homestead; disabled/blind/paraplegic veteran homestead; agricultural homestead and non-homestead; and timber;

(2) the property is at least ten contiguous acres, when the application is filed;

(3) the owner has filed an application with the county assessor where the property is located;

(4) there are no delinquent taxes on the property; and

(5) a covenant on the land restricts the use of the property's surface to that which exists on the date of the application and limits its future use to the preparation and removal of the aggregate commercial deposit under its surface.

Subd. 2. Application. Provides that the application for valuation deferment under this section must be filed by May 1 of the assessment year. Once an application is filed and granted, it continues in effect for subsequent assessment years until the property no longer qualifies, provided that the required supplemental affidavits are timely filed. The application is filed with the assessor on a form prescribed by the commissioner of revenue and is executed and acknowledged in the same manner as is required for a deed. The application must contain the following information and any other information that the commissioner deems necessary::

- legal description of area;
- name and address of owner;
- copy of affidavit ; and
- statement of proof from the owner that the land contains a restrictive covenant limiting its use for the property's surface to that which exists on the date of the application and limiting its future use to the preparation and removal of the

aggregate commercial deposit under its surface. The covenant is binding on the owner or the owner's successor or assignee, and runs with the land, except as provided in subdivision 4 allowing for the covenant's cancellation only under certain conditions.

Subd. 3. Determination of value. Qualifying land must be valued as if it were agricultural property, using a per acre valuation equal to the current year's per acre valuation of agricultural land in the county. Prohibits the assessor from considering any additional value resulting from potential alternative and future uses of the property. The buildings located on the land are valued in the normal manner.

Subd. 4. Cancellation of covenant. Provides that the covenant may be cancelled in two ways:

(1) by the owner beginning with the next subsequent assessment year provided that the additional taxes have been paid at the time of the cancellation; and

(2) by the city or town in which the property is located beginning with the next subsequent assessment year, if the city council or town board:

- changes the conditional use of the property;
- revokes the mining permit; or
- changes the zoning to disallow mining.

No additional taxes are imposed under clause (2).

Subd. 5 County termination; Opt-Out. A county may, following notice and public hearing, terminate application of this section in the county. The termination is effective upon adoption of a county board resolution. A county has 60 days from receipt of the first application for enrollment to notify the applicant and any other applicants of the county's intention to terminate the program The county must act on termination within 6 months. If the county terminates the program, all applications received during that time period shall be deemed void. If the county does not act within 6 months to terminate it, all applications received during that period shall be deemed eligible to be enrolled (provided they meet all of the requirements). A termination applies prospectively and does not affect property enrolled under this section prior to the termination date. A county may subsequently reauthorize application by a county board resolution revoking the termination, and opting in (back-in) to the program.

Subd. 6. Additional taxes. Provides that additional taxes are due when land that has been valued and assessed under this program no longer qualifies. The additional tax amount is determined by:

(1) computing the difference between the (i) current year's taxes based upon the

agricultural valuation under subdivision 3, and (ii) an amount determined by the assessor based upon the property's current year's estimated market value of like real estate at its highest and best use and the appropriate local tax rate; and

(2) multiplying the amount of difference in clause (1) by the number of years the land was in the program.

The market value determined by the assessor for this calculation must not be greater than if the property was sold in an arms-length transaction. The additional taxes must be extended on the current tax lists and no interest or penalties are due if timely paid. Additional taxes must not be imposed on that portion of the property that has been actively mined and removed from the program.

Subd. 7. Supplemental affidavits; mining activity on land. Requires an owner to file a supplemental affidavit within 60 days from the day any aggregate is removed stating the number of acres of property that is actively being mined. Any acres that are actively being mined must be valued and classified as commercial property in the next subsequent assessment year, and must be removed from the program under this section.

Copies of the original affidavit and supplemental affidavits must be filed with the county assessor, the local zoning administrator, and the Department of Natural Resources, Division of Land and Minerals. Supplemental affidavits must be filed each time a subsequent portion of property is actively mined, provided that the minimum acreage change is five acres, even if the area mined is less than five acres. If these affidavits are not timely filed, additional taxes are imposed.

Subd. 8. Lien. Provides that the additional taxes imposed by this section are a lien on the property.

Subd. 9. Continuation of tax treatment upon sale. Provides that when qualifying property under this program is sold, additional taxes must not be extended on the property if the property continues to qualify and if the new owner files an application with the assessor for continued deferment within 30 days after the sale.

