

House Research Act Summary

CHAPTER: 5

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TOPIC: Tax Omnibus

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Article 1: Sales Tax Rebate Overview

Provides for a 2001 sales tax rebate that will be paid automatically to individuals who

- had state or federal income tax liability in 1999,
- had social security or public pension income in 1999,
- filed an income tax return in order to claim a refund of withheld or estimated taxes or a

refundable tax credit, or

- claimed a property tax refund.

Dependents with wage income will receive a rebate equal to 35% of the table amount. Individuals with positive federal taxable income, but no state income tax liability, are allowed to file a claim with the commissioner in order to claim the rebate.

The minimum and maximum rebates are \$213 and \$2,967 for married couples filing joint returns and heads of household, and \$108 and \$1,484 for other filers. The total amount of the rebate equals \$791,300,000, after adjustment to reflect the final fiscal year 2001 surplus as certified by the commissioner of finance on July 15, 2001.

1 Statement of purpose. Describes the Legislature's intent in enacting a sales tax rebate and asserts that it is:

- reasonable to rebate sales tax;
- reasonable to use estimates and averages to calculate individual rebates in the absence of a practical method of determining actual sales tax amounts paid by individuals; and
- reasonable to use the Department of Revenue's *Tax Incidence Report*, which analyzes the relationship between income and tax burdens, to estimate sales tax liability.

2 Sales tax rebate.

Subd. 1. Eligibility. Defines a person eligible for a rebate as someone who was a resident of Minnesota for at least part of 1999 and filed a 1999 income tax return with at least \$1 of liability before refundable credits, before November 30, 2001, and was not claimed as a dependent on another return.

Subds. 2 and 3. Rebate schedule. Provide tables showing the rebate amounts by taxable income. The minimum rebate is \$213 for married couples filing joint returns and head of household filers, and \$108 for single and married separate filers. The maximum rebate is \$2,967 for married couples filing joint returns and head of household filers and \$1,484 for single and married separate filers. These amounts are after adjustment of the table to reflect the \$791.3 million surplus certified by the commissioner of finance on July 15, 2001.

Subd. 4. Rebate for nonresidents. Provides that individuals who were not residents of Minnesota for any part of 1999 who paid more than \$10 of consumer sales tax in that year may apply for a rebate. The rebate for nonresidents equals the lesser of 36.9 percent of the amount for which a claimant has receipts or the amount the claimant would have qualified for if they had been Minnesota resident. Claimants must apply to the commissioner by November 30, 2001. The percentage for nonresidents is after adjustment of all rebate amounts to reflect the \$791.3 million surplus certified by the commissioner of finance on July 15, 2001.

Subd. 5. Income. States that the rebate tables are based on federal taxable income plus Minnesota additions, such as out-of-state tax exempt bond interest and the itemized deduction for state income taxes (line 4 on the 1999 form M-1). For part-year residents the rebate is apportioned by the percentage that the claimant's Minnesota assignable income is of total income.

Subd. 6. Minimum rebate, social security and public pension recipients. Provides a rebate of \$108 to recipients of social security benefits or public pension benefits who were Minnesota residents in 1999. Rebates will be paid to recipients of public pensions under this provision, only if the commissioner can obtain timely and reliable information from the pension administrators permitting payment of the rebate. Individuals under age 18 do not qualify for the rebate under this subdivision. The \$108 minimum rebate is after adjustment of all rebates to reflect the \$791.3 million surplus certified by the commissioner of finance on July 15, 2001.

An individual receives this rebate if it is larger than the regular rebate. This situation can occur

for a married couple, if both spouses receive social security or public pension benefits and would otherwise get the minimum amount under the regular rebate; twice the amount of the rebate (\$216) for benefit recipients is slightly larger than the minimum regular rebate for married couples (\$213). This occurs because information on marital status from the Social Security Administration is apparently not available.

The department of revenue may direct deposit the rebate into the bank account of an individual who receives their social security benefits or public pension benefits by direct deposit.

Subd. 7. Rebate for dependents. Provides a rebate equal to 35% of the table amount for single filers for dependents who had wage income in 1999 (line 7 of federal form 1040). The rebate would be based on the dependent's 1999 federal taxable income plus Minnesota additions.

Subd. 8. Rebate for other income tax filers. Provides the minimum rebate amount by filing status for individuals who file a 1999 Minnesota income tax return in order to claim a refund of withheld income taxes or estimated tax payments, or in order to claim a refundable credit (i.e., working family tax credit, dependent care credit, K-12 education credit) by November 30, 2001, and for individuals who filed a 1999 Minnesota property tax refund return as either a homeowner or a renter. The filing time for the 1999 property tax refund is extended to November 30, 2001, for claiming both the property tax refund and the sales tax rebate. The rebate under this subdivision is not allowed for individuals claimed as dependents.

Subd. 9. Rebate for filers with federal taxable income. Provides a rebate to an individual who was a Minnesota resident for any part of 1999; filed a 1999 federal tax return on or before December 31, 2001; had at least a \$5 federal taxable income; but does not have Minnesota tax liability and thus is not eligible for a rebate under subdivision 1. The rebate under this subdivision is the amount for under the rebate schedule for the filing status of the individual, based on the individual's federal taxable income plus Minnesota additions (the same income measure used for determining rebates for individuals with Minnesota liability). Dependents must report earned income to qualify for the rebate under this subdivision, and receive a rebate equal to 35 percent of the amount shown on the table for single filers.

Subd. 10. Fiscal year taxpayers. Extends the filing deadline for fiscal year taxpayers based on the starting date of the taxpayer's fiscal year 1999.

