HOUSE RESEARCH

Bill Summary

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Overview

Provides property tax relief by:

- Exempting the first $150,000 of value of each C/I property from the state general levy
- Phasing out the state general levy for C/I property over 12 years beginning in pay 2014
- Setting the state general levy for C/I property for pay 2013 at $23 million less than the pay 2012 level
- Increasing homeowner PTR maximums
- Providing for PTR targeted tax relief at 90% of any tax increase over 12% for pay 2012 only
- Conforming to the federal increase in the standard deduction for married filers in tax year 2012, and eliminating the marriage penalty in the standard deduction for married filers at the state level by providing an additional subtraction in future years

Pays for tax relief by:

- Reducing the percent of rent constituting property taxes for renter property tax refund claims from 17 percent to 15 percent, providing separate schedules for senior/disabled renters and nonsenior/nondisabled renters, with the maximum income eligible decreased to $40,000 for senior/disabled claimants and to $25,000 for nonsenior/nondisabled claimants. Effective for claims based on rent paid in 2011, with the commissioner instructed to adjust refunds accordingly.
- Freezing city LGA payments at 100% of pay 2012 amounts
- Cancelling back to the general fund the $4.3 million accumulated unencumbered local sales tax revenue retained by the Department of Revenue to administer the various local sales taxes
- Eliminating the foreign operating corporation (FOC) provisions of the corporate franchise tax.

- Requiring the income and factors of corporations that are incorporated in or that derive 20 percent of their income from a list of countries, defined as tax havens, to be included in the combined report of the unitary business. This will subject this income to tax based on the unitary business's Minnesota factors (property, payroll, and sales) under the apportionment formula.

1 **State general levy.** For taxes payable in 2013, sets the commercial-industrial portion of the state general levy at $23 million less than the pay 2012 level, minus an additional $80 million to eliminate any shifting due to the exemption provided in section 2. Provides for the commercial-industrial portion of the state general levy to be phased out over a 12-year period beginning with taxes payable in 2014. Leaves the seasonal-recreational portion of the state general levy as in current law.

2 **Commercial-industrial tax capacity.** Exempts the first $150,000 in value of each commercial-industrial property from the state general levy.

3 **State general tax.** Eliminates the 95/5 split of the state general levy between commercial-industrial property and seasonal recreational property, since each property type's levy is specified separately in section 1.

4 FOCs filing requirement. Eliminates the exemption for FOCs from the corporate return filing requirement. The bill effectively subjects FOCs to tax on the same basis as other corporations.

5 **Domestic corporation definitions.** Expands the definition of "domestic corporation" to include the following foreign corporations (i.e., corporations or other entities organized under the laws of a foreign country):

- Incorporated in a tax haven (defined in section 6),
- Doing sufficient business in a tax haven to be subject to tax by the tax haven and 20 percent or more of its income is attributable to the tax haven, or
- With 20 percent or more of the average of its property, payroll, and sales in the United States.

Domestic corporations that are part of a unitary business must be included on the combined report. As a result, this will require the income and apportionment factors of these foreign corporations to be reflected in the combined report and will subject them to Minnesota corporate franchise tax. Present Minnesota law excludes all foreign corporations from the combined report, except foreign sales corporations.

Effective date: tax year 2012

6 **Tax haven.** Defines "tax haven" as a list of foreign countries that have been publicly identified by both the Organization of Economic Cooperation and Development (OECD) and by the Internal Revenue Services (based on federal court documents). (Originally, these countries were on the OECD's "black list," but are now on its "gray list" because the countries have agreed to expanded tax information exchanges.) Countries are removed from the list, if the United States enters into a tax treaty or similar agreement with the country that provides for sharing tax information with the Internal Revenue Service.

Effective date: tax year 2012

7 **Additions to taxable income for individuals.** Conforms Minnesota's income tax to the increased federal standard deduction for married filers in tax year 2012, by limiting the addition required of married filers to tax year 2011. Also makes conforming changes to the calculation of the addition of the federal deduction of state and local income and sales taxes to coordinate with the new

subtractions allowed in section 8.

Effective date: tax year 2012

8 **Subtractions from taxable income for individuals.** Provides two new subtractions that eliminate the marriage penalty in the standard deduction for married filers for state purposes for tax year 2013 and following years. For married joint filers, the subtraction is the difference between twice the amount allowed at for single filers at the federal level, and the amount allowed for married joint filers at the federal level. In years in which the federal married joint standard deduction equals twice the single amount, the state subtraction would equal zero. In years in which the federal married joint standard deduction is less than twice the single amount, the subtraction would be the amount necessary to make up the difference and eliminate the marriage penalty. Provides a corresponding state subtraction for married separate filers.

Effective date: tax year 2013

9 **Additions to FTI for corporations.** Repeals the corporate franchise tax additions to federal taxable income for foreign operating corporations' (FOCs) deemed dividends. Sections 12 and 24 repeal FOCs deemed dividend treatment. This provision eliminates the corresponding addition to income for the deemed dividend.

Effective date: tax year 2012

10 **Subtractions from FTI for corporations.** Corrects cross references in the subdivision providing subtractions from FTI for corporations to reflect the changes made in section 9.

Effective date: tax year 2012

11 **Marriage credit.** Makes conforming changes to the calculation of the marriage credit to coordinate with the new subtractions allowed in section 8.

12 **FOC deemed dividends.** Eliminates the authority to exclude the income and apportionment factors of FOCs from the combined report and eliminates the deemed dividend deduction for 80 percent of FOC income. In addition, the intention of the legislature is that if the inclusion of foreign corporations treated as domestic corporations under the provisions of sections 5 and 6 is invalid, the legislature intends these provisions to be nonseverable from the exclusion of all foreign corporations from the combined report.