Subd. 10. Definitions. Provides a cross-reference to the definition of "commercial aggregate deposit" and "actively mined" (contained in section 6).

Subd. 11.County administrative fee. Allows the county to charge the owner of property enrolled in this program a fee to compensate for its costs of administrating the program.

Effective for taxes levied in 2007, payable in 2008, and thereafter, except that for the 2007 assessment, the application date is September 1, 2007.

4 Requirements; class 4d. Reduces the requirement for the minimum number of units in a rental housing property that must meet the eligibility criteria for 4d classification from 75 to 20 percent. This is the initial threshold for the rental housing property that must be met before any of the units in the building receive the reduced classification. Only the

proportion of units that meet one of the four criteria receive the lower class rate, when the assessor is determining the market value of the entire property.

Effective for taxes levied in 2006, payable in 2007 and thereafter.

5 Class 1; residential homestead. Increases the maximum market value of a homestead that qualifies for the first-tier rate of 1 percent based on the index in section 0. The value in excess of that amount has a class rate of 1.25 percent.

Effective for assessment year 2006 and thereafter, for taxes payable in 2007 and thereafter.

6 Class 2; agricultural homestead; classification for unmined aggregate. Makes changes to classification of agricultural homesteads and unmined aggregate

Agricultural homestead. Increases the maximum market value of agricultural land and buildings eligible for the homestead class rate of 0.55 percent based on the index in section 0. The value in excess of that amount has a class rate of 1 percent. As in current law, the house, garage, and one acre of land (HGA) is not included in this amount, but rather is treated the same as a residential homestead.

History. The $600,000 market value tier was enacted in 1999. Prior to 1999, the maximum amount of agricultural property that was eligible to receive homestead treatment was based on acreage (320 acres), regardless of the value.

Effective for assessment year 2006 and thereafter, for taxes payable in 2007 and thereafter.

Classification for unmined aggregate. Establishes a new "sub-class" for property containing the commercial aggregate deposit that is not being actively mined. The class rate is 1.0 percent of market value.

Adds paragraph (h) defining property that contains the commercial aggregate deposits and that is eligible for the 1.0 percent classification. Provides that the property must be at least ten contiguous acres and satisfy all of the following conditions, which the owner of the property documents on an affidavit and records with the county recorder:

- legal description of property;
- the fact that the property contains a commercial aggregate deposit that is not actively being mined that is reasonably distributed throughout the entire parcel enrolled;
- the conditional use under the county or local zoning ordinance of this property is for mining; and
- a permit has been issued by the local government or the mining activity is allowed under the local ordinance; and
- a statement from a registered professional geologist, engineer, or soil scientist delineating the deposit and certifying that it is a commercial aggregate deposit.

Defines:

- "commercial aggregate deposit" as a deposit that will yield crushed stone or sand and gravel that is suitable for use as a construction aggregate; and

- "actively mined" as the removal of top soil and overburden in preparation for excavation or excavation of a commercial deposit.

Provides that when any portion of the property classified under this paragraph begins to be actively mined, the owner must file a supplemental affidavit and the property must be classified as commercial in the next subsequent assessment year.

Effective for taxes levied in 2007, payable in 2008 and thereafter.

7 Class 4c. Extends 4c property classification to property owned by nonprofit community service-oriented organizations that make charitable contributions and donations at least equal to the amount of property taxes paid in the previous year. Currently, these kinds of organizations can qualify for class 4c only if the property is not used for revenue-producing activity for more than six days in a calendar year. The types of organizations that would be affected are VFWs, American Legions, Knights of Columbus, etc.

4c clasification gives these properties a class rate of 1.5 percent and exempts them from the state general tax; under current law they are generally classified as commercial with a class rate of 1.5 percent on the first $150,000 of value and 2 percent on the value above, and are also subject to the state general tax.

Effective for the 2006 assessment and thereafter, taxes payable in 2007 and thereafter. For the 2006 assessment year, the application deadline is extended to September 15, 2006.

8 Senior deferral; program qualifications. Changes the age requirement for the senior citizen property tax deferral program so that at the time deferral is first granted only one spouse must be at least 65 years old. Requires the other spouse to be at least 62 years old. Under present law both spouses must be at least 65 years old for a married couple to qualify for the deferral. Effective for applications for deferral filed on or after July 1, 2006.