Subd. 11. Payment date; interest. Requires the commissioner to begin paying rebates by 90 days after the bill is enacted in to law. Interest accrues on unpaid rebates beginning January 1, 2002.

Subd. 12. Amended returns. Provides that sales tax rebates will not be recomputed based on adjustments to a taxpayer's 1999 income tax return that are filed after the date the rebate is processed.

Subd. 13. Married claimants. Directs the commissioner to issue a joint rebate to taxpayers who filed a joint return in 1999. Allows taxpayers who filed a joint 1999 return to request a check for one-half of the joint rebate, if the original check has not been cashed. Also allows the commissioner to issue separate rebate checks to taxpayers who filed a joint return in 1999 but separate returns in 2000, or who notify the commissioner of separate addresses.

Subd. 14. Deceased claimants. Allows the commissioner to issue separate checks to beneficiaries of estates entitled to rebates if probate has closed before the rebate check was received. Requires the estate to provide documentation to the commissioner.

Subd. 15. Application of other law. Provides the rebate is covered by the data practices law that applies to other tax data and that the commissioner may retain the rebate to offset delinquent taxes. Also provides that payment of the sales tax rebate is subject to revenue recapture. It is the responsibility of the claimant agency to remit non-debtor spouses' shares of offset rebates.

Subd. 16. Lapse of right to rebate. Provides that the right to the rebate lapses and the rebate reverts to the general fund for rebate checks not cashed by July 1, 2003.

Subd. 17. Appeal of rebate amount. Provides a mechanism for taxpayers to protest if they did not

receive a rebate or if they received an incorrect amount. The regular administrative and court appeal rights apply.

Subd. 18. Fiscal year accounting; appropriation. Specifies the rebate is an adjustment to fiscal year 2001 sales tax revenues and appropriates the amount necessary to make the rebate payments.

Subd. 19. Theft of rebates. Provides that the commissioner may issue an order of assessment for the appropriate amount for a rebate check that is forged, improperly endorsed, or determined to have been issued in error or overstated. The assessment must be issued within two years unless cashing the check constituted forgery or theft, in which case no statute of limitation applies. The assessment can be appealed administratively and judicially, and collection may be commenced under chapter 289A.

Subd. 20. Commissioner's authority. Authorizes the commissioner to take whatever action is deemed necessary to pay the rebate. Allows the commissioner, in consultation with the department of finance and state treasurer, to contract with a private vendor to process, print, and mail the rebate checks and receive and disburse state funds when checks are cashed.

Subd. 21. Payment by EFT. Authorizes the commissioner of revenue to pay the rebate by electronic funds transfer (EFT) to individuals who received their 2000 income tax refund by electronic funds transfer.

Subd. 22. Adjustment of rebate schedule. Directs the commissioner of revenue to adjust the rebate schedule and percentages proportionately to keep the total rebate estimated on the day the rebate is processed within the originally estimated cost of the schedule and within the amount of the available surplus, estimated at \$856,280,000 in the February 2001 forecast and adjusted to \$852,080,000 for \$4.2 million of fiscal year 2001 flood relief appropriations. The commissioner is directed to adjust this amount and the rebate schedule to match the actual fiscal year 2001 surplus as certified by the commissioner of finance on July 15, 2001. The rebate tables are also adjusted for returns filed after January 1, 2001, but before June 1, 2001.

The commissioner of finance certified a \$791.3 million surplus on June 15, 2001, and the commissioner of revenue adjusted the rebate schedule and percentages proportionately. The amounts shown in the summary are after the adjustment, while the amounts shown in the act itself are before the adjustment.

3 Appropriations. Appropriates \$1.75 million to the commissioner of revenue to administer the rebate in fiscal year 2001.

Appropriates \$401,000 in fiscal year 2001 to the state treasurer to pay the cost of clearing rebate checks through commercial banks.

Any unused amounts of these appropriations do not cancel on June 30, 2001, but remain available for expenditure through fiscal year 2002.

Article 2: Education Finance Overview

Article 2 makes three sets of changes to Minnesota's K-12 funding system:

- adjusts formulas to reflect the "roll-in" of \$415 of referendum revenue into the general education formula;
- sets the parameters of the referendum revenue program; and
- creates a two-tier debt service equalization aid program and correspondingly tightens the eligibility criteria for the maximum effort capital loan program.

1 Cost, limitation. Creates a subtraction on the nonpublic pupil aid formula to neutralize the effect of the \$415 per pupil unit "roll-in" from the school operating referendum levy to the general education formula. Effective for revenue for fiscal year 2003.

Note: This section was repealed by the 2001 K-12 education act (Laws 2001, first special session, chapter 6, article 1, section 55, subdivision 2). The result is that nonpublic pupil aid continues to key off the formula allowance.

- 2 **Eligibility.** Deletes an exception to debt service equalization eligibility criteria. Effective for revenue for fiscal year 2003 and thereafter.
- 3 **Debt service equalization revenue.** Creates a two-tiered debt service equalization formula. Makes the first tier apply to debt service revenue exceeding 15% of the district's adjusted net tax capacity, but under 25% of the district's adjusted net tax capacity. Makes the second tier that portion of debt service revenue exceeding 25% of the district's adjusted net tax capacity. These tier levels (15% and 25%) are specifically excluded from the adjustment to most other K-12 tax rates, equalizing factors and tier amounts and therefore remain at these levels. Effective for revenue for fiscal year 2003 and thereafter.
- 4 **Equalized debt service levy.** Sets the equalizing factor for the first tier of debt equalization revenue at \$3,200 per pupil unit, and sets the equalizing factor for the second tier of debt equalization revenue at \$8,000 per pupil unit. These equalizing factors (\$3,200 and \$8,000) are specifically excluded from the adjustment to most other K-12 tax rates, equalizing factors and tier amounts and therefore remain at these levels. Effective for revenue for fiscal year 2003.
- 5 **Debt service appropriation.** Eliminates the fixed standing appropriation for debt service equalization aid for FY 02 and FY 03 and adds appropriations for FY 04 and FY 05 to match the projected amounts for those years.

