

1.1 moves to amend H.F. No. 42 as follows:

1.2 Delete everything after the enacting clause and insert:

1.3 "ARTICLE 1

1.4 INDIVIDUAL INCOME AND CORPORATE FRANCHISE TAXES

1.5 Section 1. [116W.25] CITATION.

1.6 Sections 116W.26 to 116W.34 may be cited as the "Minnesota science and
1.7 technology program."

1.8 Sec. 2. [116W.26] DEFINITIONS.

1.9 Subdivision 1. **Applicability.** For the purposes of sections 116W.26 to 116W.34,
1.10 the terms in this section have the meanings given them.

1.11 Subd. 2. **Authority.** "Authority" means the Minnesota Science and Technology
1.12 Authority established under this chapter.

1.13 Subd. 3. **Base-year taxation.** "Base-year taxation" means the 2010 calendar
1.14 year state withholding taxes of science and technology employees working for primary
1.15 science and technology companies currently located in or operating in this state. Each
1.16 year the commissioner of management and budget shall adjust the base-year taxation by
1.17 the annual percentage change over the prior year in the consumer price index for all
1.18 urban consumers for the St. Paul-Minneapolis metropolitan area prepared by the United
1.19 States Department of Labor.

1.20 Subd. 4. **College or university.** "College or university" means an institution of
1.21 postsecondary education, public or private, that grants undergraduate or postgraduate
1.22 academic degrees, conducts significant research or development activities in the areas of
1.23 science and technology.

1.24 Subd. 5. **Commercialization.** "Commercialization" means any of the full spectrum
1.25 of activities required for a new technology, product, or process to be developed from

2.1 its basic research of conceptual stage through applied research or development to the
2.2 marketplace including, without limitation, the steps leading up to and including licensure,
2.3 sales, and services.

2.4 Subd. 6. **Commercialized research project.** "Commercialized research project"
2.5 means research conducted within a college or university or nonprofit research institution
2.6 or by a qualified science and technology company that has shown advanced commercial
2.7 potential through license agreements, patents, or other forms of invention disclosure, and
2.8 by which a qualified science and technology company has been or is being currently
2.9 formed.

2.10 Subd. 7. **Fund.** "Fund" means the Minnesota science and technology fund.

2.11 Subd. 8. **Nonprofit research institution.** "Nonprofit research institution" means an
2.12 entity with its principle place of business in Minnesota, that qualifies under section 501(c)
2.13 of the Internal Revenue Code, and that conducts significant research or development
2.14 activities in this state in the areas of science and technology.

2.15 Subd. 9. **Primary science and technology company.** "Primary science and
2.16 technology company" means a corporation, limited liability company, S corporation,
2.17 partnership, limited liability partnership, or sole proprietorship operating within a set of
2.18 industries that are the primary developers of new scientific, engineered, or technological
2.19 products and services and that operate under the following North American Industry
2.20 Classification System codes or industry groups, or any successor code sections covering
2.21 these areas of research, development, and commercial activities: 3241, 3251, 3252, 3253,
2.22 3254, 3255, 3259, 3331, 3332, 3333, 3336, 3339, 3341, 3342, 3343, 3344, 3345, 3353,
2.23 3359, 3364, 3369, 3391, 5112, 5172, 5182, 5415, 5417, 541330, 541380, 541620, 541690.

2.24 Subd. 10. **Program.** "Program" means the Minnesota science and technology
2.25 program.

2.26 Subd. 11. **Qualified science and technology company.** "Qualified science and
2.27 technology company" means a corporation, limited liability company, S corporation,
2.28 partnership, limited liability partnership, or sole proprietorship with fewer than 100
2.29 employees that is engaged in research, development, or production of science or
2.30 technology in this state including, without limitation, research, development, or production
2.31 directed toward developing or providing science and technology products, processes, or
2.32 services for specific commercial or public purposes.

2.33 Subd. 12. **Withholding taxes.** "Withholding taxes" means the aggregate of all
2.34 amounts withheld from amounts paid to primary science and technology company
2.35 employees during a calendar year for the payment of state income taxes under chapter 290.

3.1 **Sec. 3. [116W.27] MINNESOTA SCIENCE AND TECHNOLOGY FUND.**

3.2 (a) A Minnesota science and technology fund is created in the state treasury. The
 3.3 fund is a direct-appropriated special revenue fund. Money of the authority must be
 3.4 paid to the commissioner of management and budget as agent of the authority and the
 3.5 commissioner shall not commingle the money with other money. The money in the fund
 3.6 must be paid out only on warrants drawn by the commissioner of management and budget
 3.7 on requisition of the executive director of the authority or designee.

3.8 (b) By September 1, 2011, the commissioner of revenue and the authority shall
 3.9 establish the base-year taxation for all primary science and technology companies. Within
 3.10 120 days after the end of each year beginning with the year ending December 31, 2011,
 3.11 and for each subsequent year prior to the end of the last funding year, the commissioner
 3.12 of revenue and the authority shall determine the increase of aggregate withholding taxes
 3.13 for the year over the base year taxation.

3.14 (c) Notwithstanding the provisions of section 290.62, beginning with the taxable
 3.15 year ending December 31, 2011, the commissioner of management and budget shall
 3.16 pay annually 85 percent of the increase in aggregate withholding taxes that are over the
 3.17 base-year taxation amount, as certified by the commissioner of revenue, to the fund.
 3.18 The biennial amount of withholding paid into the fund must not exceed \$7,000,000.
 3.19 The commissioner of management and budget may make estimated payments to the
 3.20 fund more frequently based on estimates provided by the commissioner of revenue but
 3.21 the payments must be reconciled annually.

3.22 **Sec. 4. [116W.28] MINNESOTA SCIENCE AND TECHNOLOGY FUND;**
 3.23 **AUTHORIZED USES.**

3.24 The Minnesota science and technology fund may be used for the following to:

3.25 (1) establish the commercialized research program authorized under section
 3.26 116W.29;

3.27 (2) establish the federal research and development support program under section
 3.28 116W.30;

3.29 (3) establish the industry technology and competitiveness program under section
 3.30 116W.31; and

3.31 (4) carry out the powers of the authority authorized under sections 116W.04 and
 3.32 116W.32 that are in support of the programs in clauses (1) to (3).

3.33 **Sec. 5. [116W.29] COMMERCIALIZED RESEARCH PROGRAM.**

4.1 (a) The authority may establish a commercialized research program. The purpose of
4.2 the program is to accelerate the commercialization of science and technology products,
4.3 processes, or services from colleges or universities, nonprofit research institutions or
4.4 qualified science and technology companies that lead to an increase in science and
4.5 technology businesses and jobs. The program shall:

4.6 (1) provide science and technology gap funding of up to \$250,000 per science and
4.7 technology research project to assist in the commercialization and transfer of science and
4.8 technology research projects from a college or university or nonprofit research institution
4.9 to a qualified science and technology company; and

4.10 (2) provide funding of up to \$250,000 for early stage development for qualified
4.11 science and technology companies to conduct commercialized research projects.

4.12 (b) All activities under the commercialized research program must require:

4.13 (1) written criteria set by the authority for the application, award, and use of the
4.14 funds;

4.15 (2) matching funds by the participating qualified science and technology company,
4.16 college or university, or nonprofit research institution;

4.17 (3) no more than 15 percent of the funds awarded by the authority may be used
4.18 for overhead costs; and

4.19 (4) a report by the participating qualified science and technology company, college
4.20 or university, or nonprofit research institution that provides documentation of the use of
4.21 funds and outcomes of the award. The report must be submitted to the authority within
4.22 one calendar year of the date of the award.

4.23 **Sec. 6. [116W.30] FEDERAL RESEARCH AND DEVELOPMENT SUPPORT**
4.24 **PROGRAM.**

4.25 The authority may establish a federal research and development support program.
4.26 The purpose of the program is to increase and coordinate efforts to procure federal funding
4.27 for research projects of primary benefit to qualified science and technology companies,
4.28 colleges or universities, and nonprofit research institutions. The program shall:

4.29 (1) develop and execute a strategy to identify specific federal agencies and programs
4.30 that support the growth of science and technology industries in this state; and

4.31 (2) provide grants to qualified science and technology companies:

4.32 (i) to assist in the development of federal Small Business Innovation (SBIR) or
4.33 Small Business Technology Transfer (STTR) proposals; and

4.34 (ii) to match funds received through SBIR or STTR awards. No more than
4.35 \$1,500,000 may be awarded in a year for matching grants under this clause.

5.1 **Sec. 7. [116W.31] INDUSTRY INNOVATION AND COMPETITIVENESS**
 5.2 **PROGRAM.**

5.3 (a) The authority may establish an industry technology and competitiveness program.
 5.4 The purpose of the program is to advance the technological capacity and competitiveness
 5.5 of existing and emerging science and technology industries. The program shall:

5.6 (1) provide matching funds to programs and organizations that assist entrepreneurs
 5.7 in starting and growing qualified science and technology companies including, but not
 5.8 limited to, matching funds for mentoring programs, consulting and technical services,
 5.9 and related activities;

5.10 (2) fund initiatives that retain engineering, science, technology, and mathematical
 5.11 occupations in the state including, but not limited to, internships, mentoring, and support
 5.12 of industry and professional organizations; and

5.13 (3) fund initiatives that support the growth of targeted industry clusters and the
 5.14 competitiveness of existing qualified science and technology companies in developing
 5.15 and marketing new products and services.

5.16 (b) All activities under the industry innovation and competitiveness program shall
 5.17 require:

5.18 (i) written criteria set by the authority for the application, award, and use of the funds;

5.19 (ii) matching funds by the participating qualified science and technology company,
 5.20 college or university, or nonprofit research institution; and

5.21 (iii) a report by the participating qualified science and technology company, college
 5.22 or university, or nonprofit research institution providing documentation on the use of the
 5.23 funds and outcomes of the award. The report must be submitted to the authority within
 5.24 one calendar year from the date of the award.

5.25 **Sec. 8. [116W.32] MINNESOTA SCIENCE AND TECHNOLOGY AUTHORITY;**
 5.26 **POWERS UNDER FUND.**

5.27 Subdivision 1. **General powers.** The authority shall have all of the powers
 5.28 necessary to carry out the purposes and provisions of sections 116W.26 to 116W.34,
 5.29 including, but not limited to, those provided under section 116W.04 and the following:

5.30 (1) The authority may make awards in the forms of grants or loans, and charge and
 5.31 receive a reasonable interest for the loans, or take an equity position in form of stock, a
 5.32 convertible note, or other securities in consideration of an award. Interests, revenues, or
 5.33 other proceeds received as a result of a transaction authorized by use of this fund shall be
 5.34 deposited to the corpus of the fund and used in the same manner as the corpus of the fund.

