

HOUSE RESEARCH

Bill Summary

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Authors: Lenczewski

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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

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Article 1: Property Taxes

Overview

Article 1 makes a variety of changes to the property tax system:

- ▶ Extends the time for spouses of deceased disabled veterans to continue to receive a market value exclusion from two years to five years
- ▶ Allows spouses of military service members who die while in active service to receive a market value exclusion for five years
- ▶ Allows spouses of deceased disabled veterans and of military service members who die while in active service to qualify for the senior deferral program for the rest of their lives regardless of age
- ▶ Increases the income limit for the senior deferral program from \$60,000 to \$75,000
- ▶ Provides a valuation exclusion for certain disaster-damaged properties
- ▶ Provides for a study of the fiscal disparities program
- ▶ Limits eligibility for homes to receive the relative homestead classification to those eligible as of December, 2010 (does not affect agricultural homesteads)
- ▶ Provides additional aid to the city of St. Charles for its loss of tax base due to a major fire
- ▶ Exempts federal lands leased to individual taxpayers for seasonal recreational purposes from property taxation
- ▶ Clarifies laws relating to the duties of assessors

- 1** **Assessors.** States that the chapter of law requiring licensing of real estate appraisers does not require licensing of assessors for political subdivisions who are performing their duties listed in sections 6 or 7 of this bill.

Effective the day following final enactment for testimony offered and opinions or reports prepared in cases or proceedings that have not been finally resolved.

- 2** **Rate of tax; airflight property.** Requires the commissioner of transportation to certify the airflight property tax information to the commissioner of revenue annually by December 31. Provides that the certification shall state the total fund appropriation and shall list individually the estimated fund revenues. The difference between the total fund appropriation and the estimated revenues shall equal the property tax portion which the

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commissioner of revenue shall use when determining the rate of tax to be levied and collected against the net tax capacity of the airflight property.

If the levy amount has not been certified by December 31, the commissioner of revenue shall use the last previous certified amount to determine the tax, and shall notify the chairs and the ranking minority members of the committees of the house and senate having jurisdiction over the Department of Transportation that a certification has not been made.

Effective for taxes payable in 2011 and thereafter.

- 3** **Notice of taxes, payment.** Changes the date for the commissioner of revenue to notify the airline companies of their tax amount from December 1 to March 1. Changes the due date from January 1 to April 1 for payment of the tax. These are done in conformity with the date change in section 2.

Effective for taxes payable in 2011 and thereafter.

- 4** **Prohibited activity.** Provides that the "moonlighting" prohibition for assessors does not prevent them from performing their duties under the law, including the new language in section 7.

Effective the day following final enactment for testimony offered and opinions or reports prepared in cases or proceedings that have not been finally resolved.

- 5** **Leased seasonal-recreational land.** Exempts from property taxation all land that is owned by the federal government and leased for noncommercial seasonal-recreational or noncommercial seasonal-recreational residential use. The improvements continue to be subject to tax. Taxpayers holding these leases pay annual lease payments to the federal government. The county where the property is located gets 25 percent of this money returned to them as a federal payment.

As a result of a law change made in 2008, leased noncommercial seasonal-recreational land and noncommercial seasonal-recreational residential land is exempt from property taxation only if (1) the county board adopts a resolution to exempt the land, and (2) the land was rented for those purposes and was exempt from property taxation for taxes payable in 2008. The 2008 law became effective for taxes payable in 2009. St. Louis County was the primary county affected by the 2008 law change.

This provision expands the 2008 exemption to all property owned by the federal government that is used for these purposes; it also eliminates the county board approval for the exemption and the requirement that the property needed to be exempt for taxes payable in 2008.

Effective for taxes payable in 2011 and thereafter.

- 6** **Division of duties between local and county assessor.** Provides that the local assessor must perform the new duties contained in section 7 if directed by the county assessor.

- 7** **Powers and duties.** Adds to the powers and duties of county assessors: performing appraisals, reviewing the original assessment and determining its accuracy, preparing an appraisal or appraisal report, and testifying before any court or other body as an expert or on

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behalf of the assessor's jurisdiction with respect to properties in that jurisdiction.

Effective the day following final enactment for testimony offered and opinions or reports prepared in cases or proceedings that have not been finally resolved.

8 Applicability. Technical change relating to disaster-damaged homes provision in section 10.

9 Reassessments required. Technical change relating to disaster-damaged homes provision in section 10.

10 Disaster-damaged homes; partial valuation exclusion. Provides for a valuation exclusion for a home that:

- ▶ sustained sufficient damage in a disaster to reduce its value by at least \$15,000,
- ▶ was restored or rebuilt by the end of the year after the disaster,
- ▶ has a gross living area after reconstruction that does not exceed 130 percent of its pre-disaster gross living area, and
- ▶ has an estimated market value after reconstruction that exceeds its pre-disaster value by at least \$25,000.

Provides that the difference between the post-reconstruction value and the pre-disaster value will be excluded in the first assessment year following reconstruction, and one-half of the difference will be excluded in the second assessment year following reconstruction.

Requires the owner to file an application for the valuation exclusion by January 2 of the year following the year in which the restoration or reconstruction was substantially completed.

Effective for assessment year 2010 and thereafter (extends application deadline to June 30, 2010, for restoration or reconstruction occurring in 2009).

11 General rule (new relative homestead prohibition). Prohibits any new properties from qualifying for relative homestead classification after December 16, 2010 (does not affect agricultural properties).

12 Manufactured home park cooperative. Modifies the property tax treatment of land owned by a manufactured home park cooperative that qualifies for homestead treatment. Provides for a special class rate, as specified in section 16. Also provides that this land is not eligible to receive the market value homestead credit. Further provides that taxes on this land are not to be included in the determination of taxes payable for rent paid under the property tax refund program.

Background: Under current law, the tax treatment of manufactured home park land qualifying for homestead treatment is somewhat ambiguous and difficult to administer. The law envisions that the park land is divided into shares, with each owner's share of the land value added to the value of the owner's manufactured home. This treatment is difficult administratively for a number of reasons, one of which is that the park land is real property (i.e. valued in one year and taxed in the following year), but the manufactured home is personal property (i.e. valued and taxed in the same year). It is also unclear how to apply the market value homestead credit to the park land.

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This language keeps the value of the land distinct from the value of the individual homes, with a class rate that is lower than the normal residential homestead rate (0.75 percent versus 1 percent), but without any market value homestead credit on the park land. It also precludes the tax on the land from being included with the owner's home tax for purposes of the property tax refund.

Effective for taxes payable in 2011 and thereafter.

- 13 Homestead owned by a family farm corporation, other entities.** Allows a shareholder, member, or partner of a family farm corporation, joint farm venture, limited liability company (LLC), or partnership that also has a separate agricultural homestead whose market value does not reach the maximum value of the first tier homestead class rate, to apply the first tier class rate to property of the entity, up to the unused portion of the first tier maximum value.

Provides that the property of the entity must be contiguous or if noncontiguous, located in the same township or city, or within four townships or cities, or combination thereof. Requires the owner to notify the county assessor by July 1 that a portion of market value may be eligible for the homestead classification for taxes payable in the following year.

Effective for assessment year 2010 and thereafter, for taxes payable in 2011 and thereafter.

For example, if a shareholder of an LLC that did not live on the property had a separate agricultural homestead with a total market value of only \$700,000, then \$440,000 of the shareholder's LLC market value would be entitled to receive the 0.5 percent class rate [the first tier class rate applies to the first \$1,140,000 of market value for taxes payable in 2011].

- 14 Special agricultural homesteads; Marshall County flood.** Provides that agricultural land and buildings that were classified as class 2a homestead property for the 2008 assessment shall remain classified as agricultural homesteads for subsequent assessments, if:

- (1) The property owner abandoned the homestead dwelling located on the homestead property as a result of the March 2009 floods;
- (2) The property is located in Marshall County;
- (3) The agricultural land and buildings remain under the same ownership for the current assessment year as existed for the 2008 assessment and continue to be used for agricultural purposes;
- (4) The dwelling occupied by the owner is located in Minnesota and is within 50 miles of one of the parcels owned by the taxpayer; and
- (5) The owner notifies the county assessor that relocation was due to the 2009 floods.

Effective for assessment years 2010 and 2011, for taxes payable in 2011 and 2012.

- 15 Class 2; agricultural products.** Paragraphs (f)(v) and (i)(9) expand the definition of "agricultural products" to include the commercial processing of milk into cheese products, from milk produced on the property, provided the property also contains the homestead of the owner of the property. Also provides that real estate of less than 10 acres that includes a

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residential structure, and that is used for the commercial processing of milk into cheese products, from milk produced on the property, shall be classified agricultural.

Paragraph (i)(3) broadens eligibility for property used for commercial boarding of horses to qualify for agricultural classification in two ways. First, it defines commercial boarding of horses to include land used for horse training and riding instruction. Second, it allows commercial horse boarding/training property to be considered agricultural as long as some of the land is devoted to grazing, provided that it meets the ten acre minimum requirement. This language is in response to a portion of the tax court's decision of *Sommerdorf v. Sherburne County* (File # 71-CV-08-752, January 21, 2010).

Effective for taxes payable in 2011 and thereafter.

- 16 Class 4.** Provides a commercial-seasonal-recreational (4c) classification to property that contains 20 or fewer rental units, is devoted to temporary residential occupancy, is located in a township or city that has a population of 2,500 or less, is located outside the seven-county metropolitan area, and contains a portion of a state trail administered by DNR. This property would have a class rate of 1 percent on the first \$500,000 of market value and 1.25 percent on the value in excess of \$500,000. The property would be subject to the seasonal-recreational state general tax rate. For payable 2010 the rate is 17.755 percent.