Note: This section is repealed by and replaced in the 2001 K-12 education act (Laws 2001, first special session, chapter 6, article 1, section 55, subdivision 2 and article 4, section 2). The only difference in the K-12 act is to keep the fixed, standing appropriation amounts for the current biennium.

- 6 **Levy recognition.** Neutralizes the effect of the \$415 per pupil unit transfer from the school operating referendum levy to the general education formula, the repeal of the general education levy, and reductions in school levies under the 1999 tax law on early recognition of school levies. Effective June 30, 2001.
- 7 **Nonpublic pupil transportation aid.** Creates a subtraction on the nonpublic pupil transportation aid formula to neutralize the effect of the \$415 per pupil unit transfer from the school operating referendum levy to the general education formula.. Effective for revenue for fiscal year 2003.

Note: This section was repealed by the 2001 K-12 education act (Laws 2001, first special session, chapter 6, article 1, section 55, subdivision 2). The result is that nonpublic pupil transportation aid continues to key off the formula allowance.

- 8 **Referendum market value.** Excludes agricultural land and seasonal recreational residential properties from the calculation of referendum market value. Effective for taxes payable in 2002 and thereafter.
- 9 **General education revenue.** Modifies the definition of general education revenue to reflect the repeal of supplemental and transition revenue as part of the \$415 transfer to the general education formula. Also strikes obsolete language relating to the referendum offset adjustment. Effective July 1, 2001.

Note: This section is repealed by and replaced with identical language in the 2001 K-12 education act (Laws 2001, first special session, chapter 6, article 1, section 55, subdivision 2 and article 1, section 15).

10 **Basic revenue.** Keeps the basic formula allowance fixed at the FY 01 level for FY 02. Increases the general education formula by \$415 beginning in FY 2003, offsetting a \$415 reduction in school referendum, supplemental and transition revenue per pupil unit attributable to the "roll-in." Effective for revenue for fiscal year 2003 and thereafter.

Note: This section is repealed by and replaced in the 2001 K-12 education act (Laws 2001, first special session, chapter 6, article 1, section 55, subdivision 2 and article 1, section 16). The K-12 act increased the basic formula allowance to \$4,068 for FY 2002 and to \$4,601 for FY 03.

- 11 **General education aid.** Modifies the definition of general education aid to equal the sum of the general education revenue, shared time aid, and referendum aid. References to the general education levy, supplemental aid and transition aid, which are repealed, are deleted. Effective for revenue for fiscal year 2003.
- 12 **Referendum allowance.** Reduces the sum of a district's operating referendum, supplemental and transition revenue per pupil unit by \$415 per pupil unit, beginning in FY 2003, and clarifies the calculation of the referendum allowance (this amount is "rolled-in" to the general education basic formula allowance). Effective for revenue for fiscal year 2003 and thereafter.
- 13 **Referendum allowance limit.** Adjusts the calculation of the cap on school operating referendum revenue per pupil unit. For school districts with a cap based on the district's 1994 referendum allowance, the cap is increased by 5.6%, and reduced to offset the \$415 transfer to the general education formula. For other districts, the cap is reduced from 25% of the general education formula to 13.2% of the formula to adjust for the \$415 transfer to the general education formula, and then increased by 5 percentage points to 18.2%. Effective for revenue for fiscal year 2003.
- 14 **Referendum equalization revenue.** Creates a two-tiered formula for calculating referendum equalization revenue. The first tier allowance equals \$126 per pupil unit, not to exceed the district's referendum revenue per pupil unit. The second tier allowance equals lesser of the district's referendum allowance or 18.2% of the general education formula allowance, minus the district's first tier allowance. For districts receiving sparsity aid, the second tier allowance equals the district's referendum minus the district's first tier allowance. Effective for revenue for fiscal year 2003 and thereafter.
- 15 **Referendum equalization levy.** Provides that the first tier referendum equalization revenue will be equalized using an equalizing factor of \$476,000, and second tier referendum revenue will be equalized using an equalizing factor of \$270,000 per pupil unit. These equalizing factors are not adjusted by the general adjustments to equalizing factors and tax rates. Effective for revenue for fiscal year 2003 and thereafter.
- 16 **Referendum equalization aid.** Adjusts the calculation of referendum equalization aid for the two-tiered equalization formula. Effective for revenue for fiscal year 2003 and thereafter.
- 17 **Referendum tax base replacement aid.** Creates a referendum tax base replacement aid for school districts that had a referendum allowance for fiscal year 2002 exceeding \$415. The aid equals the portion of a school district's referendum levy for taxes payable in 2001 attributable to the portion of the referendum allowance exceeding \$415 that was paid on agricultural land and seasonal recreational residential property. The aid is deducted from the district's referendum equalization aid. It remains in effect until the district's referendum authority expires. Effective for taxes payable in 2002 and thereafter.
- 18 **Unequalized referendum levy.** Clarifies that a district may levy an amount equal to its total referendum revenue and its referendum equalization revenue. Effective for taxes payable in 2002 and thereafter.
- 19 **Referendum conversion allowance.** Provides that a school district may convert its supplemental and

transition revenue allowances to an additional operating referendum allowance by majority vote of the school board before November 1, 2001. Effective July 1, 2001, for revenue for fiscal year 2003.