9 Buffalo-Red River Watershed District; levy. (a) Provides that the Buffalo Red-River Watershed District may levy only the (1) basic general administrative levy and (2) a tax levy not to exceed 0.02394 percent of taxable market value to pay for costs attributable to the basic water management features of projects initiated by petition of a political subdivision within the watershed district, or at least 50 resident owners of property within the district. The levy may also be used to develop and implement total maximum daily loads for water quality. Any project initiated by petition cannot be initiated by petition cannot be for a period exceeding 15 consecutive years. (This section authorizes an allowable levy increase, which for payable 2007 will be about $430,000.)

(b) The tax levy under paragraph (a) clause (2) is effective beginning with taxes levied in 2006, payable in 2007 through taxes levied in 2011, payable in 2012, except that any project initiated by petition under this section within that 5 year time period that extends beyond taxes payable in 2012, the levy authorization in Minnesota Statutes, section 103D.905, subdivision 3, shall continue to fund those projects for their duration. The general tax levy

under paragraph (a) clause (1) has no expiration date.

Effective the day following final enactment.

Article 3: Education Aids and Levies

Overview

Article 3 provides additional state aid to reduce equity levies by $32 million statewide and debt service levies by $7.7 million statewide for taxes payable in 2007. It also indexes the tiers of the debt service aid equalization formula for changes in the relationship between property values and pupil counts to maintain a relatively constant ratio of debt aid and levy from year-to-year.

The article also authorizes school boards to levy new debt service levies against either net tax capacity or referendum market value, without altering the amount of debt service equalization aid that is received

1	Debt service equalization aid; definitions. Indexes the debt service equalization aid factors beginning in fiscal year 2009. Sets the indexing equal to the statewide growth in adjusted net tax capacity per pupil unit (this measure of tax base per pupil unit is currently growing by about 12 percent per year).
2	Debt service levies; choice of tax base. Grants a local school board authority to determine whether the levy needed to repay school bonds issued after July 1, 2006, should be spread against net tax capacity or referendum market value. Requires the board to make the decision prior to the bond election.
3	Debt service equalization revenue. Provides that a district's debt service equalization aid and levy will not change regardless of whether the school board decides to spread the levy on net tax capacity or referendum market value. Effective July 1, 2006.
4	Equalized debt service levy. Increases the aid in the debt service equalization aid program by increasing the debt service equalization aid first tier from $3,200 to $5,000 in fiscal year 2008, and indexing the debt service equalizing factors after that.
5	Debt service levy. Allocates a school district's total debt service equalization aid and debt levy proportionately against the debt service revenue of each bond project so that referendum market value levies and net tax capacity levies are lowered by their share of the equalization aid. Effective beginning with taxes payable in 2007.
6	Information required. Requires school boards to include in the information submitted to the commissioner of education as a part of the review and comment process a statement as to whether the new facility's debt service levy will be spread against net tax capacity or referendum market value.
7	Equity levy. Lowers the equity levy for all school districts by providing an additional $32 million of equity revenue in state aid.

Article 4: Local Government Aid

Overview

Fully funds the city local government aid (LGA) formula starting with aids payable in 2007, provided that the motor vehicles sales tax constitution dedication to transportation funding fails at the 2006 general election. Establishes contingency language to certify two alternative sets of city LGA and levy amounts prior to the November election.

1	City formula aid. Sets the LGA need increase percentage equal to 100%. A city would get 100 percent of its "unmet need" under the formula, subject to annual limits on aid increases. Effective beginning with aids payable in 2007, provided that the constitutional amendment dedicating the motor vehicle sales tax (MVST) to transportation and transit does not pass at the 2006 general election.
2	City formula aid. Removes the cap on the maximum LGA increase to a city for aids payable in 2007. The cap is reinstated beginning with aids payable in 2008. Deletes obsolete language.
3	Contingency certification. Requires the commissioner of revenue to certify two Pay 2007 LGA amounts to each city by August 1, 2007. The amounts show what each city would receive if the MVST constitutional amendment passes or if it doesn't pass. The final amount paid is determined by what happens to the constitutional amendment at the 2006 general election in November.
4	Contingency levy limits and levy certifications. Paragraph (a) requires the commissioner of revenue to certify two levy limits for taxes payable in 2007 to each city, based on the two different LGA amounts certified under section 0. The final levy limit is based on whether the MVST constitutional amendment passes at the 2006 general election in November. Paragraph (b) requires a city to use its smallest LGA calculated under section 0, in determining the proposed levy for truth-in-taxation (TinT) purposes for taxes levied in 2006, payable in 2007. The final certified levy cannot exceed the TinT amount.
5	Repealer. Repeals the limit on the amount of city LGA that can be paid in any year. The amount spent on city LGA would be the amount needed to pay 100% of "unmet need" under the formula. Effective beginning with aids payable in 2007, provided that the constitutional amendment dedicating the motor vehicle sales tax (MVST) to transportation and transit does not pass at the 2006 general election.