[Under current law, this property is classified as class 3a which has a class rate of 1.5 percent on the first \$150,000 and 2.0 percent on the value in excess of \$150,000. The property is subject to the commercial-industrial state general tax rate. For payable 2010 the rate is 45.881 percent.]

Also provides that manufactured home park cooperative land that qualifies for homestead treatment has a class rate equal to the class rate for class 4d (low-income apartments). Under current law that class rate is 0.75 percent.

Effective for taxes payable in 2011 and thereafter.

- 17 Homestead of disabled veteran.** Allows spouses of service members who die while in active service to qualify for the disabled veteran homestead market value exclusion for five years. Extends from two years to five years the time that the spouse of a deceased disabled veteran or of a service member who dies during active service may continue to receive the homestead market value exclusion (the statutory language states the change as from one *additional* assessment year to four *additional* assessment years).

The change to include spouses of service members who die while in active service is effective for deaths occurring the day after final enactment. The extension from two years to five years is effective for taxes payable in 2011 and thereafter.

- 18 Notice of proposed property taxes (TnT).** Provides that no TnT notice will require the printing of a personal telephone number or address as the contact information for a taxing authority (affects mostly townships and small cities). Effective for notices sent in 2010 and thereafter.

- 19 Special levies.** Allows counties a new special levy outside of levy limits to pay for the salaries and expenses of county veteran service officers. Effective beginning with taxes

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levies in 2010, payable in 2011.

20 Adjusted levy limit base. Limits the implicit price deflator (IPD) for state and local government purchases used in calculating levy limits to between zero and 3.9 percent. Under current law there is no minimum. Effective beginning with taxes levied in 2010, payable in 2011.

21 Treasurer to be collector. Expands the method of payment of property taxes by allowing the county board to authorize the county treasurer to accept electronic payments, including, but not limited to, automated clearing house transactions and federal wires. Also provides that all charges for dishonored payment of property taxes may be added to the tax, constitutes a lien on the property, and when collected, shall be distributed to the county.

Under current law, the county board may by resolution authorize the county treasurer to accept payments of real property by credit card provided that a fee is charged for its use (this charge is imposed and collected by the credit card company). The counties receive the full amount of the taxpayer's payment under this method. This arrangement is not altered.

Also attempts to improve the county's efficiency in tax collection by allowing it to add charges for checks returned due to insufficient funds to the tax, and include it as part of the lien. The charge is distributed to the county.

Effective for property taxes payable in 2011 and thereafter.

22 Contents of tax statements. Provides that the tax attributable to each individual special taxing district is to be stated separately on the property tax statement. Under current law, the regional rail authority levies are shown separately, and levies for the metro area-wide special taxing districts are combined, but the levies for all other special taxing districts are combined into a single line on the tax statement.

Delayed effective date to taxes payable in 2012 and thereafter.

23 Property tax installments. Reduces from \$250 to \$100 the minimum property tax amount for which counties must allow payments in two installments. *[Note: this threshold was increased from \$50 to \$250 in the 2009 omnibus tax act.]*

Effective for taxes payable in 2011 and thereafter.

24 Payment of delinquent property taxes, special assessments. Allows delinquent property taxes and special assessments to be paid by electronic means (the same as in section 21).

Effective for property taxes payable in 2011 and thereafter.

25 Senior citizen property tax deferral program; qualifications. Changes the senior citizen property tax deferral program by increasing the maximum household income allowable for program participation from the \$60,000 under current law to \$75,000.

Effective July 1, 2009.

26 Special program qualifications; spouse of service member who died while in active service or deceased disabled veteran. Allows spouses of (i) service members who die

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during active military service, and (ii) deceased veterans who were classified as totally and permanently disabled prior to their death, to participate in the senior deferral program. Qualifying spouses are exempt from the age and tenure of residence requirements, but subject to all other requirements for participation in the senior deferral program.

Effective for taxes payable in 2011 and thereafter.

- 27 Senior deferral; excess income certification by homeowner.** Increases the income level that triggers the requirement for the homeowner to notify the commissioner of “excess income” from \$60,000 to \$75,000. As under present law, homeowners are required to notify the commissioner when their household income for the previous year exceeds the maximum eligible for program participation; they are then suspended from program participation. Effective July 1, 2010.
- 28 Senior deferral; resumption of eligibility.** Changes the income level that triggers eligibility for a homeowner to resume program participation from income under \$60,000 to income under \$75,000. This applies to homeowners who became ineligible due to having income over the maximum being allowed to resume participation in the deferral program if their household income falls below the maximum in a subsequent year. Effective July 1, 2010.
- 29 Senior deferral; determination by commissioner.** Increases the maximum household income level at which program participation is allowed from \$60,000 to \$75,000. Effective July 1, 2010.
- 30 Petition required.** Increases the required percentage of owners of housing units needed (i) to file a petition requesting a public hearing, and (ii) to take action proposing a fee, from 25 percent to 50 percent.

Effective for petitions filed beginning July 1, 2010.

- 31 Requirements for veto.** Increases the percentage of residents from 35 percent to 45 percent, and the percentage of owners of the housing units (based on housing units’ net tax capacity) from 35 percent to 45 percent, that are required to veto a fee increase and file an objection with the city clerk before the effective date of the resolution.

Effective beginning July 1, 2010.

Background: A housing improvement area (HIA) is a defined area in a city in which housing improvements in condominium or townhome complexes may be financed with the assistance of the city, or the city’s economic development authority (EDA) or housing and redevelopment authority (HRA). Improvements made under this law include improvements to the common elements in a development such as roofing, siding, landscaping, roadways, and walkways. An HIA can only be established at the request of the owners of the housing units in the proposed area.

There is no easy way to know how many HIAs have been established. However, as of 2009, we are aware of at least seven cities known to have adopted HIA ordinances, and many of these cities have established multiple districts.

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- 32** **Application date.** Extends the deadline for application to the Metropolitan Agricultural Preserve program from March 1 to June 1 for taxes payable in the following year. This is not an annual application, but is done only when initially applying for enrollment in the program.

Effective the day following final enactment, except that in 2010 the application date is extended to August 1.

- 33** **City aid base (St. Charles).** Provides an additional LGA payment of \$50,000 in 2011 and 2012 only, to a outstate city with a population between 3,000 and 4,000 with a commercial-industrial percentage less than 10%, and that lost a major manufacturing facility due to a fire in April 2009. The city if St. Charles is the only city that qualifies. The payment is made within the current LGA appropriation

- 34** **Tax abatement; newly constructed residential structures in flood-damaged cities.** Extends the deadline for commencing construction of a structure to qualify for the tax abatement for new residential structures in flood-damaged cities from December 31, 2010, to December 31, 2011.

- 35** **Effective date.** Allows structures to receive the abatement for newly constructed structures in flood-damaged cities in payable 2014, to coincide with the extension of the date for starting construction in section 34. No change is made to the limitation that a structure is eligible for the abatement for two payable years only.

- 36** **Fiscal disparities study.** Requires the commissioner of revenue to conduct a study of the fiscal disparities program to be completed by February 1, 2012. The study is to analyze:

(1) how benefits of economic growth are shared throughout the region, especially with regard to growth resulting from state or regional decisions;

(2) the program's impact on the variability of tax rates throughout the region;

(3) the program's impact on the distribution of homestead property tax burdens within the region; and

(4) the relationship between the impacts of the program and overburden on jurisdictions containing properties that provide regional benefits.

The study is also to include a brief description of other property tax, aid, and local development programs that interact with the fiscal disparities program.

Effective July 1, 2010.

- 37** **Thief River Falls airport authority; special levy authority.** Provides that if an airport authority is established for the Thief River Falls airport, the authority may choose to spread the levy on referendum market value rather than net tax capacity. If the authority intends to levy on this basis, it must be stated in the joint agreement establishing the authority.

Effective the day following final enactment (without local approval).

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Article 2: Property Tax Reform, Accountability, Value, and Efficiency Provisions

Overview

- Section 1 creates the Council on Local Results and Innovation which establishes a standard set of performance measures, and minimum standards for comprehensive performance measurement systems, for counties and cities that want to use them. The council is also to serve as a statewide resource for the development, promotion, and implementation of local government performance measurement systems.
- Section 2 provides that counties and cities that choose to participate in the reporting of standard measures are eligible for cost reimbursement payments from the state. Counties and cities that choose to implement comprehensive performance measurement systems that meet the minimum standards established by the council are exempt from levy limits (if in effect).
- Section 3 embodies the work of the Working Group on State Property Tax Benchmarks, Critical Indicators and Principals for Legislators to Use when Evaluating Property Tax Proposals. It establishes a property tax working group and requires the house and senate tax committees to prepare a resolution on targets and benchmarks for use during the biennium.

1 Council on local results and innovation.

Subd. 1. Creation. Creates the council with 11 members, including the state auditor, eight persons who are not legislators appointed by the chair and minority leads of the house and senate committees with jurisdiction over property taxes, and one person each appointed by the Association of Minnesota Counties and the League of Minnesota Cities. Specifies four-year, staggered terms, desired knowledge, and experience of appointees. Provides that after the initial appointments, the eight appointments by legislators must be made by the council.

Subd. 2. Duties. (a) By February 15, 2011, requires the council to develop approximately ten standard performance measures for counties and ten for cities aimed at measuring the efficiency and effectiveness of counties and cities in providing services.