- 20 **Maximum effort debt service levy.** Raises the maximum effort tax rate from 24% to 36% of ANTC for new loans granted after January 1, 2001. Effective for taxes payable in 2002.

Note: This section is repealed by and replaced in the 2001 K-12 education act (Laws 2001, first special session, chapter 6, article 1, section 55, subdivision 2 and article 4, section 16). The K-12 education act changes the maximum effort rate from 24% to 30% of ANTC.

- 21 **Capital loans eligibility.** Provides that a district is not eligible for a capital loan unless the estimate debt tax rate after debt equalization is more than 36 percent of the ANTC. Effective July 1, 2001.

Note: This section is repealed by and replaced in the 2001 K-12 education act (Laws 2001, first special session, chapter 6, article 1, section 55, subdivision 2 and article 4, section 17). The K-12 education act sets the minimum qualifying tax rate at 30% of ANTC.

- 22 **District request for review and comment.** Revises the criteria for the commissioner of children, families and learning to grant a positive review and comment on a construction project for a district that intends to apply for a capital loan. Effective July 1, 2001.

- 23 **Loan amount limits.** Increases the percentage of ANTC used as a deduct in computing a district's maximum capital loan from 363 percent to 540 percent. Effective July 1, 2001.

Note: This section is repealed by and replaced in the 2001 K-12 education act (Laws 2001, first special session, chapter 6, article 1, section 55, subdivision 2 and article 4, section 18). The K-12 education act sets the minimum qualifying tax rate at 30% of ANTC.

- 24 **Contract.** Requires that all work under a capital loan contract must meet or exceed standards established in the state building code. Also provides that interest calculations on maximum effort school loans will be adjusted if state bonds are reissued. Effective July 1, 2001.

- 25 **Bond sale limitations.** Provides that a district with a capital loan issued after July 1, 2001, must not issue bonds, except refunding bonds, after the loan has been outstanding for 20 years. Effective July 1, 2001.

- 26 **Bond sale limitations.** Increases the school district bonding limit from 10 to 15 percent of the actual market value of taxable property. Effective July 1, 2001.

- 27 **Supplemental revenue conversion allowance.** Sets a school district's supplemental revenue conversion allowance equal to the district's total fiscal year 2002 supplemental revenue divided by its fiscal year 2002 resident marginal cost pupil units. Effective for revenue for fiscal year 2003.

- 28 **Transition revenue conversion allowance.** Sets a school district's transition revenue conversion allowance equal to the district's total fiscal year 2002 transition revenue divided by its fiscal year 2002 resident marginal cost pupil units. Effective for revenue for fiscal year 2003.

- 29 **Appropriations.** Appropriates \$7,851,000 from the general fund to the department of children, families, and learning for referendum tax base replacement aid. Appropriates \$25,989,000 in fiscal year 2002 and \$35,163,000 in fiscal year 2003 from the general fund to the department of children, families and learning for debt service equalization aid. Effective for fiscal year 2003.

- 30 **Repealer.** Repeals Minn. Stat. §126C.10, subdivisions 9 (supplemental revenue), 10 (supplemental levy), 11 (supplemental aid), 12 (supplemental revenue reduction), 19 (transition allowance), 20 (transition revenue adjustment), 21 (transition levy adjustment), and 22 (transition aid adjustment). Effective for revenue for fiscal year 2003.

Repeals Minn. Stat. §126C.13, subdivisions 1, 2, and 3 (the general education levy). Effective for taxes payable in 2002.

Article 3: Property Taxes

Overview

Articles 2 and 3 together provide over \$900 million of property tax relief per year for all types of property in Minnesota, along with providing for major restructuring of the property tax system. The major elements of the restructuring are:

Elimination of the state-determined general education levy, and the first \$415 per pupil unit of each district's referendum levy. Districts with referendum levies less than \$415 per pupil receive additional educational revenues to bring them up to that level.

Compression of class rates within and across property classes. Residential homestead class rates are reduced to 1 percent up to \$500,000, and 1.25 percent over \$500,000. Commercial-industrial class rates are reduced to 1.5 percent on the first \$150,000 of market value and 2 percent over \$150,000.

Apartments are reduced from 2.4 percent to 1.8 percent for pay 2002, with further reductions to 1.25 percent by taxes payable year 2004. Other class rates are changed correspondingly (see table at the end of article 3).

Agricultural and seasonal recreational properties are exempted from school district referendum levies. School districts receive additional state aid to compensate for the loss of tax base for existing referendum levies.

A statewide general property tax is established on commercial-industrial and seasonal recreational property only. Attached machinery of electric generation systems is exempted from the new state property tax. Growth in the tax is dedicated to an education reserve account.

New homestead and agricultural market value credit programs are created.

Dedicated funds for transit financing are created, with 20.75 percent of the revenues from the sales tax on motor vehicles dedicated to the funds in FY 2003 and 22.75 percent thereafter. The revenues are used to replace property taxes as a funding source for transit operating expenses in the metro area and in greater Minnesota.

Local government aid to cities is increased by \$140 million over current law; \$14 million per year is set aside for LGA reform beginning in payable 2003; HACA is eliminated for all local governments except counties.

A TIF grant program is established in article 15, section 24, to provide grants to TIF districts for their declines in revenues due to class rate compression and the elimination of the general education levy.

