

HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 3568

DATE: March 30, 2006

Version: As introduced

Authors: Jaros and others

Subject: State living wage

Analyst: Elisabeth Long

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.

Overview

This bill imposes a low-wage compensation surtax on certain employers who fail to pay full-time equivalent employees a living wage. (The bill defines "living wage" as \$14 per hour in 2005, to be annually adjusted for inflation.) Proceeds from the low-wage compensation surtax would be used to increase the amount of credits available under the Minnesota working family credit.

Section

- 1** **Legislative findings; purpose.** States legislative findings about the inadequacy of full-time employment at the minimum wage and the need for a living wage. Explains that employers who fail to adequately compensate employees burden Minnesota and its taxpayers. Concludes that an employer who does not pay all of its employees at least a living wage should cover at least one-third (to increase over time) of the cost imposed on taxpayers by the employer's failure to pay a living wage.
- 2** **Application of chapter (tax administration and compliance).** Provides that the statutes regulating tax administration and compliance apply to the administration of sections 0to 0by the commissioner of revenue (commissioner).
- 3** **Low-wage compensation surtax adjustment.** Provides that, for taxable years beginning after December 31, 2006, the amount of credits available under the Minnesota working family credit is annually increased as follows:
 - By September 1, 2007, and each subsequent year, the commissioner must determine the amount of proceeds of the low-wage compensation surtax imposed under section

Section

Of from the previous calendar year.

- The commissioner must determine a uniform percentage increase in credits payable under the working family credit for the current taxable year as directed.
- Credits payable under the working family credit for the current taxable year must be increased by the uniform percentage determined by the commissioner.

4 Low-wage compensation surtax.

Subd. 1. Definitions. Defines the following terms, for purposes of this section:

- "Employer" means a person doing business in Minnesota who employs more than 20 full-time equivalent employees in calendar years 2006, 2007, or 2008, more than 10 full-time equivalent employees in calendar years 2009, 2010, or 2011, and any number of persons in 2012 or thereafter.
- "Living wage" means \$14 per hour in 2005, adjusted for inflation in subsequent years, using the required methodology.

Subd. 2. Imposition. Imposes a low-wage compensation surtax on employers who pay their Minnesota employees wages less than the living wage.

Subd. 3. Rate of tax. Sets the tax rate for calendar years 2006 to 2011 at one-third the amount by which the hourly wage paid to each employee of an employer subject to this section is less than the living wage.

Subd. 4. Start-up businesses. Exempts persons from this tax for the first three calendar years after the person begins to do business in Minnesota. Reduces the tax by two-thirds for businesses doing business in Minnesota for the fourth, fifth, or sixth calendar year. Reduces the tax by one-third for businesses doing business in Minnesota for the seventh, eighth, or ninth calendar year. Clarifies that this exemption for new businesses terminates in the first calendar year when a business begins to employ more than ten full-time equivalent employees in Minnesota.

Subd. 5. Use of revenues. Requires the commissioner to deposit the proceeds of the low-wage compensation surtax in the general fund. Specifies that the amount of the tax shall be annually determined and shall be used to increase working family credits (see section 0).

5 Returns; payments; authority of department.

Subd. 1. Return; payment of tax; audit. Requires each employer required to pay the low-wage compensation surtax to file a return and remit the tax owed for wages paid during the preceding year on or before January 31 of each year. Specifies that the employer (and agents of the employer) are subject to the audit and enforcement provisions that apply to collections of the corporate franchise tax. Requires authentication of returns.

Subd. 2. Information. Requires persons required to pay the low-wage compensation surtax to keep records, file statements, make returns, and comply with statutory provisions and rules regulating the surtax.

Section

- 6 Administration; rules.** Directs the department of revenue to:
- administer and enforce the low-wage compensation surtax by applying statutory provisions for administration of the corporate franchise tax;
 - prepare and distribute forms and information necessary to administer the low-wage compensation surtax; and
 - adopt rules necessary and appropriate to administer and enforce the low-wage compensation surtax.
- 7 Effective date.** Makes sections 2 to 4 and section 6 effective for wages paid after December 31, 2005. Makes section 3 effective for taxable years beginning after December 31, 2006.