6.1 (2) In awarding money from the fund, priority shall be given to proposals from
6.2 qualified science and technology companies that have demonstrable economic benefit to
6.3 the state in terms of the formation of a new private sector business entity, the creation of
6.4 jobs, or the attraction of federal and private funding.

6.5 (3) In awarding money from the fund, priority shall be given to proposals from
6.6 colleges or universities and nonprofit research institutions that:

6.7 (i) promote collaboration between any combination of colleges or universities,
6.8 nonprofit research institutions, and private industry;

6.9 (ii) enhance existing research superiority by attracting new research entities,
6.10 research talent, or resources to the state; and

6.11 (iii) create new research superiority that attracts significant researchers and resources
6.12 from outside the state.

6.13 (4) Subject to the limits in this clause, money within the fund may be used
6.14 for reasonable administrative expenses by the authority including staffing and direct
6.15 operational expenses, and professional fees for accounting, legal, and other technical
6.16 services required to carry out the intent of the program and administration of the fund.
6.17 Administrative expenses may not exceed five percent of the first \$5,000,000 in the fund
6.18 and two percent of any amount in excess of \$5,000,000.

6.19 (5) Before making an award, the authority shall enter into a written agreement with
6.20 the entity receiving the award that specifies the uses of the award.

6.21 (6) If the award recipient has not used the award received for the purposes intended,
6.22 as of the date provided in the agreement, the recipient shall repay that amount and any
6.23 interest applicable under the agreement to the authority. All repayments must be deposited
6.24 to the corpus of the fund.

6.25 Subd. 2. **Rules.** The authority may adopt rules to implement the programs
6.26 authorized under sections 116W.29 to 116W.31.

6.27 Sec. 9. **[116W.33] REPAYMENT.**

6.28 An entity must repay all or a portion of the amount of any award, grant, loan, or
6.29 financial assistance of any type paid by the authority under sections 116W.29 to 116W.32
6.30 if the entity relocates outside the state or ceases operation in Minnesota within three years
6.31 from the date the authority provided the financial award. If the entity relocates outside of
6.32 this state or ceases operation in Minnesota within two years of the financial award, the
6.33 entity must repay 100 percent of the award. If the entity relocates or ceases operation in
6.34 Minnesota after a period of two years but before three years from the date of the financial
6.35 award, the entity must repay 75 percent of the financial award.

7.1 Sec. 10. **[116W.34] EXPIRATION.**

7.2 Sections 116W.26 to 116W.33 expire on the expiration date of the authority under
7.3 section 116W.03, subdivision 7. Any unused money in the fund shall be deposited in the
7.4 general fund.

7.5 Sec. 11. Minnesota Statutes 2010, section 270B.12, is amended by adding a subdivision
7.6 to read:

7.7 **Subd. 14. Wisconsin secretary of revenue; income tax reciprocity benchmark**
7.8 **study.** The commissioner may disclose return information to the secretary of revenue
7.9 of the state of Wisconsin for the purpose of conducting a joint individual income tax
7.10 reciprocity study.

7.11 **EFFECTIVE DATE.** This section is effective the day following final enactment.

7.12 Sec. 12. Minnesota Statutes 2010, section 290.01, subdivision 19b, is amended to read:

7.13 **Subd. 19b. Subtractions from federal taxable income.** For individuals, estates,
7.14 and trusts, there shall be subtracted from federal taxable income:

7.15 (1) net interest income on obligations of any authority, commission, or
7.16 instrumentality of the United States to the extent includable in taxable income for federal
7.17 income tax purposes but exempt from state income tax under the laws of the United States;

7.18 (2) if included in federal taxable income, the amount of any overpayment of income
7.19 tax to Minnesota or to any other state, for any previous taxable year, whether the amount
7.20 is received as a refund or as a credit to another taxable year's income tax liability;

7.21 (3) the amount paid to others, less the amount used to claim the credit allowed under
7.22 section 290.0674, not to exceed \$1,625 for each qualifying child in grades kindergarten
7.23 to 6 and \$2,500 for each qualifying child in grades 7 to 12, for tuition, textbooks, and
7.24 transportation of each qualifying child in attending an elementary or secondary school
7.25 situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a
7.26 resident of this state may legally fulfill the state's compulsory attendance laws, which
7.27 is not operated for profit, and which adheres to the provisions of the Civil Rights Act
7.28 of 1964 and chapter 363A. For the purposes of this clause, "tuition" includes fees or
7.29 tuition as defined in section 290.0674, subdivision 1, clause (1). As used in this clause,
7.30 "textbooks" includes books and other instructional materials and equipment purchased
7.31 or leased for use in elementary and secondary schools in teaching only those subjects
7.32 legally and commonly taught in public elementary and secondary schools in this state.
7.33 Equipment expenses qualifying for deduction includes expenses as defined and limited in
7.34 section 290.0674, subdivision 1, clause (3). "Textbooks" does not include instructional

8.1 books and materials used in the teaching of religious tenets, doctrines, or worship, the
8.2 purpose of which is to instill such tenets, doctrines, or worship, nor does it include books
8.3 or materials for, or transportation to, extracurricular activities including sporting events,
8.4 musical or dramatic events, speech activities, driver's education, or similar programs. No
8.5 deduction is permitted for any expense the taxpayer incurred in using the taxpayer's or
8.6 the qualifying child's vehicle to provide such transportation for a qualifying child. For
8.7 purposes of the subtraction provided by this clause, "qualifying child" has the meaning
8.8 given in section 32(c)(3) of the Internal Revenue Code;

8.9 (4) income as provided under section 290.0802;

8.10 (5) to the extent included in federal adjusted gross income, income realized on
8.11 disposition of property exempt from tax under section 290.491;

8.12 (6) to the extent not deducted or not deductible pursuant to section 408(d)(8)(E)
8.13 of the Internal Revenue Code in determining federal taxable income by an individual
8.14 who does not itemize deductions for federal income tax purposes for the taxable year, an
8.15 amount equal to 50 percent of the excess of charitable contributions over \$500 allowable
8.16 as a deduction for the taxable year under section 170(a) of the Internal Revenue Code,
8.17 under the provisions of Public Law 109-1 and Public Law 111-126;

8.18 (7) for individuals who are allowed a federal foreign tax credit for taxes that do not
8.19 qualify for a credit under section 290.06, subdivision 22, an amount equal to the carryover
8.20 of subnational foreign taxes for the taxable year, but not to exceed the total subnational
8.21 foreign taxes reported in claiming the foreign tax credit. For purposes of this clause,
8.22 "federal foreign tax credit" means the credit allowed under section 27 of the Internal
8.23 Revenue Code, and "carryover of subnational foreign taxes" equals the carryover allowed
8.24 under section 904(c) of the Internal Revenue Code minus national level foreign taxes to
8.25 the extent they exceed the federal foreign tax credit;

8.26 (8) in each of the five tax years immediately following the tax year in which an
8.27 addition is required under subdivision 19a, clause (7), or 19c, clause (15), in the case
8.28 of a shareholder of a corporation that is an S corporation, an amount equal to one-fifth
8.29 of the delayed depreciation. For purposes of this clause, "delayed depreciation" means
8.30 the amount of the addition made by the taxpayer under subdivision 19a, clause (7), or
8.31 subdivision 19c, clause (15), in the case of a shareholder of an S corporation, minus the
8.32 positive value of any net operating loss under section 172 of the Internal Revenue Code
8.33 generated for the tax year of the addition. The resulting delayed depreciation cannot be
8.34 less than zero;

8.35 (9) job opportunity building zone income as provided under section 469.316;

9.1 (10) to the extent included in federal taxable income, the amount of compensation
9.2 paid to members of the Minnesota National Guard or other reserve components of the
9.3 United States military for active service performed in Minnesota, excluding compensation
9.4 for services performed under the Active Guard Reserve (AGR) program. For purposes of
9.5 this clause, "active service" means (i) state active service as defined in section 190.05,
9.6 subdivision 5a, clause (1); (ii) federally funded state active service as defined in section
9.7 190.05, subdivision 5b; or (iii) federal active service as defined in section 190.05,
9.8 subdivision 5c, but "active service" excludes service performed in accordance with section
9.9 190.08, subdivision 3;

9.10 (11) to the extent included in federal taxable income, the amount of compensation
9.11 paid to Minnesota residents who are members of the armed forces of the United States or
9.12 United Nations for active duty performed outside Minnesota under United States Code,
9.13 title 10, section 101(d); United States Code, title 32, section 101(12); or the authority of
9.14 the United Nations;

9.15 (12) an amount, not to exceed \$10,000, equal to qualified expenses related to a
9.16 qualified donor's donation, while living, of one or more of the qualified donor's organs
9.17 to another person for human organ transplantation. For purposes of this clause, "organ"
9.18 means all or part of an individual's liver, pancreas, kidney, intestine, lung, or bone marrow;
9.19 "human organ transplantation" means the medical procedure by which transfer of a human
9.20 organ is made from the body of one person to the body of another person; "qualified
9.21 expenses" means unreimbursed expenses for both the individual and the qualified donor
9.22 for (i) travel, (ii) lodging, and (iii) lost wages net of sick pay, except that such expenses
9.23 may be subtracted under this clause only once; and "qualified donor" means the individual
9.24 or the individual's dependent, as defined in section 152 of the Internal Revenue Code. An
9.25 individual may claim the subtraction in this clause for each instance of organ donation for
9.26 transplantation during the taxable year in which the qualified expenses occur;

9.27 (13) in each of the five tax years immediately following the tax year in which an
9.28 addition is required under subdivision 19a, clause (8), or 19c, clause (16), in the case of a
9.29 shareholder of a corporation that is an S corporation, an amount equal to one-fifth of the
9.30 addition made by the taxpayer under subdivision 19a, clause (8), or 19c, clause (16), in the
9.31 case of a shareholder of a corporation that is an S corporation, minus the positive value of
9.32 any net operating loss under section 172 of the Internal Revenue Code generated for the
9.33 tax year of the addition. If the net operating loss exceeds the addition for the tax year, a
9.34 subtraction is not allowed under this clause;

10.1 (14) to the extent included in federal taxable income, compensation paid to a service
 10.2 member as defined in United States Code, title 10, section 101(a)(5), for military service
 10.3 as defined in the Servicemembers Civil Relief Act, Public Law 108-189, section 101(2);

10.4 (15) international economic development zone income as provided under section
 10.5 469.325;

10.6 (16) to the extent included in federal taxable income, the amount of national service
 10.7 educational awards received from the National Service Trust under United States Code,
 10.8 title 42, sections 12601 to 12604, for service in an approved Americorps National Service
 10.9 program; ~~and~~

10.10 (17) to the extent included in federal taxable income, discharge of indebtedness
 10.11 income resulting from reacquisition of business indebtedness included in federal taxable
 10.12 income under section 108(i) of the Internal Revenue Code. This subtraction applies only
 10.13 to the extent that the income was included in net income in a prior year as a result of the
 10.14 addition under section 290.01, subdivision 19a, clause (16); and

10.15 (18) to the extent not deducted in computing federal taxable income, charitable
 10.16 contributions of food inventory as determined under the provisions of section 170(e)(3)(C)
 10.17 of the Internal Revenue Code, determined without regard to the termination date under
 10.18 section 170(e)(3)(C)(iv).