1 **Local government aid reform account.** Establishes a local government aid account in the general fund. Appropriates \$14 million annually to the fund beginning in fiscal year 2003. Increases the annual appropriation by 2.5 percent of the fund balance beginning in fiscal year 2004. Requires amounts in the fund to be spent on reforming local government aids.

2 **Transit funds.**

Subdivision 1. Greater Minnesota transit fund. Establishes a greater Minnesota transit fund. Provides that money in the fund is annually appropriated to the commissioner of transportation for property tax replacement aid payments to transit systems in greater Minnesota.

Subd. 2. Metropolitan area transit fund. Establishes a transit fund within the state treasury. Provides for a direct appropriation of all revenues in the fund to the metropolitan council to:

- fund transit operating expenses in the metropolitan area;
- provide financial assistance to other transit providers;
- fund metro mobility; and
- provide financial assistance to cities and towns to replace limited services provided by

metro transit with services from another provider.

Subd. 3. Metropolitan area transit appropriation account. Establishes a metropolitan area transit appropriation account in the general fund. Money in the account is to be used for funding transit in the metro area, subject to legislative appropriation.

- 3 **County levy authority.** Provides that when the county levies for local water management, planning and regulatory responsibilities, these levies shall be a special taxing district for property tax purposes. Hence, on both the TnT notice and the property tax statement, these levies will be listed as a special taxing district and will not be included in the county government's levy.

Under current law, if a watershed district was responsible for promulgating a plan and implementing it, its levy would appear on the special taxing district line of the TnT notice and property tax statement. However, when a county levies for those same purposes, it is included with the rest of the county levy. This change is for uniformity so that the levies for all counties is consistent. (See also section 50, clause 23)

- 4 **Watershed district general fund.** Increases the levy limit for watershed district general funds. Under current law, the levy may not exceed 0.02418 percent of taxable market value, or \$125,000, whichever is less. This section increases those limits to .048 percent of taxable market value or \$250,000, whichever is less.

Also changes the name of the fund from the administrative fund to the general fund, since it is used for both administration and for general purposes.

Lastly, it extends a levy used for basic water management features of projects which currently can only be made after a municipality has initiated the petition, to allow all political subdivisions or if at least 50 resident owners initiate the petition. The requirement was set at 50 resident landowners since that is the number needed to establish a watershed under section 103D.205, subdivision 3, clause (4).

- 5-6 **Detachment and annexation.** Provides that in a case where property is detached from one school district and attached to an adjoining district, the property is liable for the debt of the attaching school district and not for the debt of the detaching district. This arrangement can be made only if it has the approval of the county board.

- 7 **School district levy for swimming pool operation.** Authorizes certain school districts to levy for the operation and maintenance of a swimming pool. The district must be located in a county that has:

- population density of 10 or fewer people per square mile in the 2000 census;
- an international border; and
- more than one school district within its boundaries.

School districts in the counties of Kittson, Roseau, Lake of the Woods, and Koochiching qualify under this section.

- 8 **Emergency medical services special taxing districts.**

Subd. 1. Political subdivision defined. Defines a political subdivision as a county, city, or town.

Subd. 2. Who may establish. Authorizes two or more political subdivisions, or parts of them, to establish by resolution a special taxing district for emergency medical services. Does not require the political subdivisions to be contiguous.

Subd. 3. Board. Establishes the board as initially consisting of representatives of the participating subdivision, as specified in the resolution that establishes the district. Allows the district to change representation in either its charter or bylaws.

Subd. 4. Levy authority. Authorizes emergency medical services districts to levy up to 0.048 percent of taxable market value in the district or, up to \$250,000, whichever is less.

Subd. 5. Use of levy. Requires the levy to be used to support the providing of out-of-hospital emergency medical services, such as ambulances and rescue squads.

Subd. 6. Advisory committee. Requires the district to have an advisory committee consisting of emergency medical service providers.

Subd. 7. Powers. Authorizes emergency medical services districts to exercise any of the powers authorized by any of its member political subdivisions, except that the special district's levy is restricted to the amount specified in subdivision 5 and the district may not incur any debt.

Subd. 8. Additions and withdrawals. Provides mechanisms for political subdivisions to join and withdraw from emergency medical service districts.

Subd. 9. Dissolution. Provides for dispositions of assets or liabilities of a district that dissolves.

Subd. 10. Reports. Requires each district to report on its levies and expenditures to the chairs of the House and Senate committees on taxes and to the commissioner of revenue. Requires reports on or before March 15, 2005, and March 15, 2007.

Effective date: Taxes levied in 2002, payable 2003 through taxes levied in 2007, payable in 2008.

- 9 **Operating assistance.** Allows property tax replacement payments under section 10 to be used as part of a transit system's "local source" contribution towards operating revenues. Effective for contracts for service for calendar year 2002 and thereafter.

Note: Other changes in this section were done for consistency with the Transportation finance act, Laws 2001, First Special Session, ch. 8.

- 10 **Property tax replacement aid.**

Subdivision 1. Report of property tax revenues. Requires transit systems receiving MnDOT operating assistance to report the amount of their operating revenues derived from property taxes for 2001 by July 31, 2001.

Subd. 2. Verification by commissioner. Requires the commissioner of transportation to verify and, if necessary, correct the amounts reported under subdivision 1.

Subd. 3. Replacement aid payments. Provides that each transit system shall receive property tax replacement aid payments in 2002 and 2003 equal to the amount of property tax revenues received in 2001, prorated to the amount of revenue in the greater Minnesota transit fund, but subject to a growth limit of 6% each year. Requires the payment amounts to be certified to the commissioner of revenue so that the amounts may be deducted from the local government's levy limit. Annual payments shall be made in two equal installments on July 20 and November 20.