A rticle 5: Truth in Taxation

Overview

Provides for two additional columns to be added to the truth-in-taxation notice showing (i) the tax change due to spending decisions made by the taxing jurisdiction, and (ii) the tax change due to the change in the property's market value (relative to the change in value of the other properties in the jurisdiction).

Establishes a system of taxpayer satisfaction surveys beginning with taxes payable in 2007. Provides for a survey form to be enclosed with (or part of) each taxpayer's truth-in-taxation statement, allowing taxpayers to indicate their satisfaction or dissatisfaction with the preliminary levy that has been certified by the county, and in some cases by the city. Provides that renters also receive a copy of the survey and are allowed to respond.

Eliminates the requirement for jurisdictions to publish proposed budget and tax information in a newspaper advertisement.

1 Taxpayer satisfaction survey; definitions.

Subd. 2. Budget; counties. Defines a county's budget to be its total government fund expenditures as defined by the state auditor, less any expenditures for direct payments to recipients or providers for specifically listed human services programs.

Subd. 3. Budget; cities. Defines a city's budget to be its total government fund expenditures as defined by the state auditor, less any expenditures for improvements or services that are specially assessed or charged.

Subd. 4. Population. Defines population as the most recent population estimated by the state demographer or the Metropolitan Council.

Subd. 5. Jurisdiction subject to taxpayer satisfaction survey. "Jurisdiction subject to taxpayer satisfaction survey" means any county, or any city with a population of 500 or more.

2 Notice of proposed property taxes. Contains a number of changes to the format and distribution of the proposed tax notice:

- Requires counties to use the form prescribed by the Commissioner of Revenue.
- Requires two additional columns to be added to the truth-in-taxation notice for each property to indicate for each taxing jurisdiction: (a) the tax change due to spending decisions made by the taxing jurisdiction, and (b) the tax change due to the change in the property's market value (relative to the change in value of the other properties in the jurisdiction). [Note: The tax change due to spending factors computed in this manner was required to be shown on truth-in-taxation notices from taxes payable in 1998 through 2003.]

- Requires the notice for properties located in tax increment financing districts to show the proposed tax as if the property were taxed by the relevant local taxing jurisdictions, rather than the tax increment financing district.
- Requires the notice to provide an estimate of any additional tax that would apply to the property under any referenda pending at the November general election. Provides that this amount is not to be included in the proposed tax amount.
- Requires a copy of the proposed tax notice to be mailed or delivered to each tenant, renter or lessee (under current law it is sufficient for the landlord to post a copy of the notice in a conspicuous place on the property).
- Makes miscellaneous "clean-up" changes in the statute.

3	Constant spending levy. (a) Defines "constant spending levy" for a taxing jurisdiction other than a school district as the levy that would be necessary in the proposed year for the jurisdiction to maintain the same level of spending as in the current year. If a jurisdiction's property tax aids do not change, the constant spending levy is the same as the current levy. (b) Defines "constant spending levy" for voter-approved school levies in a manner similar to the formula for other taxing jurisdictions, except that it takes into account changes in the district's pupil count. (c) Defines "constant spending levy" for other school levies in a manner similar to the formula for other taxing jurisdictions, except that it takes into account changes in the district's pupil count. (d) Requires the commissioner of education to determine the "constant spending levy" and report it to the county auditor by September 30. (e) Provides that in the case of the fiscal disparities levy, the constant spending levy is the same as the proposed tax. [Note: The definitions in this section are the same as the definitions in place from 1998 through 2003, modified only for changes in state aid programs since 2003.]
4	Constant spending tax. Defines "constant spending tax" as the hypothetical tax on an individual parcel of property if a jurisdiction levied an amount equal to its constant spending levy.
5	Base year constant spending tax. Defines "base year constant spending tax" as the hypothetical tax on an individual property based on (i) the property's taxable value for the current year, (ii) the jurisdiction's tax base for the current year, and (iii) the jurisdiction's constant spending levy.
6	Taxpayer satisfaction survey. (a) Requires a taxpayer satisfaction survey form to be attached to or enclosed with each TnT notice. (b) The question presented on the survey form is whether the respondent is satisfied with the proposed levy (for each jurisdiction subject to the taxpayer satisfaction survey); space is to be provided to answer either "Yes " or "No."