10.19 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 10.20 December 31, 2010.

10.21 Sec. 13. Minnesota Statutes 2010, section 290.06, subdivision 2c, is amended to read:

10.22 Subd. 2c. **Schedules of rates for individuals, estates, and trusts.** (a) The income
 10.23 taxes imposed by this chapter upon married individuals filing joint returns and surviving
 10.24 spouses as defined in section 2(a) of the Internal Revenue Code must be computed by
 10.25 applying to their taxable net income the following schedule of rates:

10.26 (1) On the first \$25,680, ~~5.35~~ 4.75 percent;

10.27 (2) On all over \$25,680, but not over \$102,030, ~~7.05~~ 6.75 percent;

10.28 (3) On all over \$102,030, 7.85 percent.

10.29 Married individuals filing separate returns, estates, and trusts must compute their
 10.30 income tax by applying the above rates to their taxable income, except that the income
 10.31 brackets will be one-half of the above amounts.

10.32 (b) The income taxes imposed by this chapter upon unmarried individuals must be
 10.33 computed by applying to taxable net income the following schedule of rates:

10.34 (1) On the first \$17,570, ~~5.35~~ 4.75 percent;

10.35 (2) On all over \$17,570, but not over \$57,710, ~~7.05~~ 6.75 percent;

11.1 (3) On all over \$57,710, 7.85 percent.

11.2 (c) The income taxes imposed by this chapter upon unmarried individuals qualifying
11.3 as a head of household as defined in section 2(b) of the Internal Revenue Code must be
11.4 computed by applying to taxable net income the following schedule of rates:

11.5 (1) On the first \$21,630, ~~5.35~~ 4.75 percent;

11.6 (2) On all over \$21,630, but not over \$86,910, ~~7.05~~ 6.75 percent;

11.7 (3) On all over \$86,910, 7.85 percent.

11.8 (d) In lieu of a tax computed according to the rates set forth in this subdivision, the
11.9 tax of any individual taxpayer whose taxable net income for the taxable year is less than
11.10 an amount determined by the commissioner must be computed in accordance with tables
11.11 prepared and issued by the commissioner of revenue based on income brackets of not
11.12 more than \$100. The amount of tax for each bracket shall be computed at the rates set
11.13 forth in this subdivision, provided that the commissioner may disregard a fractional part of
11.14 a dollar unless it amounts to 50 cents or more, in which case it may be increased to \$1.

11.15 (e) An individual who is not a Minnesota resident for the entire year must compute
11.16 the individual's Minnesota income tax as provided in this subdivision. After the
11.17 application of the nonrefundable credits provided in this chapter, the tax liability must
11.18 then be multiplied by a fraction in which:

11.19 (1) the numerator is the individual's Minnesota source federal adjusted gross income
11.20 as defined in section 62 of the Internal Revenue Code and increased by the additions
11.21 required under section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), (9), (12),
11.22 (13), (16), and (17), and reduced by the Minnesota assignable portion of the subtraction
11.23 for United States government interest under section 290.01, subdivision 19b, clause
11.24 (1), and the subtractions under section 290.01, subdivision 19b, clauses (8), (9), (13),
11.25 (14), (15), and (17), after applying the allocation and assignability provisions of section
11.26 290.081, clause (a), or 290.17; and

11.27 (2) the denominator is the individual's federal adjusted gross income as defined in
11.28 section 62 of the Internal Revenue Code of 1986, increased by the amounts specified in
11.29 section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), (9), (12), (13), (16), and
11.30 (17), and reduced by the amounts specified in section 290.01, subdivision 19b, clauses (1),
11.31 (8), (9), (13), (14), (15), and (17).

11.32 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
11.33 December 31, 2011, except that the 4.75 percent rates in paragraphs (a), clause (1), (b),
11.34 clause (1), and (c), clause (1), are 5.25 percent for taxable years beginning after December
11.35 31, 2011, and before January 1, 2013, and 5.15 percent for taxable years beginning after
11.36 December 31, 2012, and before January 1, 2014, and the 6.75 percent rates in paragraphs

12.1 (a), clause (2), (b), clause (2), and (c), clause (2), are 6.85 percent for taxable years
 12.2 beginning after December 31, 2011, and before January 1, 2014.

12.3 Sec. 14. Minnesota Statutes 2010, section 290.068, subdivision 1, is amended to read:

12.4 Subdivision 1. **Credit allowed.** A corporation, partners in a partnership, or
 12.5 shareholders in a corporation treated as an "S" corporation under section 290.9725 are
 12.6 allowed a credit against the tax computed under this chapter for the taxable year equal to:

12.7 (a) ~~ten~~ 12.5 percent of the first \$2,000,000 of the excess (if any) of

12.8 (1) the qualified research expenses for the taxable year, over

12.9 (2) the base amount; and

12.10 (b) ~~2.5~~ five percent on all of such excess expenses over \$2,000,000.

12.11 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
 12.12 December 31, 2010.

12.13 Sec. 15. Minnesota Statutes 2010, section 290.081, is amended to read:

12.14 **290.081 INCOME OF NONRESIDENTS, RECIPROCITY.**

12.15 **Subdivision 1. Reciprocity with other states.** (a) The compensation received for
 12.16 the performance of personal or professional services within this state by an individual
 12.17 whose residence, place of abode, and place customarily returned to at least once a month
 12.18 is in another state, shall be excluded from gross income to the extent such compensation is
 12.19 subject to an income tax imposed by the state of residence; provided that such state allows
 12.20 a similar exclusion of compensation received by residents of Minnesota for services
 12.21 performed therein.

12.22 (b) ~~When it is deemed to be in the best interests of the people of this state, the~~
 12.23 ~~commissioner may determine that the provisions of paragraph (a) shall not apply.~~ As long
 12.24 as the provisions of paragraph (a) apply between Minnesota and Wisconsin, the provisions
 12.25 of paragraph (a) shall apply to any individual who is domiciled in Wisconsin.

12.26 (c) For the purposes of paragraph (a), whenever the Wisconsin tax on Minnesota
 12.27 residents which would have been paid Wisconsin without paragraph (a) exceeds the
 12.28 Minnesota tax on Wisconsin residents which would have been paid Minnesota without
 12.29 paragraph (a), or vice versa, then the state with the net revenue loss resulting from
 12.30 paragraph (a) must be compensated by the other state as provided in the agreement under
 12.31 paragraph (d). This provision shall be effective for all years beginning after December 31,
 12.32 1972. The data used for computing the loss to either state shall be determined on or before
 12.33 September 30 of the year following the close of the previous calendar year.

13.1 (d) Interest is payable on all amounts calculated under paragraph (c) relating to
 13.2 taxable years beginning after December 31, 2000 and before January 1, 2010. Interest
 13.3 accrues from July 1 of the taxable year.

13.4 ~~(e) The commissioner of revenue is authorized to enter into agreements~~ reciprocity
 13.5 agreement with the state of Wisconsin ~~specifying~~ must specify the compensation required
 13.6 under paragraph (b), ~~the one or more reciprocity payment due date,~~ dates for the revenue
 13.7 loss relating to each taxable year, with one or more estimated payment due dates in the
 13.8 same fiscal year in which the revenue loss occurred, and a final payment in the following
 13.9 fiscal year, conditions constituting delinquency, interest rates, and a method for computing
 13.10 interest due. Interest is payable from July 1 of the taxable year on final payments made in
 13.11 the following fiscal year. Calculation of compensation under the agreement must specify
 13.12 if the revenue loss is determined before or after the allowance of each state's credit for
 13.13 taxes paid to the other state.

13.14 ~~(e)~~ (f) If an agreement cannot be reached as to the amount of the loss, the
 13.15 commissioner of revenue and the taxing official of the state of Wisconsin shall each
 13.16 appoint a member of a board of arbitration and these members shall appoint the third
 13.17 member of the board. The board shall select one of its members as chair. Such board may
 13.18 administer oaths, take testimony, subpoena witnesses, and require their attendance, require
 13.19 the production of books, papers and documents, and hold hearings at such places as are
 13.20 deemed necessary. The board shall then make a determination as to the amount to be paid
 13.21 the other state which determination shall be final and conclusive.

13.22 ~~(f)~~ (g) The commissioner may furnish copies of returns, reports, or other information
 13.23 to the taxing official of the state of Wisconsin, a member of the board of arbitration, or a
 13.24 consultant under joint contract with the states of Minnesota and Wisconsin for the purpose
 13.25 of making a determination as to the amount to be paid the other state under the provisions
 13.26 of this section. Prior to the release of any information under the provisions of this section,
 13.27 the person to whom the information is to be released shall sign an agreement which
 13.28 provides that the person will protect the confidentiality of the returns and information
 13.29 revealed thereby to the extent that it is protected under the laws of the state of Minnesota.

13.30 (h) Any reciprocity agreement entered into under this section continues in effect
 13.31 until terminated by Minnesota or Wisconsin law. The commissioner may agree to modify
 13.32 the timing or method of calculating the state payments to be made under the agreement,
 13.33 consistent with the requirements of paragraphs (c) and (e), but may not terminate the
 13.34 agreement.

13.35 Subd. 2. New reciprocity agreement with Wisconsin. The commissioner of
 13.36 revenue is directed to initiate negotiations with the secretary of revenue of Wisconsin,

14.1 with the objective of entering into an income tax reciprocity agreement effective for tax
 14.2 years beginning after December 31, 2011. The agreement must satisfy the conditions of
 14.3 subdivision 1, with one or more estimated payment due dates and a final payment due
 14.4 date specified so that the state with a net revenue loss as a result of the agreement receives
 14.5 estimated payments from the other state, in the same fiscal year as that in which the net
 14.6 revenue loss occurred and a final payment with interest in the following fiscal year.

14.7 **EFFECTIVE DATE.** Subdivision 2 is effective the day following final enactment.
 14.8 The changes to subdivision 1 are effective for taxable years beginning after December 31
 14.9 of the year of the agreement, contingent upon agreement from the state of Wisconsin to a
 14.10 reciprocity arrangement in which estimated payments are made in the same fiscal year in
 14.11 which a change in revenue occurs, and a final payment is made in the following fiscal year.