Subd. 4. Report to legislature. Requires the commissioner of transportation, in consultation with the commissioner of revenue, to make a report to the legislature by January 1, 2003, containing recommendations for integrating the transit assistance grant program with the property tax replacement aid program under this section.

- 11 **Utility rate reduction.** Requires the public utilities commission to reduce utility rates in order to pass through to customers the savings from tax reductions on personal property resulting from this legislation. For purposes of this section, "personal property" means tools, implements, and machinery of the generating plant.

- 12 **Emissions reduction rider.**

Subd. 1. Qualifying projects. Specifies that, to be an eligible project for an emissions reduction rider, the emissions reduction project must:

- be installed at an existing electric generation facility of 50 megawatts or more of generating capacity
- not increase capacity of the existing power plant by more than 10 percent or by more

than 100 megawatts, whichever is greater

- result either in compliance with federal Clean Air Act standards, or a reduction in emissions to the lowest cost-effective level

Subd. 2. Submission. Requires a public utility that intends to submit a proposal for an emissions reduction rider to submit its plans for such projects to the public utilities commission (PUC), the department of commerce, the pollution control agency (PCA) and interested parties at least 60 days prior to the petition for approval of the emissions reduction rider.

Subd. 3. Filing. Authorizes a public utility (a utility that is rate-regulated by the public utilities commission) to petition the PUC for approval of an emissions reduction rider to recover the costs of a qualifying emission reduction project outside of a general rate case.

Subd. 4. Environmental assessment. Requires the PCA to evaluate the emissions reduction rider filing, and advise the PUC.

Subd. 5. Approval. Authorizes the PUC to modify, approve or reject a proposed emissions reduction rider. Provides certain criteria for approval.

Subd. 6. Implementation. Requires the public utility, within 60 days of a final order on its rider petition, to notify the PUC and PCA whether it will proceed with the proposed project. Specifies that a utility implementing a project under this section will not be required, for a period of 8 years, to undertake additional investments to comply with a new state requirement regarding the pollutants addressed by the project.

Subd. 7. Evaluation. Requires the PUC to evaluate the effectiveness of the emissions reduction riders, and to report to the legislature by January 15, 2005.

Subd. 8. Sunset. Provides that this section expires June 30, 2006.

13 **Biomass mandate; eligible facility.** Makes a new biomass generation facility eligible to satisfy a portion of the biomass mandate imposed on Xcel Energy (Northern States Power) in the 1994 Prairie Island legislation. To be an eligible facility under this section, the biomass facility must:

- have a generating capacity of between 10 and 20 megawatts;
- be located north of constitutional Route No. 8 (this area includes Duluth, Floodwood, Swan River, Grand Rapids, Cass Lake, Bemidji, Bagley, Erskine, Crookston, East Grand Forks and intervening and adjacent communities);
- utilize biomass residue wood, sawdust, bark, chipped wood, or brush as a primary fuel source; and
- be operational by December 31, 2002.

An eligible facility qualifies for an exemption on its personal property attached machinery used for electric generation.

14 **Tax court; small claims.** Grants jurisdiction to the small claims division of tax court for petitions concerning property valuation, assessment, or taxation provided they meet certain requirements. (See section 15)

15 **County petitions; exceptions.** Grants jurisdiction to the small claims division of tax court on petitions involving valuation, assessment, or taxation of real or personal property if the property meets any one of the following:

- the issue is a denial of a current year application for the homestead classification of the property;
- only one parcel is included in the petition, the entire parcel is classified as homestead (residential or disabled), and the parcel contains only one dwelling unit; or
- the assessor's estimated market value (EMV) of the property included in the petition is less

than \$300,000.

These changes will allow taxpayers who did not appeal their property to the local boards of review, to file a petition in the small claims division, which is a much more informal division of the tax court. In small claims court, a taxpayer does not need to be represented by an attorney, the proceedings are more informal, and the process is less costly and less intimidating for the taxpayer. These changes also increase the maximum value of property for which a petition can be filed. Under current law, the maximum is \$100,000. That threshold was established in the mid-1980s. This will now allow property of a higher market value (e.g., a small business that has an EMV of up to \$300,000) to file in small claims division. Homestead property, regardless of its market value, is allowed to be in a petition in the small claims division.

- 16 **Wind energy conversion systems; classification.** Defines how the total size of wind energy conversion systems are to be determined for purposes of property taxation. Provides that the nameplate capacity of all wind energy conversion systems located within five miles of each other, constructed in the same calendar year, and under the same ownership shall be combined in determining if the system is a small, medium, or large scale system. Effective for wind energy systems installed after January 1, 2001.
- 17 **Residential buildings on temporary sites.** Exempts newly constructed buildings from property tax if they are:

- intended for future residential occupancy;
- on a temporary foundation and intended to be moved;
- not used as a model or for any other business purposes;
- not connected to any utilities; and
- located on land that will not be sold with the building.

Allows the exemption for the building only, for only one assessment year after the date of its initial construction. Effective for 2001 assessment and thereafter.

- 18 **Exemption; poultry litter biomass generation facility.** Exempts attached machinery and other personal property which is part of an electrical generating facility, that meets the following requirements at the time of construction:

- is designed to use poultry litter as a primary fuel source; and
- is constructed for the purpose of generating power at a facility that is sold under a contract approved by the public utilities commission that meets the biomass mandate under section 216B.2424.

Provides that construction of the facility must begin after January 1, 2000, and before December 31, 2002. The exemption does not include electric transmission lines and interconnections or gas pipelines and interconnections appurtenant to the property or facility. Effective for assessment year 2001 and thereafter.