(b) By February 15, 2012, requires the council to develop minimum standards for comprehensive performance measurement systems, which may vary by size and type of jurisdiction.

(c) Requires the council to serve as a statewide resource to aid in the development, promotion, and implementation of local government performance measurement systems.

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Subd. 3. Reports. Requires the council to report its initial set of county and city standard performance measures to the property tax committees of the house and senate by February 28, 2011. Requires an annual report by February 1 in subsequent years. Permits the state auditor to make the reports instead of the council if agreed by both the state auditor and the council.

Subd. 4. Operation of council. Directs the state auditor to convene the first council meeting; provides for the chair to be elected by and from among the council members for two-year terms; provides that council members serve without compensation; provides that council members are to rotate and share administrative support responsibilities; exempts the council from the open meeting law but requires it to conduct open meetings; and requires meeting notices to be published on the state auditor's web site.

Subd. 5. Termination. Provides that the council expires January 1, 2020.

Effective upon enactment.

2 Local performance measurement and reporting.

Subd. 1. Reports of local performance measures. Requires a county or city that participates in the standard measures program to report results to its citizens annually and to file a report with the state auditor by July 1.

Describes two levels of participation. A city or county participating in the standard measures program must report on results for the standard set of performance measures. In 2012, a city or county participating in the comprehensive performance measurement program must submit a resolution indicating it either has implemented or is in the process of implementing a local performance measurement system meeting the minimum standards. In 2013 and thereafter, comprehensive performance measurement system participants must affirm that they have implemented a local performance measurement system meeting the minimum standards.

Subd. 2. Benefits of participation. (a) A participant in 2011 may receive a per capita reimbursement of 14 cents, up to \$25,000, and is exempt from levy limits for taxes payable in 2012.

(b) A participant in the standard measures program in 2012 may receive a per capita reimbursement of 14 cents, up to \$25,000. A participant in the comprehensive performance measurement program in 2012 is exempt from levy limits for taxes payable in 2013.

(c) A participant in the standard measures program in 2013 or any year thereafter may receive a per capita reimbursement of 14 cents, up to \$25,000. A participant in the comprehensive performance measurement program in 2013 or any year thereafter is exempt from levy limits for taxes payable in the following year.

Subd. 3. Certification of participation. Directs the state auditor to certify participation to the commissioner of revenue. Provides for the commissioner of revenue to make the per capita reimbursements and notify each city and county that is

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exempt from levy limits.

Subd. 4. Appropriation. Establishes a standing appropriation from the general fund for payments made under this section.

Effective December 31, 2010.

3 Property tax system benchmarks and critical indicators.

Subd. 1. Purpose. States that state policy makers should be provided with the tools to create a more accountable and efficient property tax system. This section contains the principals and the available tools necessary to work toward achieving that goal.

Subd. 2. Property tax principles. Contains the basic property tax principals that should be taken into consideration in evaluating the various property tax proposals that come before the legislature. The principals are transparent and understandable; simple and efficient; equitable; stable and predictable; compliance and accountability; competitive, both nationally and globally; and responsive to economic conditions.

Subd. 3. Major indicators. Provides that there are many different types of indicators available to legislators to evaluate tax legislation, each has its own limitations. Contains the following list of the available major indicators: property tax principles scale (components are listed in subdivision 2) relate to the property tax system features; price of government report; tax incidence report; tax expenditure budget and report; state tax rankings; property tax levy plus aid data, and market value and net tax capacity data by taxing district; effective tax rate and equalized effective tax rate; assessment sales ratio study; "Voss" data base, which matches homeowner property taxes and household income; revenue estimates and state fiscal notes; and local impact notes.

Subd. 4. Property tax working group. Establishes a working group. The goals of the working group are: to investigate ways to simplify the property tax system, to reexamine the property tax calendar, and to determine the cost versus the benefits of the various property tax components.

Provides for the working group to have 13 members appointed as follows:

- ▶ two house members, one from the majority caucus and one from the minority caucus, both appointed by the tax committee chair
- ▶ two senators, one from the majority caucus and one from the minority caucus, both appointed by the tax committee chair
- ▶ the commissioner of revenue or the commissioner's designee
- ▶ one person from each: appointed by the Association of Minnesota Counties, the League of Minnesota Cities, the Minnesota Association of Townships, the Minnesota Chamber of Commerce, and the Minnesota Association of Assessing Officers
- ▶ two homeowners, one under 65 and one over 65, appointed by the commissioner

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of revenue

- ▶ one person appointed jointly by the Minnesota Farmers Union and the Minnesota Farm Bureau.

Provides for the commissioner of revenue to convene the first meeting and then for the working group to elect a chair. The working group meets at the call of the chair and members serve without compensation.

Requires the working group to make its advisory recommendations to the chairs of the house and senate tax committees on or before February 1, 2012, at which time the working group is finished (and this subdivision expires).

Subd. 5. Tax committee review and resolution. Requires that on or before March 1, 2012, and every two years thereafter, the house and senate tax committees must review the major indicators (as contained in subdivision 3) and ascertain the accountability and efficiency of the property tax system. Requires each committee to prepare a resolution on targets and benchmarks for use during the current biennium.

Subd. 6. Department of Revenue; revenue estimates. Requires that beginning with the 2011 legislative session, the revenue estimates prepared by the Department of Revenue must also identify how the property tax principles (contained in subdivision 2) apply to the proposed changes. Requires the commissioner to develop a scale for measuring the appropriate principles for each proposed change. If possible, requires the department to quantify the effects, or at a minimum identify the relevant factors so that legislators are aware of possible outcomes, including administrative difficulties and cost. The interaction of property tax shifting should be identified.

Subd. 7. Appropriation. Appropriates \$30,000 in FY 2011 and \$25,000 in each fiscal year thereafter to the commissioner of revenue for the additional work required for revenue estimates in subdivision 6.

Effective the day following final enactment.

Article 3: Individual Income, Corporate Franchise, and Estate Taxes

Overview

This article makes a number of minor and technical changes in the individual income, corporate franchise, and estate taxes, most of which are recommendations of the Department of Revenue. The article also provides a rule of construction for formula clauses in estate planning documents that are tied to the federal estate tax or its terms for periods when the federal estate tax does not apply and allows a Minnesota qualified terminable property interest (or QTIP) election for those periods.

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- 1 Nonresident partnership returns; cross-reference.** Updates cross references to reflect deletion in sections 10 and 11 of the obsolete subtraction for the federal small ethanol producer's credit, allowed through tax year 2007 under both the individual income and corporate franchise tax.
- 2 Electronic filing of withholding tax reports.** Strikes obsolete references to 100 return threshold for electronic filing of withholding tax reports in tax year 2008, and the 50 return threshold in effect for tax year 2009. Leaves in place the 25 return threshold for electronic filing of withholding tax reports for tax year 2010, and the 10 return threshold for tax year 2011 and following years. Clarifies that all statements required to be submitted are aggregated in determining whether the electronic reporting threshold is met. This clarifies that construction contractor withholding is subject to the same electronic filing requirements as employers' wage withholding.

Effective date: Statements required to be filed after December 31, 2010.
- 3 Estate tax; obsolete language.** Eliminates statutory references to exemption amounts under the estate tax that applied to decedents dying before January 1, 2006.
- 4 Due date of return of regulated investment companies.** Requires regulated investment companies that pay municipal bond interest to file a returns with the department by June 1. The returns is required under present law, but there is no date specified for filing. Also changes the due date for the issuance of statements by those regulated investment companies to their investors to from 30 days after the close of the tax year to February 15.

Effective date: Returns due after December 31, 2010.
- 5 Corporate franchise tax return due dates.** Conforms the due dates for the various corporate franchise tax returns to the federal due dates.

Effective date: Taxable years beginning after December 31, 2009.
- 6 Paying estate tax in installments.** Clarifies that the percentage of Minnesota estate tax deferred by taxpayers electing to pay estate tax in installments may not exceed the percentage of federal estate tax deferred.

Effective date: Day following final enactment
- 7 Refunds payable when taxpayer address is invalid.** Provides that interest due on property tax refund payments stops running when the department mails the required notification of refund, if the department determines that the address the taxpayer used to file the refund claim is invalid or no longer current. This date also marks the start of the time period for issuance of a new property tax refund warrant.

Effective date: Day following final enactment
- 8 Frivolous return penalty.** Changes the terms "individual" and "person" to "taxpayer" for consistency in the statute that provides a penalty for filing a frivolous return.

Effective date: Returns filed after the day following final enactment.