14.12 Sec. 16. Minnesota Statutes 2010, section 290.091, subdivision 2, is amended to read:

14.13 Subd. 2. **Definitions.** For purposes of the tax imposed by this section, the following
 14.14 terms have the meanings given:

14.15 (a) "Alternative minimum taxable income" means the sum of the following for
 14.16 the taxable year:

14.17 (1) the taxpayer's federal alternative minimum taxable income as defined in section
 14.18 55(b)(2) of the Internal Revenue Code;

14.19 (2) the taxpayer's itemized deductions allowed in computing federal alternative
 14.20 minimum taxable income, but excluding:

14.21 (i) the charitable contribution deduction under section 170 of the Internal Revenue
 14.22 Code, including any additional subtraction for charitable contributions of food inventory
 14.23 under section 290.01, subdivision 19b;

14.24 (ii) the medical expense deduction;

14.25 (iii) the casualty, theft, and disaster loss deduction; and

14.26 (iv) the impairment-related work expenses of a disabled person;

14.27 (3) for depletion allowances computed under section 613A(c) of the Internal
 14.28 Revenue Code, with respect to each property (as defined in section 614 of the Internal
 14.29 Revenue Code), to the extent not included in federal alternative minimum taxable income,
 14.30 the excess of the deduction for depletion allowable under section 611 of the Internal
 14.31 Revenue Code for the taxable year over the adjusted basis of the property at the end of the
 14.32 taxable year (determined without regard to the depletion deduction for the taxable year);

14.33 (4) to the extent not included in federal alternative minimum taxable income, the
 14.34 amount of the tax preference for intangible drilling cost under section 57(a)(2) of the
 14.35 Internal Revenue Code determined without regard to subparagraph (E);

15.1 (5) to the extent not included in federal alternative minimum taxable income, the
15.2 amount of interest income as provided by section 290.01, subdivision 19a, clause (1); and

15.3 (6) the amount of addition required by section 290.01, subdivision 19a, clauses (7)
15.4 to (9), (12), (13), (16), and (17);

15.5 less the sum of the amounts determined under the following:

15.6 (1) interest income as defined in section 290.01, subdivision 19b, clause (1);

15.7 (2) an overpayment of state income tax as provided by section 290.01, subdivision
15.8 19b, clause (2), to the extent included in federal alternative minimum taxable income;

15.9 (3) the amount of investment interest paid or accrued within the taxable year on
15.10 indebtedness to the extent that the amount does not exceed net investment income, as
15.11 defined in section 163(d)(4) of the Internal Revenue Code. Interest does not include
15.12 amounts deducted in computing federal adjusted gross income; and

15.13 (4) amounts subtracted from federal taxable income as provided by section 290.01,
15.14 subdivision 19b, clauses (6), (8) to (15), and (17).

15.15 In the case of an estate or trust, alternative minimum taxable income must be
15.16 computed as provided in section 59(c) of the Internal Revenue Code.

15.17 (b) "Investment interest" means investment interest as defined in section 163(d)(3)
15.18 of the Internal Revenue Code.

15.19 (c) "Net minimum tax" means the minimum tax imposed by this section.

15.20 (d) "Regular tax" means the tax that would be imposed under this chapter (without
15.21 regard to this section and section 290.032), reduced by the sum of the nonrefundable
15.22 credits allowed under this chapter.

15.23 (e) "Tentative minimum tax" equals 6.4 percent of alternative minimum taxable
15.24 income after subtracting the exemption amount determined under subdivision 3.

15.25 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
15.26 December 31, 2010.

15.27 Sec. 17. **INCOME TAX RECIPROCITY BENCHMARK STUDY.**

15.28 (a) The Department of Revenue, in conjunction with the Wisconsin Department of
15.29 Revenue, must conduct a study to determine at least the following:

15.30 (1) the number of residents of each state who earn income from personal services in
15.31 the other state;

15.32 (2) the total amount of income earned by residents of each state who earn income
15.33 from personal services in the other state; and

16.1 (3) the change in tax revenue in each state if an income tax reciprocity arrangement
 16.2 were resumed between the two states under which the taxpayers were required to pay
 16.3 income taxes on the income only in their state of residence.

16.4 (b) The study must be conducted as soon as practicable, using information obtained
 16.5 from each state's income tax returns for tax year 2011, and from any other source of
 16.6 information the departments determine is necessary to complete the study.

16.7 (c) No later than March 1, 2013, the Department of Revenue must submit a report
 16.8 containing the results of the study to the governor and to the chairs and ranking minority
 16.9 members of the legislative committees having jurisdiction over taxes.

16.10 **EFFECTIVE DATE.** This section is effective the day following final enactment.

16.11 **ARTICLE 2**

16.12 **SALES AND USE TAXES**

16.13 Section 1. Minnesota Statutes 2010, section 289A.20, subdivision 4, is amended to
 16.14 read:

16.15 Subd. 4. **Sales and use tax.** (a) The taxes imposed by chapter 297A are due and
 16.16 payable to the commissioner monthly on or before the 20th day of the month following
 16.17 the month in which the taxable event occurred, or following another reporting period
 16.18 as the commissioner prescribes or as allowed under section 289A.18, subdivision 4,
 16.19 paragraph (f) or (g), except that:

16.20 ~~(1) use taxes due on an annual use tax return as provided under section 289A.11,~~
 16.21 ~~subdivision 1, are payable by April 15 following the close of the calendar year, and~~

16.22 ~~(2) except as provided in paragraph (f), for a vendor having a liability of \$120,000~~
 16.23 ~~or more during a fiscal year ending June 30, 2009, and fiscal years thereafter, the taxes~~
 16.24 ~~imposed by chapter 297A, except as provided in paragraph (b), are due and payable to the~~
 16.25 ~~commissioner monthly in the following manner:~~

16.26 ~~(i) On or before the 14th day of the month following the month in which the taxable~~
 16.27 ~~event occurred, the vendor must remit to the commissioner 90 percent of the estimated~~
 16.28 ~~liability for the month in which the taxable event occurred.~~

16.29 ~~(ii) On or before the 20th day of the month in which the taxable event occurs, the~~
 16.30 ~~vendor must remit to the commissioner a prepayment for the month in which the taxable~~
 16.31 ~~event occurs equal to 67 percent of the liability for the previous month.~~

16.32 ~~(iii) On or before the 20th day of the month following the month in which the taxable~~
 16.33 ~~event occurred, the vendor must pay any additional amount of tax not previously remitted~~
 16.34 ~~under either item (i) or (ii) or, if the payment made under item (i) or (ii) was greater than~~

17.1 ~~the vendor's liability for the month in which the taxable event occurred, the vendor may~~
17.2 ~~take a credit against the next month's liability in a manner prescribed by the commissioner.~~

17.3 ~~(iv) Once the vendor first pays under either item (i) or (ii), the vendor is required to~~
17.4 ~~continue to make payments in the same manner, as long as the vendor continues having a~~
17.5 ~~liability of \$120,000 or more during the most recent fiscal year ending June 30.~~

17.6 ~~(v) Notwithstanding items (i), (ii), and (iv), if a vendor fails to make the required~~
17.7 ~~payment in the first month that the vendor is required to make a payment under either item~~
17.8 ~~(i) or (ii), then the vendor is deemed to have elected to pay under item (ii) and must make~~
17.9 ~~subsequent monthly payments in the manner provided in item (ii).~~

17.10 ~~(vi) For vendors making an accelerated payment under item (ii), for the first month~~
17.11 ~~that the vendor is required to make the accelerated payment, on the 20th of that month, the~~
17.12 ~~vendor will pay 100 percent of the liability for the previous month and a prepayment for~~
17.13 ~~the first month equal to 67 percent of the liability for the previous month.~~

17.14 ~~(b) Notwithstanding paragraph (a),~~ A vendor having a liability of \$120,000 or more
17.15 during a fiscal year ending June 30 must remit the June liability for the next year in the
17.16 following manner:

17.17 (1) Two business days before June 30 of the year, the vendor must remit 90 percent
17.18 of the estimated June liability to the commissioner.

17.19 (2) On or before August 20 of the year, the vendor must pay any additional amount
17.20 of tax not remitted in June.

17.21 (c) A vendor having a liability of:

17.22 (1) \$10,000 or more, but less than \$120,000 during a fiscal year ending June 30,
17.23 2009, and fiscal years thereafter, must remit by electronic means all liabilities on returns
17.24 due for periods beginning in the subsequent calendar year on or before the 20th day of
17.25 the month following the month in which the taxable event occurred, or on or before the
17.26 20th day of the month following the month in which the sale is reported under section
17.27 289A.18, subdivision 4; or

17.28 (2) \$120,000 or more, during a fiscal year ending June 30, 2009, and fiscal years
17.29 thereafter, must remit by electronic means all liabilities in the manner provided in
17.30 paragraph (a), ~~clause (2)~~, on returns due for periods beginning in the subsequent calendar
17.31 year, except for 90 percent of the estimated June liability, which is due two business days
17.32 before June 30. The remaining amount of the June liability is due on August 20.

17.33 (d) Notwithstanding paragraph (b) or (c), a person prohibited by the person's
17.34 religious beliefs from paying electronically shall be allowed to remit the payment by mail.
17.35 The filer must notify the commissioner of revenue of the intent to pay by mail before
17.36 doing so on a form prescribed by the commissioner. No extra fee may be charged to a

18.1 person making payment by mail under this paragraph. The payment must be postmarked
 18.2 at least two business days before the due date for making the payment in order to be
 18.3 considered paid on a timely basis.

18.4 ~~(e) Whenever the liability is \$120,000 or more separately for: (1) the tax imposed~~
 18.5 ~~under chapter 297A; (2) a fee that is to be reported on the same return as and paid with the~~
 18.6 ~~chapter 297A taxes; or (3) any other tax that is to be reported on the same return as and~~
 18.7 ~~paid with the chapter 297A taxes, then the payment of all the liabilities on the return must~~
 18.8 ~~be accelerated as provided in this subdivision.~~

18.9 ~~(f) At the start of the first calendar quarter at least 90 days after the cash flow~~
 18.10 ~~account established in section 16A.152, subdivision 1, and the budget reserve account~~
 18.11 ~~established in section 16A.152, subdivision 1a, reach the amounts listed in section~~
 18.12 ~~16A.152, subdivision 2, paragraph (a), the remittance of the accelerated payments required~~
 18.13 ~~under paragraph (a), clause (2), must be suspended. The commissioner of management~~
 18.14 ~~and budget shall notify the commissioner of revenue when the accounts have reached~~
 18.15 ~~the required amounts. Beginning with the suspension of paragraph (a), clause (2), for a~~
 18.16 ~~vendor with a liability of \$120,000 or more during a fiscal year ending June 30, 2009,~~
 18.17 ~~and fiscal years thereafter, the taxes imposed by chapter 297A are due and payable to the~~
 18.18 ~~commissioner on the 20th day of the month following the month in which the taxable~~
 18.19 ~~event occurred. Payments of tax liabilities for taxable events occurring in June under~~
 18.20 ~~paragraph (b) are not changed.~~

18.21 **EFFECTIVE DATE.** This section is effective for taxes due and payable after
 18.22 July 1, 2011.

