HOUSE RESEARCH
Bill Summary

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Section

Article 1: Education Shifts

Overview

This article reestablishes the school district property tax recognition shift and lower the portion of each school district's aid entitlement that is paid in the current fiscal year from 90 to 73 percent. These accounting shifts delay aid payments to school districts and have the effect of saving the state about $1.77 billion on a one-time basis.

1 **Debt service appropriation.** Sets the statutory amounts for the fixed standing appropriations for fiscal year 2012 and 2013 for payment of debt service equalization aid.

2 **Tax settlement revenue.** Recodifies the definition of "school district tax settlement revenue" which means the current, delinquent, and manufactured home property tax receipts collected by the county and distributed to the school district from section 123B.75, subdivision 5, to 123B.75, subdivision 1a.

3 **Levy recognition.** Reestablishes the levy recognition shift. Sets the shift percentage at 49.1 percent for fiscal years 2010 and later.

4 **Reporting.** Modifies the cross-reference of "school district tax settlement revenue" to match the section's new codification.

5 **Aid reduction; levy recognition change.** Corrects a missing cross-reference.

6 **Definitions; aid payment percentage.** Lowers the aid payment shift percentage from 90 percent of the aid entitlement being paid in the current fiscal year to 73 percent beginning in fiscal year 2010.

7 **Payment dates and percentages.** Removes obsolete language.

8 **Advance final payment.** Authorizes an advance final payment for school districts and charter schools in statutory operating debt (a district is in statutory operating debt if it has a budget deficit greater than 2.5 percent of its total general fund spending). Sets the aid payment schedule at 90 percent of the aid entitlement for fiscal years 2010 and later. Caps the total amount of the advance final payment that can be paid in any year at not more than $7.5 million.

9 **Aid payment percentage.** Removes an obsolete reference.

Article 2: Education Appropriation Adjustments

Overview

This article lowers the line item appropriations for all of the aid payments to school districts that are subject to the aid payment shift. The following sections amend the appropriations as enacted in the omnibus school finance bill, Laws 2009, Chapter 96.

1 **General education aid.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

2 **Abatement revenue.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

3 **Consolidation transition.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

4 **Nonpublic pupil education aid.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

5 **Nonpublic pupil transportation.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

6 **Charter school building lease aid.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

7 **Charter school startup aid.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

8 **Integration aid.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

9 **Success for the future.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

10 **Tribal contract schools.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

11 **Special education; regular.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

12 **Travel for home-based services.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

13 **Special education; excess costs.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

14 **Health and safety revenue.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

15 **Debt service equalization.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

16 **Alternative facilities bonding aid.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

17 **Deferred maintenance aid.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

18 **Basic system support.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

19 **Multicounty, multitype library systems.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

20 **Regional library telecommunications aid.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

21 **School readiness.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

22 **Early childhood family education aid.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

23 **Health and developmental screening aid.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

24 **Community education aid.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

25 **Adults with disabilities program aid.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

26 **Adult basic education aid.** Reduces the appropriation for this program to reflect the lowering of the aid payment percentage from 90 to 73 percent of the current year's aid entitlement.

Article 3: Permanent Revenue

Overview

Increases individual income and alcohol taxes, imposes a new surtax on certain interest income and appropriates $4.66 million for tax compliance and debt collection initiatives. Converts the refund for sales tax paid on capital equipment to an up-front exemption. Provides an investment tax credit, capped at $10 million per year first redeemable in tax year 2012. Sunsets the income tax increase after tax year 2013 if the fiscal year 2013 unrestricted general fund balance exceeds $500 million.

1 **Investment tax credit.** Allows a 25-percent investment tax credit for qualifying taxpayers' investments of at least $12,500 in qualified new business ventures. The maximum credit per investor is limited to $50,000 per year and total statewide credits are limited to $10 million per year. The credit applies to both the individual income tax and the corporate franchise tax. The credit is limited to the least of the following amounts:

- The liability for individual income or corporate franchise tax, including the alternative minimum taxes
- $50,000

Amounts in excess of tax liability are carryovers to the next 10 taxable years. Taxpayers can claim the credit only after holding the investment. Waives the four year holding period if the investment becomes worthless or the business is sold before the holding period has expired.

Qualified taxpayers are defined as accredited investors under SEC Regulation D who either does not own 20 percent or more of the outstanding securities of the qualified business or does not receive more than 50 percent of the gross annual income from the qualified business. (The holdings and income of immediate family holdings members count to determine whether the two percentage tests are met.) Under Regulation D, accredited investors generally are high income and net worth individuals or entities with substantial assets.

Individuals and entities apply to the commissioner of the Department of Employment and Economic Development (DEED) for certification as qualified taxpayers, and pay a $250 fee which is applied to DEED's costs of administering the program. DEED will certify applicants on a first-come-first-served basis, and can issue up to $10 million of provisional credit certificates per year. A qualified taxpayer with a provisional credit certificate requests a final credit certificate after the four-year holding period has expired. The taxpayer must demonstrate that the qualified business has continued to have its headquarters in Minnesota, over half of its employees and payroll in Minnesota, and to meet the wage requirements specified for a qualified new business venture.