(c) The mailing is required to include a preaddressed envelope for responding to the survey; postage to return the survey must be provided by the taxpayer. Survey responses must be received by December 1.

7 Additional information to be included on survey form. The survey form is required to show the proposed budget and the proposed property tax levy, along with the corresponding amounts for the current year, for each jurisdiction subject to the taxpayer satisfaction survey. [Note: The requirement in current law for this kind of information to be shown in a newspaper advertisement is eliminated in section 0.]

8 Format of taxpayer satisfaction survey. Requires the commissioner of revenue to prescribe the format of the survey form and present the form to the chairs of the House and Senate Tax Committees for review.

9 Results of taxpayer satisfaction survey. Requires the county to tabulate the survey results for each subject jurisdiction, and to publicly disclose the results for each jurisdiction by December 8 of each year. Requires each jurisdiction subject to the taxpayer satisfaction survey to disclose its survey results at a public meeting, and on its Web site if it maintains one.

10 Repealer. Repeals the requirement for a jurisdiction to publish a notice of its proposed budget and levy amounts in the local newspaper.

Article 6: Levy Limits

Overview

Permanently re-imposes and modifies levy limits for cities with a population of 2,500 or more, and for all counties. The levy limits are effective beginning with property taxes levied in 2006, payable in 2007.

1 Special levies. Eliminates several special levies previously allowed outside of levy limits. Retains the special levies for debt payments, except reimbursement of liquor store revenues used to pay municipal liquor store bonds, and property taxes approved by the voters that are spread on market value.

2 Levy limit base. Provides that the levy limit base for taxes levied in 2006, payable in 2007, is equal to (1) the city or county's Payable 2006 levy, less its allowed debt and market value special levies, plus (2) the sum of its 2006 city LGA or county program aid; taconite aids, and wind energy production tax revenues.

The levy limit base for taxes levied in 2007, payable in 2008 and thereafter is equal to the local government's adjusted levy limit base from the previous year.

3 Adjusted levy limit base. Sets the adjusted levy limit base for a local government equal to its levy limit base increased by the percent increase in the number of households in the jurisdiction in the most recently available 12 month period.

4 Levy limit. Provides that a local government's levy limit is equal to its adjusted levy limit base minus the sum of its LGA, county program aid, and taconite aid in the calendar year that corresponds to the payable year for the levy, and also minus it estimated wind energy production tax for that year.

5 Repealer. Repeals obsolete language regarding levy adjustments related to the now completed state takeover of county court costs.

Article 7: Sales and Use Tax

Overview

Modifies existing local sales tax authorities for the cities of:

- Duluth (food and beverage tax);
- Hermantown;
- Winona; and
- Worthington.

Authorizes new local sales taxes for the cities of:

- Austin;
- Baxter;
- Brainerd; and
- Nisswa.

1 Duluth; food and beverage tax. Allows the city of Duluth to increase its existing local food and beverage tax to two and one-quarter percent. The tax is currently imposed at a rate of one and one-half percent. The additional revenue from the tax increase would be used to pay debt service on bonds issued to build a new ice arena at the Duluth Entertainment and Convention Center (the DECC). The tax rate would be reduced when sufficient revenues have been raised to pay the debt service on $33.7 millions in bonds. No referendum is required for the rate increase.

2 Sales tax authorized (Hermantown). Allows the city of Hermantown to finance a multi-use building containing a police and fire station and an administrative services facility with proceeds from its local sales tax. Currently the city can use the proceeds to fund a joint police and fire station.

3 Termination (Hermantown). Provides that the city of Hermantown's local sales tax will expire on March 31, 2026. Currently the expiration is the later of 10 years after first imposed (2007) or when sufficient funds have been raised to fund the authorized projects.