18.23 Sec. 2. Minnesota Statutes 2010, section 297A.61, subdivision 3, is amended to read:

18.24 Subd. 3. **Sale and purchase.** (a) "Sale" and "purchase" include, but are not limited
 18.25 to, each of the transactions listed in this subdivision.

18.26 (b) Sale and purchase include:

18.27 (1) any transfer of title or possession, or both, of tangible personal property, whether
 18.28 absolutely or conditionally, for a consideration in money or by exchange or barter; and

18.29 (2) the leasing of or the granting of a license to use or consume, for a consideration
 18.30 in money or by exchange or barter, tangible personal property, other than a manufactured
 18.31 home used for residential purposes for a continuous period of 30 days or more.

18.32 (c) Sale and purchase include the production, fabrication, printing, or processing of
 18.33 tangible personal property for a consideration for consumers who furnish either directly or
 18.34 indirectly the materials used in the production, fabrication, printing, or processing.

- 19.1 (d) Sale and purchase include the preparing for a consideration of food.
19.2 Notwithstanding section 297A.67, subdivision 2, taxable food includes, but is not limited
19.3 to, the following:
- 19.4 (1) prepared food sold by the retailer;
 - 19.5 (2) soft drinks;
 - 19.6 (3) candy;
 - 19.7 (4) dietary supplements; and
 - 19.8 (5) all food sold through vending machines.
- 19.9 (e) A sale and a purchase includes the furnishing for a consideration of electricity,
19.10 gas, water, or steam for use or consumption within this state.
- 19.11 (f) A sale and a purchase includes the transfer for a consideration of prewritten
19.12 computer software whether delivered electronically, by load and leave, or otherwise.
- 19.13 (g) A sale and a purchase includes the furnishing for a consideration of the following
19.14 services:
- 19.15 (1) the privilege of admission to places of amusement, recreational areas, or athletic
19.16 events, and the making available of amusement devices, tanning facilities, reducing
19.17 salons, steam baths, Turkish baths, health clubs, and spas or athletic facilities;
 - 19.18 (2) lodging and related services by a hotel, rooming house, resort, campground,
19.19 motel, or trailer camp, including furnishing the guest of the facility with access to
19.20 telecommunication services, and the granting of any similar license to use real property
19.21 in a specific facility, other than the renting or leasing of it for a continuous period of
19.22 30 days or more under an enforceable written agreement that may not be terminated
19.23 without prior notice;
 - 19.24 (3) nonresidential parking services, whether on a contractual, hourly, or other
19.25 periodic basis, except for parking at a meter;
 - 19.26 (4) the granting of membership in a club, association, or other organization if:
 - 19.27 (i) the club, association, or other organization makes available for the use of its
19.28 members sports and athletic facilities, without regard to whether a separate charge is
19.29 assessed for use of the facilities; and
 - 19.30 (ii) use of the sports and athletic facility is not made available to the general public
19.31 on the same basis as it is made available to members.
- 19.32 Granting of membership means both onetime initiation fees and periodic membership
19.33 dues. Sports and athletic facilities include golf courses; tennis, racquetball, handball, and
19.34 squash courts; basketball and volleyball facilities; running tracks; exercise equipment;
19.35 swimming pools; and other similar athletic or sports facilities;

20.1 (5) delivery of aggregate materials by a third party, excluding delivery of aggregate
20.2 material used in road construction, and delivery of concrete block by a third party if
20.3 the delivery would be subject to the sales tax if provided by the seller of the concrete
20.4 block; and

20.5 (6) services as provided in this clause:

20.6 (i) laundry and dry cleaning services including cleaning, pressing, repairing, altering,
20.7 and storing clothes, linen services and supply, cleaning and blocking hats, and carpet,
20.8 drapery, upholstery, and industrial cleaning. Laundry and dry cleaning services do not
20.9 include services provided by coin operated facilities operated by the customer;

20.10 (ii) motor vehicle washing, waxing, and cleaning services, including services
20.11 provided by coin operated facilities operated by the customer, and rustproofing,
20.12 undercoating, and towing of motor vehicles;

20.13 (iii) building and residential cleaning, maintenance, and disinfecting services and
20.14 pest control and exterminating services;

20.15 (iv) detective, security, burglar, fire alarm, and armored car services; but not
20.16 including services performed within the jurisdiction they serve by off-duty licensed peace
20.17 officers as defined in section 626.84, subdivision 1, or services provided by a nonprofit
20.18 organization for monitoring and electronic surveillance of persons placed on in-home
20.19 detention pursuant to court order or under the direction of the Minnesota Department
20.20 of Corrections;

20.21 (v) pet grooming services;

20.22 (vi) lawn care, fertilizing, mowing, spraying and sprigging services; garden planting
20.23 and maintenance; tree, bush, and shrub pruning, bracing, spraying, and surgery; indoor
20.24 plant care; tree, bush, shrub, and stump removal, except when performed as part of a land
20.25 clearing contract as defined in section 297A.68, subdivision 40; and tree trimming for
20.26 public utility lines. Services performed under a construction contract for the installation of
20.27 shrubbery, plants, sod, trees, bushes, and similar items are not taxable;

20.28 (vii) massages, except when provided by a licensed health care facility or
20.29 professional or upon written referral from a licensed health care facility or professional for
20.30 treatment of illness, injury, or disease; and

20.31 (viii) the furnishing of lodging, board, and care services for animals in kennels and
20.32 other similar arrangements, but excluding veterinary and horse boarding services.

20.33 In applying the provisions of this chapter, the terms "tangible personal property"
20.34 and "retail sale" include taxable services listed in clause (6), items (i) to (vi) and (viii),
20.35 and the provision of these taxable services, unless specifically provided otherwise.

20.36 Services performed by an employee for an employer are not taxable. Services performed

21.1 by a partnership or association for another partnership or association are not taxable if
 21.2 one of the entities owns or controls more than 80 percent of the voting power of the
 21.3 equity interest in the other entity. Services performed between members of an affiliated
 21.4 group of corporations are not taxable. For purposes of the preceding sentence, "affiliated
 21.5 group of corporations" means those entities that would be classified as members of an
 21.6 affiliated group as defined under United States Code, title 26, section 1504, disregarding
 21.7 the exclusions in section 1504(b).

21.8 For purposes of clause (5), "road construction" means construction of (1) public
 21.9 roads, (2) cartways, and (3) private roads in townships located outside of the seven-county
 21.10 metropolitan area up to the point of the emergency response location sign.

21.11 (h) A sale and a purchase includes the furnishing for a consideration of tangible
 21.12 personal property or taxable services by the United States or any of its agencies or
 21.13 instrumentalities, or the state of Minnesota, its agencies, instrumentalities, or political
 21.14 subdivisions.

21.15 (i) A sale and a purchase includes the furnishing for a consideration of
 21.16 telecommunications services, ancillary services associated with telecommunication
 21.17 services, cable television services, and direct satellite services, ~~and ring tones~~.
 21.18 Telecommunication services include, but are not limited to, the following services,
 21.19 as defined in section 297A.669: air-to-ground radiotelephone service, mobile
 21.20 telecommunication service, postpaid calling service, prepaid calling service, prepaid
 21.21 wireless calling service, and private communication services. The services in this
 21.22 paragraph are taxed to the extent allowed under federal law.

21.23 (j) A sale and a purchase includes the furnishing for a consideration of installation if
 21.24 the installation charges would be subject to the sales tax if the installation were provided
 21.25 by the seller of the item being installed.

21.26 (k) A sale and a purchase includes the rental of a vehicle by a motor vehicle dealer
 21.27 to a customer when (1) the vehicle is rented by the customer for a consideration, or (2)
 21.28 the motor vehicle dealer is reimbursed pursuant to a service contract as defined in section
 21.29 59B.02, subdivision 11.

21.30 **EFFECTIVE DATE.** This section is effective for sales and purchases made after
 21.31 June 30, 2011.

21.32 Sec. 3. Minnesota Statutes 2010, section 297A.62, is amended by adding a subdivision
 21.33 to read:

21.34 **Subd. 5. Transitional period for services.** When there is a change in the rate of tax
 21.35 imposed by this section, the following transitional period shall apply to the retail sale of

22.1 services covering a billing period starting before and ending after the statutory effective
 22.2 date of the rate change:

22.3 (1) for a rate increase, the new rate shall apply to the first billing period starting
 22.4 on or after the effective date; and

22.5 (2) for a rate decrease, the new rate shall apply to bills rendered on or after the
 22.6 effective date.

22.7 **EFFECTIVE DATE.** This section is effective the day following final enactment.

22.8 Sec. 4. Minnesota Statutes 2010, section 297A.63, is amended by adding a subdivision
 22.9 to read:

22.10 Subd. 3. **Transitional period for services.** When there is a change in the rate of
 22.11 tax imposed by this section, the following transitional period shall apply to the taxable
 22.12 services purchased for use, storage, distribution, or consumption in this state when the
 22.13 service purchased covers a billing period starting before and ending after the statutory
 22.14 effective date of the rate change:

22.15 (1) for a rate increase, the new rate shall apply to the first billing period starting
 22.16 on or after the effective date; and

22.17 (2) for a rate decrease, the new rate shall apply to bills rendered on or after the
 22.18 effective date.

22.19 **EFFECTIVE DATE.** This section is effective the day following final enactment.

22.20 Sec. 5. Minnesota Statutes 2010, section 297A.668, subdivision 7, is amended to read:

22.21 Subd. 7. **Advertising and promotional direct mail.** (a) Notwithstanding other
 22.22 subdivisions of this section, the provisions in paragraphs (b) to (e) apply to the sale of
 22.23 advertising and promotional direct mail. "Advertising and promotional direct mail" means
 22.24 printed material that is direct mail as defined in section 297A.61, subdivision 35, the
 22.25 primary purpose of which is to attract public attention to a product, person, business, or
 22.26 organization, or to attempt to sell, popularize, or secure financial support for a person,
 22.27 business, organization, or product. "Product" includes tangible personal property, a digital
 22.28 product transferred electronically, or a service.

22.29 (b) A purchaser of advertising and promotional direct mail ~~that is not a holder of~~
 22.30 ~~a direct pay permit shall provide to the seller, in conjunction with the purchase, either a~~
 22.31 ~~direct mail form or~~ may provide the seller with either:

23.1 (1) a fully completed exemption certificate as described in section 297A.72
 23.2 indicating that the purchaser is authorized to pay any sales or use tax due on purchases
 23.3 made by the purchaser directly to the commissioner under section 297A.89;

23.4 (2) a fully completed exemption certificate claiming an exemption for direct mail; or

23.5 (3) information to show showing the jurisdictions to which the advertising and
 23.6 promotional direct mail is to be delivered to recipients.