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- 9 Additions to taxable income; individuals; municipal bond interest paid by regulated investment companies.** Clarifies that the required addition to taxable income for federally exempt municipal bond interest paid by regulated investment companies does not require the inclusion of interest exempt from state taxation under federal law, such as interest paid on obligations of a U.S. territory. Also clarifies that any interest from municipal bonds that is exempt from state taxation under federal law is treated as tax-exempt interest for purposes of determining whether 95 percent of the dividends paid by the regulated investment company are paid from obligations issued by Minnesota.
- Effective date:** Day following final enactment
- 10 Subtractions from taxable income; individuals; small ethanol producer credit.** Deletes the obsolete subtraction for the federal small ethanol producer credit. While the federal credit remains in effect, the state subtraction expired following tax year 2007.
- Effective date:** Day following final enactment
- 11 Subtractions from taxable income; corporations; small ethanol producer credit.** Deletes the obsolete subtraction for the federal small ethanol producer credit. While the federal credit remains in effect, the state subtraction expired following tax year 2007.
- Effective date:** Day following final enactment
- 12 Individual income tax, nexus rules.** Provides that for a single-member Limited Liability Company (LLC), which the owner has elected to disregard status for individual income tax purposes and which has income that is assigned to Minnesota, the income is taxed as though it was received directly by the individual, rather than by the LLC. This parallels the similar treatment of ownership interests in partnerships (which includes multi-member LLCs) and S corporations.
- Effective date:** Day following final enactment
- 13 Individual income tax rates; cross-reference.** Updates cross references to reflect deletion in sections 10 and 11 of the obsolete subtraction for the federal small ethanol producer's credit, allowed through tax year 2007 under both the individual income and corporate franchise tax.
- 14 Dependent care credit; cross-reference.** Updates cross references to reflect deletion in sections 10 and 11 of the obsolete subtraction for the federal small ethanol producer's credit, allowed through tax year 2007 under both the individual income and corporate franchise tax.
- 15 Working family credit; cross-reference.** Updates cross references to reflect deletion in sections 10 and 11 of the obsolete subtraction for the federal small ethanol producer's credit, allowed through tax year 2007 under both the individual income and corporate franchise tax.
- 16 Income tax reciprocity.** Modifies the requirement for income tax reciprocity to allow the commissioner additional flexibility regarding the reimbursement by Wisconsin for Minnesota's revenue loss resulting from a reciprocity agreement.
- Effective date:** Day following final enactment

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17 **Alternative minimum taxable income; individuals; cross-reference.** Updates cross references to reflect deletion in sections 10 and 11 of the obsolete subtraction for the federal small ethanol producer's credit, allowed through tax year 2007 under both the individual income and corporate franchise tax.

18 **Alternative minimum taxable income; corporations; cross-reference.** Updates cross references to reflect deletion in sections 10 and 11 of the obsolete subtraction for the federal small ethanol producer's credit, allowed through tax year 2007 under both the individual income and corporate franchise tax.

19 **Income tax, allocation rules for single member LLCs.** Clarifies that capital gain realized on the sale of a single-member LLC that is disregarded for federal income tax purposes is allocated to Minnesota and taxed as if the LLC did not exist. This parallels the similar treatment of ownership interests in partnerships (which includes multi-member LLCs) and S corporations.

Effective date: Day following final enactment

20 **REIT dividends.** Excludes real estate investment trust (REIT) dividends from the dividend received deduction allowed to corporations to the extent that the REIT dividends do not qualify for the dividend received deduction under the federal corporate tax.

Effective date: Tax year 2010

21 **Clarification of application of estate tax.** Provides that the definition of the Internal Revenue Code and that estate tax valuation rules under the Code for purposes of the Minnesota estate tax apply, regardless of whether the federal estate tax is imposed or not.

Background. The Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA") provided that the federal estate tax does not apply to estates of decedents dying during calendar year 2010. Legislative enactments and actions by the administration have made it clear that the Minnesota estate tax continues to apply, even if the federal estate tax does not. This section clarifies that by excluding from the definition of the Internal Revenue Code the two provisions of EGTRRA that provide for the one-year sunset of the estate tax and by repealing a reference that implies federal tax authorities are somehow involved in valuing property for Minnesota estate tax purposes. The latter provision is obsolete, since Minnesota has had a lower exemption amount than the federal tax since 2002. This means that some estates have been subject to Minnesota tax, but are exempt from federal tax. For many of these estates federal tax authorities would have no role in determining valuations.

22 **Minnesota QTIP election.** Allows a Minnesota Qualified Terminable Interest Property (QTIP) election for calendar year 2010, if the estate is not required to file a federal estate tax return. The QTIP election must not reduce the taxable Minnesota estate below \$3.5 million (the federal estate tax exemption amount for calendar year 2009).

Background. Present law does not allow a QTIP election for Minnesota estate tax purposes unless the election is also made for federal estate tax purposes. During a period when no federal estate tax applies, estates would not be able to make a QTIP election for Minnesota estate tax purposes because they would be unable to make a federal election. This section restores the authority to make a QTIP election during such a period. But the election cannot

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reduce the taxable estate below the old federal exemption amount. This will prevent the use of the Minnesota QTIP election to reduce Minnesota tax on the value of the estate between \$1 million (the Minnesota exemption amount) and \$3.5 million (the old federal exemption amount).

A QTIP election allows the trustee or personal representative to treat a portion of the trust or the estate as qualifying for the marital deduction, even though the surviving spouse only has an income interest in the property and does not have a power of appointment over the property. QTIPs are typically used in situations where the decedent wants to provide income and support to a surviving spouse during the surviving spouse's life, but also wants to ensure that the corpus or principal goes to the heirs the decedent designated (usually children from an earlier marriage). In other words, the decedent does not want to allow the surviving spouse to change who receives the property, for example, by disinheriting the decedent's children. The QTIP election allows deferral of the estate tax on the QTIP amount until the death of the surviving spouse.

23 Construction of formula clauses in estate planning documents. Provides a default rule of construction for formula clauses and related provisions of various estate planning documents that refer to provisions or terms of the federal estate tax. This rule of construction applies only to documents if the:

- ▶ Decedent died during calendar year 2010; and
- ▶ Federal estate tax was not in effect (e.g., the rule would not apply to a period if Congress reenacts the federal estate tax for all or part of calendar year 2010).

This rule of construction essentially provides that – unless the document indicates a contrary intent – the references to the federal estate tax or estate tax terms refer to the federal tax in effect on December 31, 2009. The section also authorizes the personal representative, trustee, or another interested person to bring a proceeding to determine the intent. These proceedings must be brought by December 31, 2011.

Background. This provision is intended to address situations where decedents and their estate planners did not update formula clauses of wills and trusts to reflect the temporary sunset of the federal estate tax during calendar year 2010. (Most observers did not expect Congress to allow the estate tax to temporarily lapse and, thus, many of these documents were not redrafted to address that situation.) Because planners often structure estate plans to fully utilize the federal exemption amount on the death of the first spouse, this can or will cause unintended results. In particular, it could cause under a literal reading of these clauses all of the estate to pass into a “by-pass trust” or “credit shelter trust” with the result that no assets will pass to the marital trust for the surviving spouse. This would occur if the clause, for example, provides that the maximum amount that avoids federal tax is to be put into one of these trusts. This provision effectively assumes that most decedents intended to put the amount of the 2009 federal exemption amount (\$3.5 million) in one of these trusts, rather than the entire estate.

The provision would not apply to documents that anticipated the sunset of the federal tax or that otherwise indicate a contrary intent. In addition, interested parties could bring court proceedings to show that the decedent intended a different result in executing the relevant documents.

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24 **Income tax reciprocity benchmark study.**

Subd. 1. Study parameters. Directs the Department of Revenue to work with the Wisconsin Department of Revenue to conduct an income tax reciprocity benchmark study, to provide an estimate of compensation payable from one state to the other if the two states entered into a new income tax reciprocity agreement, effective for tax year 2012. The study would use information from Minnesota and Wisconsin 2010 income tax returns of individuals who are residents of one state and have earnings in the other state. Requires the study to include:

- ▶ The number of residents of each state with earnings in the other state;
- ▶ The income earned by residents of one state who work in the other state;
- ▶ The amount of tax revenue foregone or gained by each state if a reciprocity agreement were implemented in tax year 2012;
- ▶ A calculation of compensation payable from the state that gains revenue to the state that foregoes revenue that takes into account the credit for taxes paid to other states;
- ▶ A methodology for using the 2010 base year results to project compensation payments for future years.

Subd. 2. Reports. Requires a series of reports from the commissioner to the governor and legislature providing updates on the status of the benchmark study and negotiations with Wisconsin to reinstate reciprocity. Preliminary reports are due July 15, and September 15, 2011, with the final report due March 1, 2012.

Background. Individual income tax reciprocity agreements relieve individuals who live in one state but work in another of the burden of filing tax returns in both states. Minnesota and Wisconsin had a reciprocity agreement in effect for tax years 1968 through 2009. Beginning in 1975, the agreement provided for Wisconsin to make compensatory payments to Minnesota for the amount of income tax revenue foregone as a result of the agreement. Minnesota foregoes revenue because more Wisconsin residents work in Minnesota than vice versa. The calculation of the net revenue loss to Minnesota was re-estimated in 1995. The commissioner of revenue terminated the reciprocity agreement with Wisconsin in September 2009, effective for tax year 2010, after failing to reach an agreement with Wisconsin to accelerate the timing of compensatory payments. At the time there was a 17-month time lag between when Minnesota would have realized tax revenue in the absence of reciprocity, and when Wisconsin made the compensatory payments. While Wisconsin pays interest on the payments, the time lag results in the payments from Wisconsin falling in a later fiscal year than the revenue loss incurred by Minnesota.

Minnesota has reciprocity agreements in effect with Michigan and North Dakota; because there are believed to be relatively small numbers of taxpayers involved the agreements do not require any compensatory payments.

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Article 4: Sales and Use Taxes

Overview

Makes administrative and technical changes to sales taxes proposed by the Department of Revenue and slightly expands the sales tax construction exemption for low income housing.