4 Use of revenues (Winona). Expands the allowed uses of the revenues from the existing local sales and excise tax in Winona to include funding up to $1.2 million of the costs of certain flood control projects approved by the city council February 6, 2006.

5 Sales and use tax (Worthington). Allows the city of Worthington to hold its referendum to impose a local sales tax at either the 2006 or 2008 general election. The authority for imposing the tax was granted during the 2005 special session.

6 Termination of taxes (Worthington). Clarifies that the Worthington local sales tax expires at the earlier of when the tax is first imposed or when sufficient revenues have been raised for

the authorized projects.

7 City of Austin; taxes authorized. Authorizes the city of Austin to impose a one-half of one percent local sales tax to fund flood mitigation projects. The tax would expire at the earlier of (1) 20 years or (2) when funds sufficient to finance the authorized projects have been raised.

Subd. 1. Sales and use tax authorized. Authorizes the city to impose a sales and use tax of one-half of one percent, based on a referendum passed at the next general election or at a special election held before January 1, 2007. Imposition and administration requirements under Minnesota Statutes, section 297A.99 apply.

Subd. 2. Use of revenues. Authorizes the city to spend revenues raised under subdivision 1 to fund capital and administration costs of flood mitigation projects.

Subd. 3. Bonding Authority. Authorizes the city to issue $14 million in bonds for the projects listed in subdivision 2, based on the referendum to impose the sales tax.

Subd. 4. Termination of taxes. The tax under subdivision 1 expires at the earlier of (1) 20 years after the tax is imposed or (2) when sufficient revenues are raised to fund the specified projects.

8 City of Baxter; taxes authorized. Authorizes the city of Baxter to impose a one-half of one percent local sales tax to fund a number of projects. The tax would expire at the earlier of (1) 12 years or (2) when funds sufficient to finance the authorized $15 million in projects have been raised.

Subdivision 1. Sales and use tax authorized. Authorizes the city to impose a sales and use tax of one-half of one percent, based on a referendum passed November 2, 2004. Imposition and administration requirements under Minn. Stat.§297A.99 apply.

Subd. 2. Excise tax. Allows the city to impose a $20 per vehicle sales tax on motor vehicles sold by licensed dealers in the city.

Subd. 3. Use of revenues. Authorizes the city to spend revenues raised under subdivisions 1 and 2 for the following projects:

- acquisition and betterment of water and wastewater facilities;
- construction and equipping a fire substation; and
- Paul Bunyan Bridge and related improvements.

Subd. 4. Bonds. Allows the city to issue up to $15 million in bonds for the projects listed in subdivision 3, based on the referendum for the sales tax.

Subd. 5. Termination of taxes. The taxes under subdivisions 1 and 2 expire at the earlier of (1) 12 years after the tax is imposed or (2) when sufficient revenues are raised to fund $15 million in project costs plus any related bond costs.

9 City of Brainerd; taxes authorized. Authorizes the city of Brainerd to impose a one-half of one percent local sales tax to fund a number of projects. The tax would expire at the earlier of (1) 12 years or (2) when funds sufficient to finance the authorized $22.03 million in projects have been raised.

Subdivision 1. Sales and use tax authorized. Authorizes the city to impose a sales and use tax of one-half of one percent, if approved by the voter's at the next general election in November 2006. Imposition and administration requirements under Minn. Stat.§297A.99 apply.

Subd. 2. Excise tax. Allows the city to impose a $20 per vehicle sales tax on motor vehicles sold by licensed dealers in the city.

Subd. 3. Use of revenues. Authorizes the city to spend revenues raised under subdivisions 1 and 2 for the following projects:

- a joint wastewater treatment facility with the city of Baxter;
- water infrastructure improvements; and
- trail development.

Subd. 4. Bonds. Allows the city to issue up to $22.03 million in bonds for the projects listed in subdivision 3, based on the referendum for the sales tax.

Subd. 5. Termination of taxes. The taxes under subdivisions 1 and 2 expire at the earlier of (1) 12 years after the tax is imposed or (2) when sufficient revenues are raised to fund $22.03 million in project costs plus any related bond costs.

10 City of Nisswa; taxes authorized. Authorizes the city of Nisswa to impose a one-half of one percent local sales tax to fund a number of projects. The tax would expire at the earlier of (1) 12 years or (2) when funds sufficient to finance the authorized $7.8 million in projects have been raised.