23.7 ~~(1) Upon receipt of the direct mail form,~~ (c) In the absence of bad faith, if the
 23.8 purchaser provides one of the exemption certificates indicated in paragraph (b), clauses (1)
 23.9 and (2), the seller is relieved of all obligations to collect, pay, or remit the applicable tax
 23.10 and the purchaser is obligated to pay or remit the applicable tax on a direct pay basis. A
 23.11 direct mail form remains in effect for all future sales of direct mail by the seller to the
 23.12 purchaser until it is revoked in writing. tax on any transaction involving advertising and
 23.13 promotional direct mail to which the certificate applies. The purchaser shall source the
 23.14 sale to the jurisdictions to which the advertising and promotional direct mail is to be
 23.15 delivered to the recipients of the mail, and shall report and pay any applicable tax due.

23.16 ~~(2) Upon receipt of~~ (d) If the purchaser provides the seller information from the
 23.17 purchaser showing the jurisdictions to which the advertising and promotional direct mail
 23.18 is to be delivered to recipients, the seller shall source the sale to the jurisdictions to which
 23.19 the advertising and promotional direct mail is to be delivered and shall collect and remit
 23.20 the applicable tax according to the delivery information provided by the purchaser. In
 23.21 the absence of bad faith, the seller is relieved of any further obligation to collect any
 23.22 additional tax on any transaction for which the sale of advertising and promotional direct
 23.23 mail where the seller has collected tax pursuant sourced the sale according to the delivery
 23.24 information provided by the purchaser.

23.25 ~~(b) (e) If the purchaser of direct mail does not have a direct pay permit and does~~
 23.26 ~~not provide the seller with either a direct mail form or delivery information, as required~~
 23.27 ~~by paragraph (a), the seller shall collect the tax according to any of the items listed in~~
 23.28 paragraph (b), the sale shall be sourced under subdivision 2, paragraph (f). Nothing in
 23.29 this paragraph limits a purchaser's obligation for sales or use tax to any state to which the
 23.30 direct mail is delivered.

23.31 ~~(c) If a purchaser of direct mail provides the seller with documentation of direct~~
 23.32 ~~pay authority, the purchaser is not required to provide a direct mail form or delivery~~
 23.33 ~~information to the seller.~~

23.34 (f) This subdivision does not apply to printed materials that result from developing
 23.35 billing information or providing any data processing service that is more than incidental

24.1 to producing the printed materials, regardless of whether advertising and promotional
 24.2 direct mail is included in the same mailing.

24.3 (g) If a transaction is a bundled transaction that includes advertising and promotional
 24.4 direct mail, this subdivision applies only if the primary purpose of the transaction is the sale
 24.5 of products or services that meet the definition of advertising and promotional direct mail.

24.6 **EFFECTIVE DATE.** This section is effective for sales and purchases made after
 24.7 June 30, 2011.

24.8 Sec. 6. Minnesota Statutes 2010, section 297A.668, is amended by adding a
 24.9 subdivision to read:

24.10 Subd. 7a. **Other direct mail.** (a) Notwithstanding other subdivisions of this section,
 24.11 the provisions in paragraphs (b) and (c) apply to the sale of other direct mail. "Other direct
 24.12 mail" means printed material that is direct mail as defined in section 297A.61, subdivision
 24.13 35, but is not advertising and promotional direct mail as described in subdivision 7,
 24.14 regardless of whether advertising and promotional direct mail is included in the same
 24.15 mailing. Other direct mail includes, but is not limited to:

24.16 (1) direct mail pertaining to a transaction between the purchaser and addressee,
 24.17 where the mail contains personal information specific to the addressee including, but not
 24.18 limited to, invoices, bills, statements of account, and payroll advices;

24.19 (2) any legally required mailings including, but not limited to, privacy notices,
 24.20 tax reports, and stockholder reports; and

24.21 (3) other nonpromotional direct mail delivered to existing or former shareholders,
 24.22 customers, employees, or agents including, but not limited to, newsletters and
 24.23 informational pieces.

24.24 Other direct mail does not include printed materials that result from developing
 24.25 billing information or providing any data processing service that is more than incidental to
 24.26 producing the other direct mail.

24.27 (b) A purchaser of other direct mail may provide the seller with either a fully
 24.28 completed exemption certificate as described in section 297A.72 indicating that the
 24.29 purchaser is authorized to pay any sales or use tax due on purchases made by the purchaser
 24.30 directly to the commissioner under section 297A.89, or a fully completed exemption
 24.31 certificate claiming an exemption for direct mail. If the purchaser provides one of the
 24.32 exemption certificates listed, then the seller, in the absence of bad faith, is relieved of all
 24.33 obligations to collect, pay, or remit the tax on any transaction involving other direct mail
 24.34 to which the certificate applies. The purchaser shall source the sale to the jurisdictions to

25.1 which the other direct mail is to be delivered to the recipients of the mail, and shall report
 25.2 and pay any applicable tax due.

25.3 (c) If the purchaser does not provide the seller with a fully completed exemption
 25.4 certificate claiming either exemption listed in paragraph (b), the sale shall be sourced
 25.5 according to subdivision 2, paragraph (d).

25.6 **EFFECTIVE DATE.** This section is effective for sales and purchases made after
 25.7 June 30, 2011.

25.8 Sec. 7. Minnesota Statutes 2010, section 297A.68, subdivision 5, is amended to read:

25.9 Subd. 5. **Capital equipment.** (a) Capital equipment is exempt. ~~The tax must be~~
 25.10 ~~imposed and collected as if the rate under section 297A.62, subdivision 1, applied, and~~
 25.11 ~~then refunded in the manner provided in section 297A.75.~~

25.12 "Capital equipment" means machinery and equipment purchased or leased, and used
 25.13 in this state by the purchaser or lessee primarily for manufacturing, fabricating, mining,
 25.14 or refining tangible personal property to be sold ultimately at retail if the machinery and
 25.15 equipment are essential to the integrated production process of manufacturing, fabricating,
 25.16 mining, or refining. Capital equipment also includes machinery and equipment
 25.17 used primarily to electronically transmit results retrieved by a customer of an online
 25.18 computerized data retrieval system.

25.19 (b) Capital equipment includes, but is not limited to:

25.20 (1) machinery and equipment used to operate, control, or regulate the production
 25.21 equipment;

25.22 (2) machinery and equipment used for research and development, design, quality
 25.23 control, and testing activities;

25.24 (3) environmental control devices that are used to maintain conditions such as
 25.25 temperature, humidity, light, or air pressure when those conditions are essential to and are
 25.26 part of the production process;

25.27 (4) materials and supplies used to construct and install machinery or equipment;

25.28 (5) repair and replacement parts, including accessories, whether purchased as spare
 25.29 parts, repair parts, or as upgrades or modifications to machinery or equipment;

25.30 (6) materials used for foundations that support machinery or equipment;

25.31 (7) materials used to construct and install special purpose buildings used in the
 25.32 production process;

25.33 (8) ready-mixed concrete equipment in which the ready-mixed concrete is mixed
 25.34 as part of the delivery process regardless if mounted on a chassis, repair parts for
 25.35 ready-mixed concrete trucks, and leases of ready-mixed concrete trucks; and

26.1 (9) machinery or equipment used for research, development, design, or production
26.2 of computer software.

26.3 (c) Capital equipment does not include the following:

26.4 (1) motor vehicles taxed under chapter 297B;

26.5 (2) machinery or equipment used to receive or store raw materials;

26.6 (3) building materials, except for materials included in paragraph (b), clauses (6)
26.7 and (7);

26.8 (4) machinery or equipment used for nonproduction purposes, including, but not
26.9 limited to, the following: plant security, fire prevention, first aid, and hospital stations;
26.10 support operations or administration; pollution control; and plant cleaning, disposal of
26.11 scrap and waste, plant communications, space heating, cooling, lighting, or safety;

26.12 (5) farm machinery and aquaculture production equipment as defined by section
26.13 297A.61, subdivisions 12 and 13;

26.14 (6) machinery or equipment purchased and installed by a contractor as part of an
26.15 improvement to real property;

26.16 (7) machinery and equipment used by restaurants in the furnishing, preparing, or
26.17 serving of prepared foods as defined in section 297A.61, subdivision 31;

26.18 (8) machinery and equipment used to furnish the services listed in section 297A.61,
26.19 subdivision 3, paragraph (g), clause (6), items (i) to (vi) and (viii);

26.20 (9) machinery or equipment used in the transportation, transmission, or distribution
26.21 of petroleum, liquefied gas, natural gas, water, or steam, in, by, or through pipes, lines,
26.22 tanks, mains, or other means of transporting those products. This clause does not apply to
26.23 machinery or equipment used to blend petroleum or biodiesel fuel as defined in section
26.24 239.77; or

26.25 (10) any other item that is not essential to the integrated process of manufacturing,
26.26 fabricating, mining, or refining.

26.27 (d) For purposes of this subdivision:

26.28 (1) "Equipment" means independent devices or tools separate from machinery but
26.29 essential to an integrated production process, including computers and computer software,
26.30 used in operating, controlling, or regulating machinery and equipment; and any subunit or
26.31 assembly comprising a component of any machinery or accessory or attachment parts of
26.32 machinery, such as tools, dies, jigs, patterns, and molds.

26.33 (2) "Fabricating" means to make, build, create, produce, or assemble components or
26.34 property to work in a new or different manner.

26.35 (3) "Integrated production process" means a process or series of operations through
26.36 which tangible personal property is manufactured, fabricated, mined, or refined. For

27.1 purposes of this clause, (i) manufacturing begins with the removal of raw materials
 27.2 from inventory and ends when the last process prior to loading for shipment has been
 27.3 completed; (ii) fabricating begins with the removal from storage or inventory of the
 27.4 property to be assembled, processed, altered, or modified and ends with the creation
 27.5 or production of the new or changed product; (iii) mining begins with the removal of
 27.6 overburden from the site of the ores, minerals, stone, peat deposit, or surface materials and
 27.7 ends when the last process before stockpiling is completed; and (iv) refining begins with
 27.8 the removal from inventory or storage of a natural resource and ends with the conversion
 27.9 of the item to its completed form.

27.10 (4) "Machinery" means mechanical, electronic, or electrical devices, including
 27.11 computers and computer software, that are purchased or constructed to be used for the
 27.12 activities set forth in paragraph (a), beginning with the removal of raw materials from
 27.13 inventory through completion of the product, including packaging of the product.

27.14 (5) "Machinery and equipment used for pollution control" means machinery and
 27.15 equipment used solely to eliminate, prevent, or reduce pollution resulting from an activity
 27.16 described in paragraph (a).