Qualifying businesses are defined as meeting the following requirements:

- Its headquarters are in Minnesota.
- It has fewer than 25 employees and at least 51 percent of employees or payroll are located in Minnesota; if the business has more than 5 employees it must pay annual wages of at least 175 percent of the federal poverty guidelines for a family of four.
- The business is engaged in a qualified high-technology, or a qualified biotechnology or medical device field, or in green manufacturing (further defined in the bill), and is not engaged in real estate development, insurance, banking, lobbying, political consulting retail or wholesale trade, professional services, construction, transportation, producing ethanol from corn, health care or similar ventures.
- It has not been in operation for more than 10 consecutive years.
- It has not received more than $1 million in investments that qualify for the credit or more than $2 million in private equity investment (regardless of whether they qualify for the credit).
- It does not have more than $2 million in annual gross sales.
- It cannot be an affiliate or subsidiary of business with more than 100 employees or gross annual sales of $2 million or more.

Effective date: DEED would begin issuing provisional credit certificates in tax fiscal year 2010.

2 **Individual income tax rates.** Adds a new 9 percent rate at $250,000 of taxable income for married joint filers, with the threshold adjusted for other filing statuses ($125,000 for married separate filers, $141,250 for single filers, and $212,500 for head of household filers). Sunsets the 9 percent rate after tax year 2013 if the February 2013 forecast shows an unrestricted general fund balance of $500 million or more.

Effective date: tax year 2009

3 **Inflation adjustment.** Re-sets the annual inflation adjustment of the income tax brackets to use the tax year 2009 amounts specified in section **Error! Reference source not found.** as the base for future annual adjustments.

4 **Investment tax credit.** Provides for the investment tax credit authorized in section 1 to be applied against income tax liability. Authorizes the commissioner of revenue to audit and examine credit claims.

5 **Surtax on certain interest income.** Imposes a surtax on certain interest income. Any person or organization who conducts a trade or business subject to Federal Regulation Z, and who charges interest on the credit issued is subject to the surtax. A transferee or assignee of a transaction is also subject to the tax. The rate is 30 percent of any income attributable to interest collected from the portion of an annual percentage rate that exceeds 15 percent on these transactions. Although not explicitly stated, it is assumed that surtax would be limited to interest received from Minnesota borrowers to prevent the tax from being an unapportioned gross receipts tax.

6 **Capital equipment.** Changes the sales tax exemption for capital equipment from a refund of taxes paid to an upfront exemption. Effective for sales after December 31, 2009.

7 **Capital equipment, taxes paid.** Removes the capital equipment exemption from the list of sales tax exemptions that require the buyer to pay the tax at the time of purchase and then apply for a refund. Effective for sales after December 31, 2009.

8 **Refund.** Eliminates the capital equipment exemption from the refund requirements and corrects internal cross references. Effective for sales after December 31, 2009.

9 **Refund.** Eliminates the limit on the application for capital equipment refunds to two per year per person. Effective for sales after December 31, 2009.

10 **Liquor gross receipts tax.** Increases the rate on the retail gross receipt tax on the sales of alcoholic beverages from 2.5 percent to 5 percent.

Effective date: July 1, 2009

11 **Alcoholic beverage excise tax rates.** Increases the rates under the alcohol beverage excise rates by the amounts shown in the table. These increases approximate 2 cents per drink for wine and cider and 5 cents for distilled spirits.

Beverage type	Present law	Proposed tax	Increase
Distilled spirits	$1.33/liter	$2.46/liter	$1.13/liter
Wine ≤ 14% alcohol	$.08/liter	$.22/liter	$.14/liter
Wine > 14% and ≤ 21%	$.25/liter	$.39/liter	$.14/liter
Wine > 21% and ≤ 24%	$.48/liter	$.62/liter	$.14/liter
Wine > 24%	$.93/liter	$1.07/liter	$.14/liter
Sparkling wine	$.48/liter	$.62/liter	$.14/liter

Cider	$.04/liter	$.18/liter	$.14/liter

12 **Beer tax.** Increases the rate of the beer tax, as shown in the table. These increases approximate 2.5 cents per drink.

Beverage type	Present law	Proposed tax	Increase
Beer ≤ 3.2% alcohol	$2.40/barrel	$10.67/barrel	$8.27/barrel
Beer > 3.2% alcohol	$4.60/barrel	$12.87/barrel	$8.27/barrel

This section also proportionately increases the dollar amounts of the brewers' credit to reflect the higher tax rates.

13 **Appropriations.** Appropriates $4,660,000 to the commissioner of revenue for tax compliance and debt collection initiatives. Specifies that these initiatives are anticipated to result in an additional $18,640,000 in general fund revenues in the fiscal year 2010-2011 biennium.