Subdivision 1. Sales and use tax authorized. Authorizes the city to impose a sales and use tax of one-half of one percent, if approved by the voters at the November 2006 general election. Imposition and administration requirements under Minn. Stat.§297A.99 apply.

Subd. 2. Excise tax. Allows the city to impose a $20 per vehicle sales tax on motor vehicles sold by licensed dealers in the city.

Subd. 3. Use of revenues. Authorizes the city to spend revenues raised under subdivisions 1 and 2 for the following projects:

- construction of a wastewater treatment facility; and
- the city share of costs for the upgrade of State Highway 371 through

Nisswa.

Subd. 4. Bonds. Allows the city to issue up to $7.8 million in bonds for the projects listed in subdivision 3, based on the referendum for the sales tax.

Subd. 5. Termination of taxes. The taxes under subdivisions 1 and 2 expire at the earlier of (1) 12 years after the tax is imposed or (2) when sufficient revenues are raised to fund $7.8 million in project costs plus any related bond costs.

Article 8: Sustainable Forest Resource Incentive Program

Overview

Contains miscellaneous minor changes to the sustainable forest resource incentive program. Effective the day following final enactment.

1	Claimant. Modifies the definition of "claimant" for purposes of the sustainable forest incentive program (SFIA) to include a purchaser or grantee if property enrolled in the program was sold or transferred after the original application was filed and prior to the annual incentive payment being made. Provides that the incentive payment for the year in which a sale occurs will be made regardless of the date of the actual sale. Requires the owners, transferees, or grantees to notify the commissioner, in writing, which person is eligible to claim the payments.
2	Forest management plan. Removes the reference to "owner specific" forest management goals, since the forest management plan relates to the land, and not to the owner of the land.
3	Timber harvesting and forest management guidelines. Removes the reference to the 1998 guidelines and replaces it "with the guidelines in effect at the time the tract, parcel, or piece of land is enrolled in the SFIA." This insures a landowner going into the program, that whatever guidelines are in effect at the time they enroll the land, are the ones that will apply to their land.
4	Business tax registration data. Deletes a reference to "state" which is needed to be consistent with a change enacted in 2005, which made the state business registration numbers issued by the Department of Revenue in chapter 270B public data. .

Article 9: Miscellaneous

Overview

This article:

- Clarifies that the commissioner of revenue is to take into account expected inflation in setting the rate of the per pack cigarette tax that applies in lieu of the general sales tax on cigarettes

- Conforms the excise tax treatment of flavored malt beverages to new federal definitions

- Provides three additional years of JOBZ tax incentives to new (post-4/30/2006) ethanol plant projects.

1 Weighted average retail price. Defines "weighted average retail price" for purposes of the per pack cigarette tax that is imposed on wholesalers in lieu of the retail sales tax. Clarifies that the commissioner's estimates include expected price inflation during the year in which the per pack amount will apply. Effective April 30, 2006.

2 Distilled spirits; definition. Updates the definition of distilled spirits to follow federal regulations. Classifies as a distilled spirit any beverage that would be classified as a flavored malt beverage except that:

- the alcohol contribution from flavors and other non-beverage materials exceeds 49 percent of the product's alcohol content of the product; and
- the beverage contains an alcohol content of more than 6 percent, 1.5 percentage points or more of which is derived from flavors or non-beverage ingredients.

Effective July 1, 2006.

3 Flavored malt beverage; definition. Updates the definition of flavored malt beverage to follow federal regulations that provide that a flavored malt beverage may not include a beverage that derives more than 49 percent of its alcohol content from flavors and other nonbeverage materials. Effective July 1, 2006.

4 Tax may be imposed. Authorizes the Town of Sylvan to impose a gravel tax if one is not imposed by Cass County. Provides that in lieu of the normal distribution of the gravel tax, all of the tax proceeds will be retained by the Town of Sylvan.

Further provides that if at some later time Cass County imposes a gravel tax, the gravel tax authorized under this subdivision would be repealed on the effective date of the Cass County tax.

Effective upon local approval by the governing body.

5 JOBZ; new ethanol projects. Provides three additional years of job opportunity building zone tax incentives for ethanol plants, if the business subsidy agreement is executed after

April 30, 2006. Zones were designated in 2003 and have a 12-year duration (2004 - 2015). This extends the availability of JOBZ tax incentives for qualifying ethanol plants through 2018. Effective the day following final enactment.