27.17 (6) "Manufacturing" means an operation or series of operations where raw materials
 27.18 are changed in form, composition, or condition by machinery and equipment and which
 27.19 results in the production of a new article of tangible personal property. For purposes of
 27.20 this subdivision, "manufacturing" includes the generation of electricity or steam to be
 27.21 sold at retail.

27.22 (7) "Mining" means the extraction of minerals, ores, stone, or peat.

27.23 (8) "Online data retrieval system" means a system whose cumulation of information
 27.24 is equally available and accessible to all its customers.

27.25 (9) "Primarily" means machinery and equipment used 50 percent or more of the time
 27.26 in an activity described in paragraph (a).

27.27 (10) "Refining" means the process of converting a natural resource to an intermediate
 27.28 or finished product, including the treatment of water to be sold at retail.

27.29 (11) This subdivision does not apply to telecommunications equipment as
 27.30 provided in subdivision 35, and does not apply to wire, cable, fiber, poles, or conduit
 27.31 for telecommunications services.

27.32 **EFFECTIVE DATE.** This section is effective for sales and purchases made after
 27.33 **June 30, 2013.**

27.34 Sec. 8. Minnesota Statutes 2010, section 297A.70, subdivision 3, is amended to read:

28.1 Subd. 3. **Sales of certain goods and services to government.** (a) The following
28.2 sales to or use by the specified governments and political subdivisions of the state are
28.3 exempt:

28.4 (1) repair and replacement parts for emergency rescue vehicles, fire trucks, and
28.5 fire apparatus to a political subdivision;

28.6 (2) machinery and equipment, except for motor vehicles, used directly for mixed
28.7 municipal solid waste management services at a solid waste disposal facility as defined in
28.8 section 115A.03, subdivision 10;

28.9 (3) chore and homemaking services to a political subdivision of the state to be
28.10 provided to elderly or disabled individuals;

28.11 (4) telephone services to the Office of Enterprise Technology that are used to provide
28.12 telecommunications services through the enterprise technology revolving fund;

28.13 (5) firefighter personal protective equipment as defined in paragraph (b), if purchased
28.14 or authorized by and for the use of an organized fire department, fire protection district, or
28.15 fire company regularly charged with the responsibility of providing fire protection to the
28.16 state or a political subdivision;

28.17 (6) bullet-resistant body armor that provides the wearer with ballistic and trauma
28.18 protection, if purchased by a law enforcement agency of the state or a political subdivision
28.19 of the state, or a licensed peace officer, as defined in section 626.84, subdivision 1;

28.20 (7) motor vehicles purchased or leased by political subdivisions of the state if the
28.21 vehicles are exempt from registration under section 168.012, subdivision 1, paragraph (b),
28.22 exempt from taxation under section 473.448, or exempt from the motor vehicle sales tax
28.23 under section 297B.03, clause (12);

28.24 (8) equipment designed to process, dewater, and recycle biosolids for wastewater
28.25 treatment facilities of political subdivisions, and materials incidental to installation of
28.26 that equipment;

28.27 (9) sales to a town of gravel and of machinery, equipment, and accessories, except
28.28 motor vehicles, used exclusively for road and bridge maintenance, and leases by a town of
28.29 motor vehicles exempt from tax under section 297B.03, clause (10);

28.30 (10) the removal of trees, bushes, or shrubs for the construction and maintenance
28.31 of roads, trails, or firebreaks when purchased by an agency of the state or a political
28.32 subdivision of the state; ~~and~~

28.33 (11) purchases by the Metropolitan Council or the Department of Transportation of
28.34 vehicles and repair parts to equip operations provided for in section 174.90, including, but
28.35 not limited to, the Northstar Corridor Rail project; and

29.1 (12) purchases of water used directly in providing public safety services by an
 29.2 organized fire department, fire protection district, or fire company regularly charged with
 29.3 the responsibility of providing fire protection to the state or a political subdivision.

29.4 (b) For purposes of this subdivision, "firefighters personal protective equipment"
 29.5 means helmets, including face shields, chin straps, and neck liners; bunker coats and
 29.6 pants, including pant suspenders; boots; gloves; head covers or hoods; wildfire jackets;
 29.7 protective coveralls; goggles; self-contained breathing apparatus; canister filter masks;
 29.8 personal alert safety systems; spanner belts; optical or thermal imaging search devices;
 29.9 and all safety equipment required by the Occupational Safety and Health Administration.

29.10 (c) For purchases of items listed in paragraph (a), clause (11), the tax must be
 29.11 imposed and collected as if the rate under section 297A.62, subdivision 1, applied and
 29.12 then refunded in the manner provided in section 297A.75.

29.13 **EFFECTIVE DATE.** This section is effective retroactively for sales and purchases
 29.14 made after June 30, 2007; however, no refunds may be made for amounts already paid on
 29.15 water purchased between June 30, 2007, and January 30, 2010.

29.16 Sec. 9. Minnesota Statutes 2010, section 297A.75, is amended to read:

29.17 **297A.75 REFUND; APPROPRIATION.**

29.18 Subdivision 1. **Tax collected.** The tax on the gross receipts from the sale of the
 29.19 following exempt items must be imposed and collected as if the sale were taxable and the
 29.20 rate under section 297A.62, subdivision 1, applied. The exempt items include:

29.21 ~~(1) capital equipment exempt under section 297A.68, subdivision 5;~~

29.22 ~~(2) (1) building materials for an agricultural processing facility exempt under section~~
 29.23 ~~297A.71, subdivision 13;~~

29.24 ~~(3) (2) building materials for mineral production facilities exempt under section~~
 29.25 ~~297A.71, subdivision 14;~~

29.26 ~~(4) (3) building materials for correctional facilities under section 297A.71,~~
 29.27 ~~subdivision 3;~~

29.28 ~~(5) (4) building materials used in a residence for disabled veterans exempt under~~
 29.29 ~~section 297A.71, subdivision 11;~~

29.30 ~~(6) (5) elevators and building materials exempt under section 297A.71, subdivision~~
 29.31 ~~12;~~

29.32 ~~(7) (6) building materials for the Long Lake Conservation Center exempt under~~
 29.33 ~~section 297A.71, subdivision 17;~~

30.1 ~~(8)~~ (7) materials and supplies for qualified low-income housing under section
30.2 297A.71, subdivision 23;

30.3 ~~(9)~~ (8) materials, supplies, and equipment for municipal electric utility facilities
30.4 under section 297A.71, subdivision 35;

30.5 ~~(10)~~ (9) equipment and materials used for the generation, transmission, and
30.6 distribution of electrical energy and an aerial camera package exempt under section
30.7 297A.68, subdivision 37;

30.8 ~~(11)~~ (10) tangible personal property and taxable services and construction materials,
30.9 supplies, and equipment exempt under section 297A.68, subdivision 41;

30.10 ~~(12)~~ (11) commuter rail vehicle and repair parts under section 297A.70, subdivision
30.11 3, clause (11);

30.12 ~~(13)~~ (12) materials, supplies, and equipment for construction or improvement of
30.13 projects and facilities under section 297A.71, subdivision 40;

30.14 ~~(14)~~ (13) materials, supplies, and equipment for construction or improvement of a
30.15 meat processing facility exempt under section 297A.71, subdivision 41; and

30.16 ~~(15)~~ (14) materials, supplies, and equipment for construction, improvement, or
30.17 expansion of an aerospace defense manufacturing facility exempt under section 297A.71,
30.18 subdivision 42.

30.19 Subd. 2. **Refund; eligible persons.** Upon application on forms prescribed by the
30.20 commissioner, a refund equal to the tax paid on the gross receipts of the exempt items
30.21 must be paid to the applicant. Only the following persons may apply for the refund:

30.22 (1) for subdivision 1, clauses (1) ~~to (3)~~ and (2), the applicant must be the purchaser;

30.23 (2) for subdivision 1, clauses ~~(4)~~ (3) and ~~(7)~~ (6), the applicant must be the
30.24 governmental subdivision;

30.25 (3) for subdivision 1, clause ~~(5)~~ (4), the applicant must be the recipient of the
30.26 benefits provided in United States Code, title 38, chapter 21;

30.27 (4) for subdivision 1, clause ~~(6)~~ (5), the applicant must be the owner of the
30.28 homestead property;

30.29 (5) for subdivision 1, clause ~~(8)~~ (7), the owner of the qualified low-income housing
30.30 project;

30.31 (6) for subdivision 1, clause ~~(9)~~ (8), the applicant must be a municipal electric utility
30.32 or a joint venture of municipal electric utilities;

30.33 (7) for subdivision 1, clauses (9), (10), ~~(11)~~, (13), and (14), ~~and (15)~~, the owner
30.34 of the qualifying business; and

30.35 (8) for subdivision 1, clauses (11) and (12) ~~and (13)~~, the applicant must be the
30.36 governmental entity that owns or contracts for the project or facility.

31.1 Subd. 3. **Application.** (a) The application must include sufficient information
 31.2 to permit the commissioner to verify the tax paid. If the tax was paid by a contractor,
 31.3 subcontractor, or builder, under subdivision 1, clause (3), (4), (5), (6), (7), (8), (9), (10),
 31.4 (11), (12), (13), or (14), ~~or (15)~~, the contractor, subcontractor, or builder must furnish to
 31.5 the refund applicant a statement including the cost of the exempt items and the taxes paid
 31.6 on the items unless otherwise specifically provided by this subdivision. The provisions of
 31.7 sections 289A.40 and 289A.50 apply to refunds under this section.

31.8 ~~(b) An applicant may not file more than two applications per calendar year for~~
 31.9 ~~refunds for taxes paid on capital equipment exempt under section 297A.68, subdivision 5.~~

31.10 ~~(c)~~ (b) Total refunds for purchases of items in section 297A.71, subdivision 40,
 31.11 must not exceed \$5,000,000 in fiscal years 2010 and 2011. Applications for refunds for
 31.12 purchases of items in sections 297A.70, subdivision 3, paragraph (a), clause (11), and
 31.13 297A.71, subdivision 40, must not be filed until after June 30, 2009.

31.14 Subd. 4. **Interest.** Interest must be paid on the refund at the rate in section 270C.405
 31.15 from 90 days after the refund claim is filed with the commissioner for taxes paid under
 31.16 subdivision 1.

31.17 Subd. 5. **Appropriation.** The amount required to make the refunds is annually
 31.18 appropriated to the commissioner.

31.19 **EFFECTIVE DATE.** This section is effective for sales and purchases made after
 31.20 June 30, 2013.

31.21 Sec. 10. **REPEALER.**

31.22 Minnesota Statutes 2010, section 289A.60, subdivision 31, is repealed.

31.23 **EFFECTIVE DATE.** This section is effective for taxes due and payable after
 31.24 July 1, 2011.