- 19 **Exemption; Waste tire cogeneration facility.** Exempts attached machinery and other personal property which is part of an electric generating facility that meets the following requirements:

- is designed to use waste tires as a primary source; and
- is a cogeneration electric generating facility of 15 to 25 megawatts of installed capacity.

Construction of the facility must begin after January 1, 2000, and before January 1, 2004. This exemption does not include electric transmission lines and interconnections or gas pipelines and interconnections appurtenant to the property or the facility. Effective for assessment year 2001 and thereafter.

- 20 **Exemption; agricultural historical society property.** Exempts property of a nonprofit charitable

or educational organization, if the meets the following criteria:

- qualifies as a 501(c)(3) federal tax exemption; and
- the property is primarily used for storing and exhibiting agricultural historical items;
- the property is limited to 20 acres per owner per county;
- the property is not used for a revenue-producing activity for more than 10 days per year;
- and
- the property is not used as a residence.

21 **Exemption; biomass electrical generating facility.** Exempts attached machinery and other personal property which is part of an electrical generating facility that meets the following requirements:

- be designed to utilize biomass as a primary fuel source; and
- be constructed for the purpose of generating power that will be sold under a contract approved by the public utilities commission in accordance with a biomass mandate imposed under section 216B.2424.

Provides that the construction of the facility must begin after January 1, 2000, and before December 31, 2002. This exemption does not include electric transmission lines and interconnections or gas pipelines and interconnections appurtenant to the property or facility. Effective for 2001 assessment and thereafter.

22 **Payment in lieu of tax; wind generation facilities.** Allows a developer of a new or existing medium or large scale wind energy conversion system to negotiate with the city or town and the county where the system is located to establish a payment in lieu of property taxes on the property. The payment is to provide fees or compensation to the host jurisdictions to maintain public infrastructure and services. The payment in lieu agreement must be signed by the parties and filed with the commissioner of revenue and the county recorder. Upon execution and filing of the agreement, the personal property of the system is exempt from property tax. The exemption is effective for the same duration as the in lieu payments are in effect.

23 **Limited market value.** Phases out limited market value (LMV) over a six year time period. Adds timberland (beginning with the 2001 assessment) to the following list of property types covered by LMV: residential, agricultural, and seasonal recreational residence. Under current law, LMV expires after the 2001 assessment (taxes payable in 2002), meaning that all property would be taxed at its full estimated market value beginning with taxes payable in 2003.

This section requires limited market value to be increased as follows:

Assessment year 2002, increase shall not exceed the greater of:

- 1) 10 percent of the value in the preceding assessment, or
- 2) 15 percent of the difference

Assessment year 2003, increase shall not exceed the greater of:

- 1) 12 percent of the value in the preceding assessment, or
- 2) 20 percent of the difference

Assessment year 2004, increase shall not exceed the greater of:

- 1) 15 percent of the value in the preceding assessment, or
- 2) 25 percent of the difference

Assessment year 2005, increase shall not exceed the greater of:

- 1) 15 percent of the value in the preceding assessment, or
- 2) 33 percent of the difference

Assessment year 2006, increase shall not exceed the greater of:

- 1) 15 percent of the value in the preceding assessment, or

2) 50 percent of the difference

Assessment year 2007, all property at full estimated market value.

- 24 **Vacant land platted before August 1, 2001.** Retains the current method of assessing vacant land to land that was platted before August 1, 2001.
- 25 **Vacant land platted on or after August 1, 2001; metropolitan area.** Retains the current three year market value phase-in time period for vacant land platted on or after August 1, 2001, that is located in the seven metropolitan counties.
- 26 **Vacant land platted on or after August 1, 2001; nonmetropolitan Minnesota.** Changes the phase-in for vacant land located outside the seven metropolitan counties that is platted on or after August 1, 2001, and not improved with a structure, from the current three year market value phase-in time period to a seven year phase-in time period.

Under current law, the assessor determines the market value of each individual lot based upon the highest and best use of the property as unplatted land. In establishing the market value, the assessor considers the sale price of unplatted land or comparable sales of unplatted land of similar use and similar availability of public utilities.

This section changes the phase-in of market value for land located outside the metropolitan area to one-seventh of the difference between the property's unplatted and platted value in each of the seven subsequent assessment years. Hence, it will take seven years instead of the current three years for property that is not developed to be brought up to full market value. If construction begins before the expiration of the seven years (or three years, as is the case in current law) that lot shall be eligible for revaluation in the next assessment year.
- 27 **Homestead rules; assisted living.** Provides that an assessor must not deny homestead treatment to property that is owned by an individual who is absent from the property due to residence in an elderly assisted living facility. Under current law, this treatment is provided to owners who are absent because they are residing in a nursing home or boarding care facility, but it does not include those living in an assisted living facility.
- 28 **Agricultural homestead property; owned and leased.** Makes technical changes to the definition of what types of entities (i.e., family farm corporations, limited liability companies, joint family farm ventures, and partnerships) are eligible to receive the agricultural homestead classification. This section of law was amended in 1999 and in 2000 as part of the extension of homestead benefits to farming entities having multiple ownerships.
- 29 **Limitation on homestead reductions.** Eliminates the "borrowing" of homestead benefits for property that is used for both residential homestead and nonhomestead purposes. Currently, a property that contains at least one but fewer than four residential units receives the first-tier residential homestead class rate up to the full amount of the first tier value regardless of the market value of the portion that is actually homesteaded. This change eliminates "borrowing" since the valuation subject to the first tier class rate has increased from \$76,000 to \$500,000.
- 30 **Homestead benefits.** Changes the definition of "homestead benefits" to include the new residential homestead and agricultural credits in this act. The distribution of the repaid amounts under fraudulent homestead claims will remain as under current law. Also makes technical changes to the homestead application section by inserting "homestead" in a few places which inadvertently had been omitted.
- 31 **Special agricultural homesteads.** Grants special ag homesteads (i.e., when the owner or qualifying relative does not live on the property) in the following cases:
 - when the person is actively farming the property (owner, spouse, son, or daughter) on behalf of an entity in which they are a shareholder, partner, or member. Under current law, the only entity that qualifies for homestead are those where the owner and the active farmer

are the only members of the entity.