- 1** **Claims for refunds on behalf of purchasers.** Provides a timeline for when a seller claiming a refund on behalf of a purchaser must credit or refund that refund to the purchaser. Currently no timeline exists. Requires a vendor to return to the commissioner, any amount that has not been credited or refunded to the purchaser within 60 days of the vendor receiving the refund. Within 3-1/2 years after the commissioner refunds the tax and interest to the vendor (for indefinite period if the refund was induced by fraud or misrepresentation), the commissioner may assess the vendor for underpayment of sales tax and interest, equal to that portion of the refund claim that was not refunded or credited to the purchaser. Effective for refunds issued after June 30, 2010.
- 2** **Sales tax imposed; rates.** Clarifies that the 3/8th percent outdoor heritage sales tax applies to manufactured homes and park trailers. Clarifies that any reference to the general sales tax rate in Chapter 297A includes both the 6.5% general tax and the 0.375% outdoor heritage tax until the outdoor heritage tax expires. The portion affecting manufactured homes and park trailers is effective after June 30, 2010; the rest is effective retroactively to June 30, 2009.
- 3** **Presumption of tax; burden of proof.** Clarifies that if a seller does not provide substantiation that a sales is not a taxable sales within 120 days after the date the commissioner requests substantiation, the exemptions claimed by the seller must be disallowed. The current law relieves the seller of liability if the seller provides the substantiation within 120 days. Effective the day following final enactment.
- 4** **Transitional period for pre-existing contracts or bids.** Deletes the requirement that for each qualifying contract or bid the contractor must give the seller documentation of the contract or bid and instead requires the contractor to keep the documentation. The seller need only receive a fully completed exemption certificate, Effective the day following final enactment.
- 5** **Fund-raising sales by or for non-profit groups.** Amends Minn. Stat. § 297A.70, subd. 13, to make it explicit that an organization that exist solely for the purpose of providing educational or social activities to young people must be nonprofit in order for their sales for fund-raising purposes to be exempt. This language was inadvertently omitted when the sales tax statutes were recodified in 2000. Effective the day following final enactment.
- 6** **Construction materials for qualified low-income housing projects.** Expands the existing sales tax exemption for low-income housing to include housing provide by a limited liability company(LLC) that consists of a sole member that is a nonprofit corporation. The exemption was extended to the nonprofit corporations in 2008 but many of them need to run these projects through an LLC to reduce liability for the entire nonprofit. Effective for sales

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and purchases made after June 30, 2010.

- 7 **Seller relief from certain liability.** This change is made to conform to the Streamlined Sales Tax Agreement. Provides that if there are not at least 30 days between the enactment of a new tax rate and the effective date of the new rate, then for up to 30 days sellers and certified service providers shall be relieved from liability to the state for failing to collect tax at the new rate; provided the seller or certified service provider continued to impose and collect the tax at the immediately preceding tax rate, did not solicit purchasers at the old rate, and no fraud is involved. Effective the day following final enactment.
- 8 **Purchaser relief from liability.** This change is made to conform to the Streamlined Sales Tax Agreement. Provides that if there are not at least 30 days between the enactment of a new tax rate and the effective date of the new rate, then for up to 30 days a purchaser is relieved from liability to the state for failing to collect tax at the new rate; provided the purchaser paid the tax at the immediately preceding tax rate, and no fraud is involved. Effective the day following final enactment.
- 9 **Special local taxes.** Requires that for any new or amended local tax that the Department has agreed to or is required to administer, the local unit of government must adopt definitions found in Minn. Stat., ch. 297A, or in Minn. Rules, ch. 8130, with terms consistent with the department's position as to the extent of their tax base. The purpose is to lessen administrative compliance burdens and complexity. Effective the day following final enactment.
- 10 **Exemption from five percent motor vehicle rental fee; effective date change.** Amends a 2009 law to correct the effective date so that it applies to leases or rentals made or renewed on or after July 1, 2009, rather than to registrations made or renewed on or after that date. Effective retroactively to leases or rentals made or renewed after June 30, 2009.

Article 5: Local Sales Taxes

Overview

Expands and extends the moratorium on local governments promoting local sales taxes. Allows a number of new local lodging, food and beverage, and admissions taxes. Makes technical changes to the existing Rochester local food and beverage and lodging taxes and adds bonding authority.

- 1 **Authorization; scope (local sales taxes).** Modifies the prohibition on local governments promoting, spending funds, or holding a referendum in support of a new local sales tax to include extensions of an existing local sales tax and extends the prohibition for another two years – until May 31, 2012. Effective the day after final enactment.
- 2 **Rochester lodging tax.** Allows the city of Rochester to issue up to \$43.5 million in general obligation bonds to pay for the Mayo Civic Center Complex project to be funded by this tax and the city's food and beverage tax. Although the city must still hold an election for the

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bonds, the bonds are excluded from any city debt limits and any property tax needed to pay for the bonds are exempted from levy limits. Also clarifies that revenues may be used for payments of refund bonds for the project and adds standard language allowing extra revenue due to timing of expiration dates to be placed in the city general fund.

3 Expiration of taxing authority (Rochester food and beverage tax). Clarifies that revenues may be used for payments of refund bonds for the Mayo Civic Center Complex project and adds standard language allowing extra revenue due to timing of expiration dates to be placed in the city general fund.

4 City of Detroit Lakes; local taxes authorized.

Subd. 1. Food and beverage tax. Allows the city to impose a one-half of one percent food and beverage tax without a referendum to sales at restaurants and places of refreshment. The tax would apply to on-sale intoxicating beverage sales as well.

Subd. 2. Entertainment tax. Allows the city to impose a one-half of one percent entertainment tax without a referendum on tickets and entrance fees to entertainment such as theatres, concerts, and sporting events.

Subd. 3. Use of proceeds from authorized taxes. Allows the proceeds of the taxes to fund four projects: (1) control of flowering rush infestation, (2) construction and improvement of bike trails, (3) parking improvements for public facilities, and (4) redevelopment of the area returned to the city as part of the Highway 10 realignment.

Subd. 4. Expiration of taxing authority. The taxes expire when the city determines sufficient revenues have been raised to fund the projects listed in subdivision 3, including any associated bond costs.

Subd. 5. Collection, administration, and enforcement. Allows the city to enter into an agreement with the Department of Revenue to collect the authorized taxes. Requires that if the tax is collected by the state the standard collection, administration, and enforcement provisions for general local sales taxes apply.

5 City of Marshall; sales and use tax.

Subd. 1. Authorization. Allows the city to impose any of the taxes included in the section if imposed within two years of the day of final enactment of this section.

Subd. 2. Bonds. Allows the city to issue \$17.29 million in bonds to pay for costs of new and existing facilities of the Minnesota Emergency Response and Industry Training Center and the Southwest Minnesota Regional Amateur Sports Center. The city must hold a referendum to issue the bonds. The bonds are not included in any debt levy on the city and any property taxes needed to pay the bonds are exempt from levy limits.

Subd. 3. Lodging taxes. Allows the city to impose a 1.5 percent local lodging tax without a referendum within a city-defined tax district. The areas included in the tax district need not be contiguous.

Subd. 4. Use of lodging tax revenues. Requires revenues from a tax imposed

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under subdivision 3 be used for operating costs of the Minnesota Emergency Response and Industry Training Center and the Southwest Minnesota Regional Amateur Sports Center. Revenues may also be used to help pay for bonds issued in subdivision 2.

Subd. 5. Food and beverage taxes. Allows the city to impose up to a 1.5 percent food and beverage tax in the city without a referendum. The general statutory provisions regarding administration, collection, and enforcement apply.

Subd. 6. Use of food and beverages tax. Requires revenues from a tax imposed under subdivision 5 be used for operating costs of the Minnesota Emergency Response and Industry Training Center and the Southwest Minnesota Regional Amateur Sports Center. Revenues may also be used to help pay for bonds issued in subdivision 2.

Subd. 7. Termination of taxes. All the taxes imposed under this section expire at the earlier of (1) 30 years after the tax is first imposed, or (2) when revenues are sufficient to meet the capital operating and administrative costs of the facilities funded under this bill.

6 Giants Ridge recreation area taxing authority.

Subd. 1. Additional taxes authorized. Allows the city of Biwabik to impose any of the taxes listed in this section upon approval of the city council and a vote of at least seven members of the IRRRB.

Subd. 2. Use of proceeds. Requires the proceeds of any tax imposed under this section to be deposited in the IRRRB account enterprise fund. The IRRRB by a vote of at least seven members shall spend the money for construction, improvement, and maintenance of public facilities located in the Giants Ridge Recreation area.

Subd. 3. Lodging tax. Allows the city of Biwabek, with the approval of the IRRRB, to impose up to a five percent lodging tax in the Giants Ridge Recreation Area.

Subd. 4. Admissions and recreation tax. Allows the city of Biwabek, with the approval of the IRRRB, to impose up to a five percent tax on admissions to entertainment and recreational facilities in the Giants Ridge Recreation Area. The rules for imposition, collection, and administration in Minn. Stat. §297A.99, except for subdivisions 2 and 3, apply. If imposed, the tax must exempt the purchase of season tickets or passes.

Subd. 6. Food and beverage tax. Allows the city of Biwabek, with the approval of the IRRRB, to impose up to a one percent on restaurant food and beverage sales in the Giants Ridge Recreation Area. The rules for imposition, collection, and administration in Minn. Stat. §297A.99, subdivisions 2 and 3, apply.

The section is effective the day after final enactment upon local approval as required under statute but the local approval must occur before January 1, 2012.

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Article 6: Special Taxes

Overview

Makes various changes to special taxes recommended by the Department of Revenue.

- 1** **Obtaining coverage from an ineligible surplus lines insurer.** Adds a cross-reference to clarify that a surplus lines licensee must collect premium taxes from the insured after obtaining coverage from an ineligible surplus lines insurer, and report the transaction to the commissioner of revenue.