31.25 ARTICLE 3

31.26 SPECIAL TAXES

31.27 Section 1. Minnesota Statutes 2010, section 297F.01, is amended by adding a
 31.28 subdivision to read:

31.29 Subd. 10b. **Moist snuff.** "Moist snuff" means any finely cut, ground, or powdered
 31.30 smokeless tobacco that is intended to be placed or dipped in the oral cavity, but does
 31.31 not include any finely cut, ground, or powdered tobacco that is intended to be placed
 31.32 in the nasal cavity.

31.33 **EFFECTIVE DATE.** This section is effective July 1, 2011.

32.1 Sec. 2. Minnesota Statutes 2010, section 297F.01, subdivision 19, is amended to read:

32.2 Subd. 19. **Tobacco products.** "Tobacco products" means any product containing,
 32.3 made, or derived from tobacco that is intended for human consumption, whether
 32.4 chewed, smoked, absorbed, dissolved, inhaled, snorted, sniffed, or ingested by any
 32.5 other means, or any component, part, or accessory of a tobacco product, including, but
 32.6 not limited to, cigars; little cigars; cheroots; stogies; periques; granulated, plug cut,
 32.7 crimp cut, ready rubbed, and other smoking tobacco; snuff, including moist snuff; snuff
 32.8 flour; cavendish; plug and twist tobacco; fine-cut and other chewing tobacco; shorts;
 32.9 refuse scraps, clippings, cuttings and sweepings of tobacco, and other kinds and forms
 32.10 of tobacco; but does not include cigarettes as defined in this section. Tobacco products
 32.11 excludes any tobacco product that has been approved by the United States Food and
 32.12 Drug Administration for sale as a tobacco cessation product, as a tobacco dependence
 32.13 product, or for other medical purposes, and is being marketed and sold solely for such an
 32.14 approved purpose.

32.15 **EFFECTIVE DATE.** This section is effective July 1, 2011.

32.16 Sec. 3. Minnesota Statutes 2010, section 297F.05, subdivision 3, is amended to read:

32.17 Subd. 3. **Rates; tobacco products.** (a) A tax is imposed upon all tobacco products
 32.18 in this state and upon any person engaged in business as a distributor, at the ~~rate~~ rates of:

32.19 (1) 35 percent of the wholesale sales price of the tobacco products- other than moist
 32.20 snuff; or

32.21 (2) for moist snuff, at the rate of \$1.45 per ounce, and a proportionate rate for any
 32.22 other quantity or fractional part in excess of 1.2 ounces. The tax imposed on a can or
 32.23 package of moist snuff that weighs less than 1.2 ounces is equal to the amount of tax
 32.24 imposed on a can or package of moist snuff that weighs 1.2 ounces.

32.25 (b) The tax is imposed at the time the distributor:

32.26 (1) brings, or causes to be brought, into this state from outside the state tobacco
 32.27 products for sale;

32.28 (2) makes, manufactures, or fabricates tobacco products in this state for sale in
 32.29 this state; or

32.30 (3) ships or transports tobacco products to retailers in this state, to be sold by those
 32.31 retailers.

32.32 **EFFECTIVE DATE.** This section is effective July 1, 2011.

32.33 Sec. 4. Minnesota Statutes 2010, section 297F.05, subdivision 4, is amended to read:

33.1 Subd. 4. **Use tax; tobacco products.** A tax is imposed upon the use or storage by
 33.2 consumers of tobacco products in this state, and upon such consumers, at the ~~rate~~ rates of:

33.3 (1) 35 percent of the cost to the consumer of the tobacco products; other than moist
 33.4 snuff; and

33.5 (2) for moist snuff, at the rate of \$1.45 per ounce, and a proportionate rate for any
 33.6 other quantity or fractional part in excess of 1.2 ounces. The tax imposed on a can or
 33.7 package of moist snuff that weighs less than 1.2 ounces is equal to the amount of tax
 33.8 imposed on a can or package of moist snuff that weighs 1.2 ounces.

33.9 **EFFECTIVE DATE.** This section is effective July 1, 2011.

33.10 Sec. 5. Minnesota Statutes 2010, section 297F.09, subdivision 2, is amended to read:

33.11 Subd. 2. **Monthly return; tobacco products distributor.** On or before the 18th
 33.12 day of each calendar month, a distributor with a place of business in this state shall file
 33.13 a return with the commissioner showing the quantity and wholesale sales price of each
 33.14 tobacco product, including the number of ounces of moist snuff tobacco:

33.15 (1) brought, or caused to be brought, into this state for sale; and

33.16 (2) made, manufactured, or fabricated in this state for sale in this state, during the
 33.17 preceding calendar month.

33.18 Every licensed distributor outside this state shall in like manner file a return showing the
 33.19 quantity and wholesale sales price of each tobacco product, including the number of
 33.20 ounces of moist snuff tobacco, shipped or transported to retailers in this state to be sold by
 33.21 those retailers, during the preceding calendar month. Returns must be made in the form
 33.22 and manner prescribed by the commissioner and must contain any other information
 33.23 required by the commissioner. The return must be accompanied by a remittance for the full
 33.24 tax liability shown. For distributors subject to the accelerated tax payment requirements in
 33.25 subdivision 10, the return for the May liability is due two business days before June 30th
 33.26 of the year and the return for the June liability is due on or before August 18th of the year.

33.27 **EFFECTIVE DATE.** This section is effective July 1, 2011.

33.28 Sec. 6. Minnesota Statutes 2010, section 297F.09, subdivision 3, is amended to read:

33.29 Subd. 3. **Use tax return; cigarette or tobacco products consumer.** On or before
 33.30 the 18th day of each calendar month, a consumer who, during the preceding calendar
 33.31 month, has acquired title to or possession of cigarettes or tobacco products for use or
 33.32 storage in this state, upon which cigarettes or tobacco products the tax imposed by
 33.33 this chapter has not been paid, shall file a return with the commissioner showing the

34.1 quantity of cigarettes or tobacco products, including the number of ounces of moist snuff
 34.2 tobacco, so acquired. The return must be made in the form and manner prescribed by the
 34.3 commissioner, and must contain any other information required by the commissioner. The
 34.4 return must be accompanied by a remittance for the full unpaid tax liability shown by it.

34.5 **EFFECTIVE DATE.** This section is effective July 1, 2011.

34.6 **ARTICLE 4**

34.7 **MISCELLANEOUS**

34.8 Section 1. Minnesota Statutes 2010, section 270C.13, subdivision 1, is amended to read:

34.9 Subdivision 1. **Biennial report.** The commissioner shall report to the legislature
 34.10 by March 1 of each odd-numbered year on the overall incidence of the income tax,
 34.11 sales and excise taxes, and property tax. The report shall present information on the
 34.12 distribution of the tax burden as follows: (1) for the overall income distribution, using
 34.13 a systemwide incidence measure such as the Suits index or other appropriate measures
 34.14 of equality and inequality; (2) by income classes, including at a minimum deciles of the
 34.15 income distribution; and (3) by other appropriate taxpayer characteristics. The report
 34.16 must also include information on the distribution of the burden of federal taxes borne
 34.17 by Minnesota residents.

34.18 **EFFECTIVE DATE.** This section is effective beginning with the report due in
 34.19 March 2013.

34.20 Sec. 2. Minnesota Statutes 2010, section 275.025, subdivision 1, is amended to read:

34.21 Subdivision 1. **Levy amount.** The state general levy is levied against
 34.22 commercial-industrial property and seasonal residential recreational property, as defined
 34.23 in this section. The state general levy base amount for commercial-industrial property is
 34.24 ~~\$592,000,000~~ \$771,087,000 for taxes payable in ~~2002~~ 2012. The state general levy base
 34.25 amount for seasonal recreational property is \$40,585,000 for taxes payable in 2012. For
 34.26 taxes payable in subsequent years, ~~the~~ each levy base amount is increased each year by
 34.27 multiplying the levy base amount for the prior year by the sum of one plus the rate of
 34.28 increase, if any, in the implicit price deflator for government consumption expenditures
 34.29 and gross investment for state and local governments prepared by the Bureau of Economic
 34.30 Analysts of the United States Department of Commerce for the 12-month period ending
 34.31 March 31 of the year prior to the year the taxes are payable. The tax under this section is
 34.32 not treated as a local tax rate under section 469.177 and is not the levy of a governmental
 34.33 unit under chapters 276A and 473F.

35.1 The commissioner shall increase or decrease the preliminary or final rate for a year
 35.2 as necessary to account for errors and tax base changes that affected a preliminary or final
 35.3 rate for either of the two preceding years. Adjustments are allowed to the extent that the
 35.4 necessary information is available to the commissioner at the time the rates for a year must
 35.5 be certified, and for the following reasons:

35.6 (1) an erroneous report of taxable value by a local official;

35.7 (2) an erroneous calculation by the commissioner; and

35.8 (3) an increase or decrease in taxable value for commercial-industrial or seasonal
 35.9 residential recreational property reported on the abstracts of tax lists submitted under
 35.10 section 275.29 that was not reported on the abstracts of assessment submitted under
 35.11 section 270C.89 for the same year.

35.12 The commissioner may, but need not, make adjustments if the total difference in the tax
 35.13 levied for the year would be less than \$100,000.

35.14 **EFFECTIVE DATE.** This section is effective for taxes payable in 2012 and
 35.15 thereafter.

35.16 Sec. 3. Minnesota Statutes 2010, section 275.025, subdivision 4, is amended to read:

35.17 Subd. 4. **Apportionment and levy of state general tax.** ~~Ninety-five percent of The~~
 35.18 state general tax must be levied by applying a uniform rate to all commercial-industrial tax
 35.19 capacity and ~~five percent of the state general tax must be levied by applying~~ a uniform
 35.20 rate to all seasonal residential recreational tax capacity. On or before October 1 each
 35.21 year, the commissioner of revenue shall certify the preliminary state general levy rates to
 35.22 each county auditor that must be used to prepare the notices of proposed property taxes
 35.23 for taxes payable in the following year. By January 1 of each year, the commissioner
 35.24 shall certify the final state general levy ~~rate~~ rates to each county auditor that shall be
 35.25 used in spreading taxes.

35.26 **EFFECTIVE DATE.** This section is effective for taxes payable in 2012 and
 35.27 thereafter.

35.28 Sec. 4. **APPROPRIATIONS.**

35.29 Subdivision 1. **Income tax reciprocity benchmark study.** \$115,000 in fiscal year
 35.30 2012 and \$215,000 in fiscal year 2013 are appropriated from the general fund to the
 35.31 commissioner of revenue for the income tax reciprocity benchmark study in article 1,
 35.32 section 17. This appropriation is onetime and is not added to the agency's base budget.