Effective date: tax year 2012

13 Renter property tax refund; rent constituting property taxes. Reduces the percent of rent constituting property taxes used in calculating the property tax refund for renters from 17 percent to 15 percent. Effective for refund claims filed in 2012and thereafter based on rent paid in 2011 and thereafter.

Background. The percent of rent constituting property taxes was reduced from 19 percent to 15 percent for 2010 refunds based on rent paid in 2009 only under the June 2009 unallotment. This reduction was subsequently enacted into law in Laws 2010, 1st Special Session chapter 1. Laws 2011, First Special Session chapter 7, reduced the percentage to 17 percent effective for refunds based on rent paid in 2011 and thereafter.

14 **Rent constituting property tax; manufactured homes.** Reduces the percent of rent constituting property taxes for rent paid on the site on which a manufactured home or park trailer taxed as a manufactured home is located from 17 percent to 15 percent. Effective for refund claims based on rent paid in 2011 and following years.

15 Homeowner property tax refund. Increases the maximum refund allowed under the homeowner

property tax refund for homeowners with household incomes from $37,280 to $100,779. Effective for refunds based on taxes payable in 2012. Homeowners will begin filing following issuance of property tax statements in March, and refunds will be paid in September. Because the change will only affect homeowners whose refund is capped by the current law maximum for their income level, the Department of Revenue would adjust affected homeowners' refund amount upward subject to the new maximum.

Background. The homeowner property tax refund equals a percentage of property taxes paid over a threshold of income, up to a maximum refund amount. The income measure used is household income, a broad measure that includes most forms of taxable and nontaxable income, after adjustment for household size. The refund schedule has 27 income brackets: the threshold percentage increases as income increases, the percentage of taxes over the threshold paid by the homeowner (the copayment) also increases as income increases, and the maximum refund decreases as income increases. For refunds based on taxes payable in 2012, the maximum income eligible is $100,779.

16 Renter property tax refund; senior and disabled renters. Provides a new schedule for senior and disabled renters. Decreases the maximum household income eligible for a refund from $53,539 under current law to $40,000. Retains the current law maximum refund of $1,550 for claimants with household incomes under $26,010, and reduces the maximum refund allowed for claimants with household incomes from $26,010 to $40,000. Effective for refunds based on rent paid in 2011 and following years.

Background. The renter property tax refund equals a percentage of property taxes paid over a threshold of income, up to a maximum refund amount. Property taxes paid are deemed to equal a percentage of rent paid. The income measure used is household income, a broad measure that includes most forms of taxable and nontaxable income, after adjustment for household size. Under current law there is one schedule for both senior/disabled and nonsenior/nondisabled renters. The refund schedule has 29 income brackets: the threshold percentage increases as income increases, the percentage of taxes over the threshold paid by the homeowner (the copayment) also increases as income increases, and the maximum refund decreases as income increases. For refunds based on rent paid in 2011, the maximum income eligible is $54,619.

17 Renter property tax refund; nonsenior/nondisabled renters. Provides a new schedule for nonsenior/nondisabled renters. Decreases the maximum household income eligible from $54,619 under current law to $25,000. Decreases the maximum refund allowed from $1,550 to $1,000, and increases the copayment percentage for all claimants. Effective for refunds based on rent paid in 2011 and following years.

Background: See background for section 16.

18 **Property tax refund; inflation adjustment.** Eliminates the inflation adjustment of the renter property tax refund schedule, effective for both the senior/disabled and nonsenior/nondisabled schedules.

19 **Renter PTR; appropriation.** Modifies the open appropriation for renter property tax refund claims to apply to claims under the new split senior/disabled and nonsenior/nondisabled schedules.

20 **City aid distribution.** Freezes LGA payments to all cities beginning with aid paid in CY 2013 at the amounts of their 2012 LGA payments.

21 **Supplemental targeting refund.** Provides that for taxes payable in 2012 only, the state will refund 90 percent of the amount that any homeowner's tax increased by more than 12 percent over the pay 2011 amount, provided that the increase was more than $100. Current law provides for a refund of 60 percent of that amount. Eligible taxpayers would not have to file for the increased refund amount - the Department of Revenue would recompute each refund based on the original refund claim.

22 Special recovery fund. Makes a one-time transfer to the general fund of $4.3 million from the Revenue Department service and recovery special revenue fund. This is unencumbered local sales tax revenue retained the Department of Revenue to administer the various local sales taxes that has accumulated over several years.

23 Administration of 2012 property tax refund claims; renters. Directs the commissioner of revenue to recalculate claims for 2012 renter property tax refunds to reflect the reduction in the percent of rent constituting property taxes from 17 percent to 15 percent in sections 13 and 14 and the changes to the renter schedule provided in sections 16 and 17 Requires the commissioner to notify claimants whose refunds are recalculated that the recalculation was mandated by action of the 2011 Legislature.

Background. By January 31, 2012, landlords were required to issue form CRP to renters for use in claiming the renter property tax refund. Form CRP reports on line 1 the dollar amount of rent paid, and on line 3 the rent multiplied by the 17 percent, which equals the percent constituting property taxes. Renters are instructed to use the amount on line 3 in filling out form M-1PR, the claim form for property tax refunds. The Department of Revenue would then recalculate the M-1PR claim as if the line 3 amount had been rent multiplied by 15 percent, rather than 17 percent, and calculate the new refund amount using the parameters of the revised schedules for senior/disabled or nonsenior/nondisabled renters.

24 Repealer. Paragraph (a) repeals the definition of foreign operating corporations and the modification to alternative minimum tax for FOCs.

Paragraph (b) repeals the calculation of the LGA formula and repeals the limit on the amount of LGA paid since it is frozen beginning in 2013 at set amounts for each city under section 20.