Effective date: day following final enactment
- 2** **MinnesotaCare estimated tax; hospitals and surgical centers.** Modifies the exemption from the requirement for hospitals and surgical centers to pay MinnesotaCare estimated taxes to more closely follow the estimated tax exemption under the insurance premiums tax. Exempts centers that have tax liability of \$500 or less in the current or previous tax year. Under current law the exemption based on the previous year's taxes is limited to hospitals and surgical centers that in the previous year had liability and were in business for the entire year.

Effective date: gross revenues received after December 31, 2010
- 3** **MinnesotaCare estimated tax; other taxpayers.** Modifies the exemption from the requirement for taxpayers other than hospitals and surgical centers to pay MinnesotaCare estimated taxes to be consistent with the changes made in section 2.

Effective date: gross revenues received after December 31, 2010
- 4** **Petroleum tax license cancellation or nonrenewal.** Authorizes the commissioner to cancel or not renew a petroleum distributor's tax license if there is no activity for one year.

Effective date: day following final enactment
- 5** **Weighted average retail price.** Replaces direction for adjusting the weighted average retail price of cigarettes for inflation with a reference to the calculations provided under section 8.

Effective date: January 1, 2011
- 6** **Cigarette and tobacco products tax license cancellation or nonrenewal.** Authorizes the commissioner to cancel or not renew a cigarette and tobacco products distributor's tax license if there is no activity for one year.

Effective date: day following final enactment
- 7** **Sales to nonqualified buyers.** Strikes an obsolete reference to selling contraband cigarettes.

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Effective date: day following final enactment

- 8 Cigarette sales tax survey.** Changes the publication date of the annual cigarette price survey, used in adjusting the weighted average retail price of cigarettes for inflation, from May 1 to November 1 with the new rate as adjusted for inflation effective January 1 rather than August 1. The date change is intended to distribute DOR's workload more evenly through the year. Provides transition language for establishing a new tax rate for cigarette sales from August 1, 2011, through December 31, 2011.

Effective date: January 1, 2011

- 9 Gross premiums definition.** Clarifies that in determining the surplus lines tax liability, gross premiums include all fees and charges paid by policyholders, but excludes stamping fees and operating assessments. This definition is similar to other definitions of gross premiums and reflects the department's application of current law.

Effective date: day following final enactment

- 10 Imposition of surplus lines tax.** Clarifies that the surplus lines tax is imposed on gross premiums paid by the policyholder. This reflects the department's application of current law. Also strikes the exclusion of operating assessments, which is added as an exclusion from gross premiums in section 9.

Effective date: day following final enactment

- 11 Return due dates; general rule; insurance premiums taxes.** Provides a common due date of March 1 for returns from taxpayers who:

- ▶ procure insurance from unlicensed foreign companies
- ▶ procure insurance from an ineligible company

and also for

- ▶ joint self insurance plans
- ▶ accountable provider networks, and
- ▶ life insurance companies

The section corrects outdated references, and updates reference consistent with the proposed repeal of return due dates in section 20.

Effective date: day following final enactment

- 12 Return due dates for surplus lines taxes.** Updates obsolete references and modifies language requiring returns to be in the form prescribed by the commissioner to be consistent with other tax statutes.

Effective date: day following final enactment

- 13 Surcharges.** Makes language requiring returns to be in the form prescribed by the commissioner consistent with other tax statutes, and strikes the return due date requirements that are replaced with a general requirement in section 11.

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Effective date: day following final enactment

- 14** **Surcharges; fire insurance.** Modernizes language requiring returns to be in the form prescribed by the commissioner to be consistent with other tax statutes.

Effective date: day following final enactment

- 15** **Electronic payment of insurance tax.** Clarifies that the threshold period for determining if a taxpayer must file electronically is a fiscal year ending June 30 and not a calendar year.

Effective date: payments due in calendar year 2010, based upon liabilities incurred in the fiscal year ending June 30, 2009

- 16** **Estimated taxes; requirement to pay.** Corrects an obsolete reference and adds a reference to life insurance companies.

Effective date: day following final enactment

- 17** **Definition of tax.** Corrects an obsolete reference and adds a reference to life insurance companies.

Effective date: day following final enactment

- 18** **Tax omission in excess of 25 percent.** Provides that additional tax may be assessed within 6½ years of the due date of an insurance premiums tax return if a taxpayer omitted more than 25 percent of the premiums tax or surcharge due. This is consistent with additional tax assessments allowed under the sales tax.

Effective date: premium taxes due after December 31, 2010

- 19** **Distribution of production tax proceeds.** Replaces a reference to “tax relief area” with “taconite assistance area.”

Effective date: distributions made the day following final enactment

- 20** **Repealer.** Repeals return due date provisions replaced with general due date requirements in section 11.

Effective date: day following final enactment

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Article 7: Public Finance

Overview

This article:

- ▶ Makes a number of minor changes in the JOBZ law (requested by the Department of Revenue)
- ▶ Provides expanded short term borrowing authority for larger watershed districts
- ▶ Authorizes the Metropolitan Council to issue \$34.6 million in debt obligations to fund its transit capital improvement plan
- ▶ Provides flexibility to allocate more of the state's private activity bond limit to student loan bonds
- ▶ Grants expanded authority to economic development authorities (EDAs) to establish economic development districts
- ▶ Allows cities and counties to designate development authorities, such as housing and redevelopment authorities (HRAs), to implement the energy loan program under chapter 216 (the tax bill passed earlier this session)
- ▶ Provides special tax increment financing (TIF) rules for the city of Wayzata and Landfall Village

1 Borrowing funds. Allows a watershed district that has total property with taxable market value greater than \$500,000,000 to have up to \$2,000,000 in loans outstanding. The current limit is \$600,000 for all watershed districts.

2 Economic development districts; EDAs. Eliminates the requirements that economic development districts established by EDAs meet the "blight test" under the TIF law for redevelopment districts. This test requires 70 percent of the parcels in the area to be occupied by buildings or other improvements and 50 percent of those buildings to be substandard. (Alternative tests allow certain railroad facilities and tank farms to qualify, as well as qualified disaster areas.)

Background information. EDAs can avoid the blight test limitation by exercising powers under the housing and redevelopment authority law to create a redevelopment project, housing development, or housing project (under which a restrictive blight test does not apply), as authorized by section 469.101, subdivision 12. These projects can be used for similar purposes to those of an economic development district under the EDA law.

3 JOBZ time limit for requesting waiver of clawback. Imposes a 60-day time limit for a business that is no longer eligible for JOBZ to request a waiver of repayment of its JOBZ

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benefits. In order to receive a waiver of state-paid JOBZ benefits, businesses must request the waiver within 60 days of being notified by the commissioner. In order to receive a waiver of the local property tax exemption, businesses must request the waiver within 60 days after the county auditor mailed the property tax bill.

Effective date: Day following final enactment.

- 4** **Due date of annual JOBZ certification to commissioner of revenue.** Changes the due date for the annual certification of JOBZ compliance by qualified businesses from December 1st to October 15th. This matches the date that JOBZ businesses are required to file their annual JOBZ tax benefits report.

Effective date: 2010 certifications

- 5** **Metropolitan council, debt authorization for transit.** Authorizes the Metropolitan Council to issue \$34.6 million in debt for the council's transit capital improvement program (e.g., buses, rail transit, and related real property improvements).

Effective the day following final enactment and applies in the seven county metro area.

- 6** **Entitlement transfers.** Authorizes three state agencies (Minnesota Housing Finance, Office of Higher Education, and the Rural Finance Authority), as entitlement issuers of bonds through the bond allocation to transfer their individual allocated authority to each other prior to December 1 of each year.

- 7** **Allocation procedure.** Increases the total amount of the allocations for student loan bonds to \$25 million per year from \$10 million.

- 8 - 16** **Energy improvements financing program for local governments.** Modifies the program, enacted in chapter 216, that authorizes cities and counties to implement voluntary energy improvements financing programs to allow the local government to designate a housing and redevelopment authority, economic development authority or another entity allowed to exercise those powers to administer the program. These programs issue bonds to finance the improvements, make loans to finance the improvements to applicants, and collect repayments through using the special assessment law.

Effective date: Day following final enactment

- 17** **Landfall TIF.** Extends the 5-year rule for a TIF district in the city of Landfall Village from a 5-year period to 8 years.

Background. Under general law, the 5-year rule requires the development authority (e.g., the city, HRA, or EDA) to complete the TIF plan's in-district activities within 5 years after certification of the district or to issue bonds to finance those activities. After the 5-year period, increments allocated to the in-district costs may only be used to pay bonds and contracts entered into during the 5 years. When these are fully paid off or defeased, the district must be decertified.

Effective date: Local approval by the city of Landfall Village

- 8** **Wayzata TIF.** Deems parcels in redevelopment TIF district No. 5 in the city of Wayzata to

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meet the blight test for a redevelopment district, if the city or a developer demolished a building on the parcel that it found to be structurally substandard and the city decertifies district No. 5 and requests certification of a new district within 10 years after the demolition. This allows the city to decertify the district and create a new redevelopment district with a new 25-year duration limit.

Effective date: Local approval by the city of Wayzata

Article 8: Cash Flow

Overview

Makes permanent changes to certain payment and revenue collection schedules to reduce monthly low points in general fund cash flow.

- 1 Monthly payments; University of Minnesota.** Changes the date for the monthly payments of appropriations to the University from the 21st to the 25th.
- 2 State property taxes; county treasurer.** Requires the counties to pay the state property taxes to the state on the same schedule of estimated and final payments used to distribute property taxes to school districts. This advances the settlement dates from the county to the state as follows:
 - (i) the current June 28th payment will be made 50 percent on or about May 24th, and 50 percent on or about June 5th;
 - (ii) the December 2nd payment will be made 50 percent on or about October 24th and 50 percent on or about November 2nd; and
 - (iii) the January 25th “clean-up” payment from the county will continue to be made at the same time.Effective for distributions beginning October 1, 2010 and thereafter.
- 3 Sales and use tax.** Temporarily requires vendors who collect and remit \$120,000 or more annually in sales tax to remit 90 percent of their monthly liability on the 14th of the month after it was collected with the remainder due on the 20th of the month. Currently the entire amount is due on the 20th of the month. When the cash flow account and the budget reserve account reach the desired levels listed in Chapter 16A, the early sales tax payments on the 14th of the month will be eliminated and the remittances will again be due on the 20th of the month. Nothing in this section affects the June accelerated payment date, or its associated settle-up date. Requires that all fees and other taxes reported on the same return be remitted on the same schedule as well. Effective for taxes due and payable after September 1, 2010.
- 4 Accelerated payment of monthly sales tax liability; penalty for underpayment.** Provides a penalty for underpayment of the 90 percent of estimated tax liability due on the 14th of the month equal to 10 percent of the underpayment amount. Provides a safe harbor for avoiding

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the penalty by making a payment equal to the lesser of (1) 90 percent of the liability of the previous month or (2) 90 percent of the liability for the same month in the previous calendar year, or (3) 90 percent of the vendor's average monthly liability for the previous calendar year.

Article 9: Property Taxes - Technical

Overview

Includes miscellaneous property tax technical changes from the Department of Revenue.

- 1** **Limitation (regional library support-grant requirement).** Modifies a provision relating to Department of Education grants to regional library systems if a city or county participating in the system reduces its support of public library services beyond certain limits by correcting two cross-references and clarifying that "credits" and "credit reductions" refers to market value credit reimbursements under section 273.1384 and associated reimbursement-reductions. Effective retroactively to changes in support made in 2009 and thereafter for grants paid in FY10 and thereafter.
- 2** **Erroneous cross-reference correction.** Corrects an erroneous cross-reference which requires the commissioner to periodically revise the Minnesota assessors' manual. The current cross-reference is to section 270C.06, which refers to the commissioner's power to promulgate rules. The assessors' manual is not a rule, therefore it needs to reference is to section 270C.85, which includes the commissioner's powers and duties with respect to property tax administration. Effective the day following final enactment.
- 3** **Commissioner's authority to order a reassessment.** Provides that in the event that the assessor does not appraise at least one-fifth of all parcels in the district or county during the year, the commissioner has the discretion to order a reappraisal of all property in the district or county. Under current law the commissioner is mandated to order the reappraisal. Effective the day following final enactment.
- 4** **Statement of exemption.** Requires churches and schools to file a property tax exemption application in order to be exempt. Effective for taxes payable in 2012 (assessment year 2011) and thereafter.
- 5** **Filing dates.** Clarifies that the new requirement for churches and schools to file a property tax exemption application in section 4 is only for newly exempt properties, and that subsequent filings will not be required after the initial filing.
- 6** **Wind energy production tax non-filer calculation.** Increases the default tax calculation from 40 percent to 60 percent of nameplate capacity for owners who do not file the required reports with the Department of Revenue by the due date. The current default calculation can result in taxpayers who do not file the required reports paying less tax than if they had

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complied with the law. Effective for reports due on February 1, 2011, and thereafter.

- 7** **JOBZ wind energy production tax exemption.** Clarifies that the JOBZ exemption from the wind energy production tax is available only if the wind energy production system is owned by a taxpayer who has entered into a business subsidy agreement that covers the area where the system is situated. Effective the day following final enactment.
- 8** **Reimbursement for lost revenue.** Requires reimbursements to school districts for the bovine tuberculosis credit to be made by the commissioner of education rather than the commissioner of revenue.
- 9** **Rural reserve property tax program.** Modifies the requirements of the new Rural Reserve Property Tax Program. The prohibition against also being enrolled under section 273.117 is stricken because that is not a redundant benefit. Adds a prohibition against also being enrolled in the Metropolitan Agricultural Preserve Program because that does provide the same benefits. Effective the day following final enactment.
- 10** **Payment; school districts.** Requires reimbursements to school districts for the bovine tuberculosis credit to be made by the commissioner of education rather than the commissioner of revenue.
- 11** **Truth in taxation (“TNT”).** Clarifies that only a single budget-discussion meeting need be identified on the TNT notices and held after 6:00 p.m. for the affected local taxing authorities. The 2009 law eliminated the requirement that counties, schools, cities over 500 population, regional library authorities, and metropolitan special taxing authorities hold a TNT meeting. However, a new requirement was enacted to require that the TNT notices indicate when each of the affected taxing authorities would hold budget-discussion public meetings, held after 6 p.m., at which the public would be allowed to speak. This implied that the TNT notices must contain information for every meeting at which the authority’s budget and levy would be discussed. The intent was only to require this for one public meeting. Also clarifies that this information need not be provided on the notices with regard to cities that were not required under prior laws to hold a TNT meeting in the first place (those of population 500 or less). Effective retroactively for taxes payable in 2010 and thereafter (TNT notices issued in 2009 and thereafter).
- 12** **Special levies.** Clarifies that the existing limitations on special levies for certificates of indebtedness does not apply to the new special levy authority under section 475.755 for repaying emergency debt certificates issued to cover revenue decreases resulting from unallotments. It also clarifies the new special levy for unallotments by limiting them to the amount of unallotment that occurs in the year the levy is paid. The only time the special levy may be used in the next year is if the unallotment amount was not known by September 1 and the local government did not do a late levy adjustment in January of the year the levy is paid. Effective retroactively for taxes payable in 2010 and thereafter.
- 13** **Property tax levy limit.** Clarifies that certified aid amounts rather than aids after unallotments are used in computing the unit’s levy limit. This ensures that unallotments do not have a “double counting impact” by increasing the local unit’s limited levy authority. A local government must instead levy for aid and credit reimbursement loses due to unallotments through the use of special levy authority. Effective retroactively for taxes

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payable in 2010 and thereafter.

- 14** **Obsolete references.** Updates the references within the law that allows the second installment of the annual property taxes on agricultural property to be made on November 15 instead of October 15. Changes to these references are necessary because the property tax classification statute (section 273.13, subdivision 23) was modified and now includes a rural vacant land classification. These changes allow all of the agricultural property second half payments that were due by November 15th, to continue to be due at that same time. Effective the day following final enactment.
- 15** **Composition into one item; references.** Relates to installment agreements for paying delinquent property taxes over an extended time. A reference to “timberland” is stricken, and replaced with references to “rural vacant land” and “managed forest land.” These changes were necessary due to the 2008 changes to the property tax classification statute and will not change the properties that qualify for the installment payment option. Effective the day following final enactment.
- 16** **Emergency debt certifications.** Adds cross-references and clarifications so that the existing limitations on special levies in section 275.70, subdivision 5, clause (2), do not impinge on the new special levy authority under section 475.755 for repaying emergency debt certificates issued to cover revenue decreases resulting from unallotments. Effective retroactively for taxes payable in 2010 and thereafter.
- 17** **City local government aid.** Deletes obsolete language and clarifies provisions related to the use of data available by January 1 of the year the aid is calculated. The effect is to allow levy data not available as of January 1 of the aid determination year to be used in that year to compute each city’s maximum aid increase and decrease amounts under section 477A.013, subdivision 9. These corrections implement what was intended both in 2008 when this language was originally enacted and in 2009 when first changed. Effective for aid payable in 2010 and thereafter.
- 18** **Emergency medical services districts.** Corrects an effective date related to emergency medical services special taxing districts. Effective day following final enactment.

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Article 10: Conditional Use Deeds

Overview

- ▶ Updates and restructures the land classification provisions for tax-forfeited land.
- ▶ Modifies the current process and allows county boards the option to elect to use a second process to classify and reclassify tax forfeited lands.
- ▶ Defines “authorized public use” for the state and local government for purposes of obtaining a conditional use deed.
- ▶ Allows for a reduced price for certain property (i.e., to correct for blight, to develop affordable housing, sliver parcels, to manage drainage and storm water, to create and preserve wetlands, etc.).
- ▶ Provides for a reverter clause that expires after 30 years, but not before 2015 to allow for any possible compliance reviews of alder deeds. After 15 years of compliance, the use deed can be exchanged with county approval for a quit claim deed.
- ▶ Includes an application fee of \$250, with \$150 refunded if the application is denied.
- ▶ Removes obsolete language and archaic provisions that have been in statute since 1941.
- ▶ Effective July 1, 2010.

- 1** **Classification as conservation or nonconservation.** Updates land classification provisions for tax-forfeited property. Establishes two processes to classify and reclassify lands.
- (1) Provides a new more structured process (paragraphs (b), (c), and (d)) which includes an open meeting and notification, allowing persons and agencies possessing pertinent information to make or submit comments at the meeting, and designating tracts as assessed and acquired, or may by resolution provide for the subdivision of the tracts into smaller units or groupings deemed advantageous for conservation or sale purposes.
 - (2) Updates the current process. Allows the county board to elect to use this process, and if elected, the election is effective for a minimum of five years. Allows the county board to classify or reclassify lands based on available. If lands are within the boundaries of an organized town or incorporated municipality, the classification or reclassification and sale must first be approved by the town board or governing body of the municipality in which lands are located. Requires the county board to follow the open-meeting procedures from process (1) above, if the town or municipality

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rejects the classification.

- 2** **Conveyance to public entities.** Updates the provisions for conveyance of tax-forfeited land to public entities. Adds a new process for withholding lands from sale due to local government interest in acquisition, replacing what was deleted in section 1.

Changes the existing opportunities for local government acquisition. Under current law, the opportunities are limited to purchasing at full market value for any purpose or receiving free-but-contingent deeds for an authorized public use. (This free “use deed” has caused compliance-related issues and title problems.) The proposal significantly limits the uses for which these use-contingent deeds may be acquired while providing new alternative methods for acquisition that are more tailored to specific needs and purposes.

Paragraph (a) directs the county auditor to withhold a parcel from lease or sale for six months, upon the request from a state agency or governmental subdivision.

Paragraphs (b) to (d) clarify the provisions related to the sale of nonconservation tax-forfeited lands, including the sale to the state agency or governmental subdivision for a reduced price to correct for blighted conditions or for the development of affordable housing. “Market value” is clarified to be an estimate of the full and actual market value as determined by the county board and does not require a formal appraisal.

Paragraph (e) clarifies the definition of “authorized public use” for the purposes of eligibility for the conveyance of this nonconservation land to a governmental subdivision for which for which a “use deed” may be granted.

The following purposes allow the local government to obtain a use deed for “free”:

- ▶ A road, or right-of-way for a road;
- ▶ A park that is both available to, and accessible by, the public that contains amenities such as campgrounds, playgrounds, athletic fields, trails, or shelters;
- ▶ Trails for walking, bicycling, snowmobiling, or other recreational purposes, along with a reasonable amount of surrounding land maintained in its natural state;
- ▶ Transit facilities for buses, light rail transit, commuter rail or passenger rail, including transitways, park-and-ride lots, transit stations, maintenance and garage facilities, and other facilities related to a public transit system;
- ▶ Public beaches or boat launches;
- ▶ Public parking;
- ▶ Civic recreation or conference facilities; and
- ▶ Public service facilities such as fire halls, police stations, lift stations, water towers, sanitation facilities, water treatment facilities, and administrative offices.

Two new free options of acquisition are provided:

- ▶ Outlots that developers promised but failed to convey to local governments under development agreements (paragraph (f)).
- ▶ Parcels that associations of common interest communities were entitled to under a

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written agreement that forfeited without conveyance (paragraph (g)).

Several new options of acquisition at a price that may be less than market value (as negotiated between the county and local government) are provided:

- ▶ Correcting blight (paragraph (d));
- ▶ Developing affordable housing (paragraph (d));
- ▶ Creating or preserving wetlands (paragraph(h));
- ▶ Managing the drainage or storage of storm water under a management plan (paragraph (h)); and
- ▶ Preserving land in its natural state (paragraph (h)).

Paragraph (h) allows for the sale of conservation tax-forfeited lands at less than market value to governmental subdivisions for certain conservation purposes. Requires a restrictive covenant for 30 years. The lands may be reconveyed back to the state, at which point the restrictive covenant ceases. If reconveyed lands are to be sold, the county board may take into account the original amount paid when setting the terms of the sale. If the reconveyed lands are unplatted and located outside of an incorporated municipality, the sale is subject to the approval of the commissioner of the Department of Natural Resources if the commissioner determines there is potential mineral use.

Paragraph (i) clarifies that a park and recreation board in a city of the first class qualifies as a governmental subdivision for purposes of this section.

- 3 Conveyance; targeted community lands.** Limits the provisions for the conveyance of lands located within a targeted community to lands in a city of the first class, clarifies that this conveyance is by a quit claim deed rather than a use deed, and clarifies that the conveyance requires a favorable recommendation of the county board. Eliminates the statement of facts requirement.

The name of this area has been changed from “targeted neighborhood” to “targeted community.”

- 4 Deed of conveyance; form; approvals.** Clarifies that any reversion to the state of tax forfeited land that was conveyed for an authorized public purpose (i.e. a conditional use deed) and is not used for that purpose is by operation of law and without requirement of any affirmative act by the state.

- 5 Reverter for failure to use; conveyance to state.** Clarifies the actions that must occur when a local government fails to put the land to the use required in the “use deed”, and specifically clarifies that there is no failure to put the land to the use and no abandonment of that use if that use is contained in a formal plan of that local government.

Deletes language providing that a sale, lease, transfer or other conveyance under Chapter 469 does not constitute a failure or abandonment of use. This provision created some compliance problems for the Department of Revenue. (The new method of acquisition in Section 2 relating to blight and economic development is intended as a more focused substitute to this deleted provision.)

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Includes a provision that allows a local government to exchange a “use deed” issued on or after January 1, 2007, for a quit claim deed after 15 years if it has demonstrated compliance with the use restriction and received the favorable recommendation of the county board. For “use deeds” issued before January 1, 2007, the use restriction and possibility of reversion is released on January 1, 2022, if the county board records a document to that effect.

Nullifies the use restriction on the later of:

- (1) January 1, 2015;
- (2) 30 years from the date the deed was acknowledged; or
- (3) upon final resolution of an appeal initiated prior to January 1, 2015,

whereby (i) creating a 30-year expiration on all “use deeds,” but (ii) allowing counties and the Department of Revenue the possibility to pursue compliance action through 2014 on existing deeds.

- 6 Conditional use deed fees.** Establishes an application fee of \$250 for “use deeds,” of which \$150 shall be refunded if the application is denied. The proceeds must be deposited in a Department of Revenue revolving fund and are appropriated to the Commissioner of Revenue for making the \$150 refunds and for administering the conditional use deed law.
- 7 Conveyance; form.** Provides that the instruments of conveyance are to be on a form approved by the Attorney General and that the instruments are prima facie evidence and that the execution and issuance of the conveyance complies with the applicable laws. These provisions assure persons examining the real estate records that the various requirements were met.
- 8 Conservation lands; county board supervision.** Clarifies the process for conservation lands, including that they must not be conveyed or sold, unless they are (1) reclassified; (2) conveyed to a governmental subdivision; (3) released from the trust in favor of the taxing district; or (4) conveyed or sold under the authority of another general or special law. Deletes obsolete language. Recodifies the provision for the sale of timber, lease of crops of hay, or other revenue from lands under the jurisdiction of the commissioner of natural resources shall be credited to the general fund.
- 9 Nonconservation lands; appraisal and sale.** Strikes a provision on the classification of land that is recodified in section 1 of the bill.
- 10 Sale: method, requirements, effects.** Includes cross-references due to changes in other sections.
- 11 County sales; notice, purchase price, disposition.** Clarifies that the ability to add reappraised lands to a sale only applies to nonconservation lands.
- 12 City sales; alternate procedures.** Allows for the sale of irregular parcels that cannot be improved because of noncompliance with local ordinances without being adjoined to a neighboring parcel to be sold for less than its appraised value.

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- 13** **Notice; public hearing for use change.** Requires notice to surrounding landowners within 400 feet of a parcel and a public hearing if a governmental subdivision intends to change the use of a parcel acquired by a use deed.
- 14** **Repealer.** Repeals obsolete provisions:
- ▶ section 282.01, subdivisions 9, 10, and 11; and
 - ▶ section 383A.76 (inconsistent provisions for cities in Ramsey County).

Article 11: Miscellaneous

Overview

This article requires bills creating new tax expenditures to include policy goals and standards for measuring achievement of the goals. Provides that new expenditures expire after 12 years. Requires the Department of Revenue to recommend to the legislature a process for identifying and providing a systematic review of tax expenditures.

Modifies penalty abatement authority for disaster areas.

Adds a \$25 fee when entering into a tax payment agreement with the Department of Revenue.

- 1** **Tax expenditure bills.** Requires bills that create or renew tax expenditures contain a statement of intent and a standard for measuring whether the intent is met. Requires a tax expenditure enacted after July 1, 2010, to expire 12 years after it first takes effect but allows the bill to contain an earlier expiration date.

Effective date: Tax expenditures enacted after July 1, 2010.

- 2** **Penalty abatements for disaster or emergency areas.** Expands the commissioner's authority to abate penalties for late filing and late payments to include taxpayers located in areas declared to be in a state of emergency by either the president or the governor. Current law limits the abatement authority to taxpayers in a presidentially declared disaster area.

- 3** **Fee for payment agreements.** Requires the commissioner to charge a \$25 fee for
- ▶ entering into a payment agreement;
 - ▶ entering into a new payment agreement after default on a prior agreement; or
 - ▶ renegotiating the terms of an existing payment agreement.

The amount of the fee is to be annually adjusted to equal the cost to the commissioner of entering into payment agreements.

Effective date: Payment agreements entered into or renegotiated after June 30, 2010

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- 4** **Tax expenditure review report.** Requires the Department of revenue to report to the legislature by January 10, 2011, suggesting a process for periodic review and sunset or extension of tax expenditures. In addition to a recommended process, the report must define tax base and tax expenditure for each tax type and recommend additional information not currently included in the tax expenditure report to evaluate tax expenditures, not only on their stated goals, but on the general tax principles of transparency, simplicity, equity, stability, compliance, and tax competitiveness.

- 5** **Appropriation.** Appropriates \$520,000 in FY 2011 to the commissioner of revenue to administer this act. \$100,000 is to fund the fiscal disparities study in article 1, \$330,000 is to fund the income tax reciprocity study in article 3, and \$90,000 is to fund the tax expenditure review report in section 4 of this article.