- real property held by a trustee under a trust is eligible for "actively farming" homesteads. The current language does not state that "owner" means "grantor" in the case of trusts.

- when property is actively farmed by a member of the entity but the land is leased to the entity (i.e., not owned by the entity). Current law requires that the land be owned by the entity;

- when property is located more than four townships or cities away from where the owner resides but the owner or the owner's spouse is required to live in employer-provided housing that is more than four townships or cities away from the agricultural property.

32- **Class rate changes.** A table showing the current and the new class rates for the major classes of
36 property appears at the end of this article.

32 **Class rate; residential homestead property (class 1).** Increases the market value subject to the first tier class rate to \$500,000, so that the first \$500,000 of market value has a class rate of one percent and market value over \$500,000 has a class rate of 1.25 percent. Under current law market value up to \$76,000 has a class rate of one percent and market value over \$76,000 has a class rate of 1.65 percent. Class 1c (Ma/Pa homestead resorts) has a class rate of one percent.

33 **Class rate; agricultural property (class 2).**

Agricultural homestead property (class 2a). Eliminates the lower tier classification for homesteaded agricultural land, and reduces the class rate so that the first \$600,000 of value has a rate of 0.55 percent and value over \$600,000 is at one percent. Under current law the first \$115,000 is at 0.35 percent, value between \$115,000 and \$600,000 is at 0.8 percent, and value over \$600,000 is at 1.2 percent.

Nonhomestead agricultural land (class 2b). Reduces the class rate on nonhomestead agricultural land and timberland from 1.2 to one percent.

Definition of "agricultural products." Adds maple syrup (taken from trees grown by licensed food processor) to the definition of "agricultural products" in order for the property to be classified agricultural.

34 **Class rate; commercial-industrial property (class 3).** Reduces the class rate on the first tier of commercial industrial property from 2.4 to 1.5 percent, and on the second tier from 3.4 to 2.0 percent. Clarifies that railroad operating property is to receive preferential first-tier treatment on only one parcel per county. Eliminates the special transit zone classification, which is eliminated due to the general C/I class rate reduction.

35 **Class rate; nonhomestead residential property and other miscellaneous property (class 4).**

Reduces the class rate on existing apartment buildings (four or more units) from 2.4 to 1.8 percent for taxes payable in 2002, 1.5 percent for payable 2003, and 1.25 percent for payable 2004 and thereafter. Provides an immediate class rate of 1.25 percent for apartment buildings for which construction began after June 30, 2001. Eliminates special provisions for small city apartments which are no longer necessary due to the general apartment class rate reduction.

Reduces the class rate on two and three unit residential nonhomestead property and vacant land zoned residential from 1.65 to 1.5 percent for taxes payable in 2002, and 1.25 for payable 2003 and thereafter.

Increases the valuation subject to the first tier class rate on single-unit residential nonhomestead property from \$76,000 to \$500,000 and reduces the rate on the first tier from 1.2 to one percent. Reduces the rate on the second tier from 1.65 to 1.25 percent, so that single-unit residential nonhomestead property has the same classification structure as residential homestead property.

Reduces the class rate on class 4C seasonal resort property from a uniform rate of 1.65 percent to

one percent on the value up to \$500,000 and 1.25% on the value over \$500,000.

Reduces the class rate on noncommercial seasonal recreational property (cabins) to one percent on the first \$500,000 of value and 1.25 percent of market value over \$500,000. Under current law, this property has a class rate of 1.2 percent on the value up to \$76,000 and 1.65 percent on the value over \$76,000.

Reduces the class rate on class 4d low-income apartments for property already receiving the classification to 0.9 percent for taxes payable in 2002. Increases the rate to one percent for taxes payable in 2003, and terminates the program for taxes payable in 2004, when the classification rate for all apartments will be 1.25 percent.

36 **Class rate; unmined iron ore and unclassified property (class 5).** Reduces the class rate for class 5 property from 3.4 to 2.0 percent.

37 **Homestead and agricultural market value credits.**

Subdivision 1. Residential homestead market value credit. Creates a new residential homestead market value credit equal to 0.4 percent of the market value of each homestead, to a maximum of \$304 per homestead. The credit is phased out at a rate of .09 percent of the value over \$76,000. The homestead credit is limited to the value attributable to the house, garage, and surrounding one acre of land in the case of an agricultural homestead.

Subd. 2. Agricultural homestead market value credit. Creates a new agricultural credit equal to 0.2 percent of the market value of an agricultural homestead, excluding the value attributable to the house, garage, and surrounding one acre of land, to a maximum of \$230 per homestead.

Subd. 3. Credit reimbursement. Provides that the county auditor shall determine the tax reductions under subdivisions 1 and 2 and shall certify them to the commissioner of revenue as part of the abstract of the lists.

Subd. 4. Payments. Provides that the commissioner of revenue shall reimburse each local taxing jurisdiction other than school districts in two equal installments on October 31 and December 26. The reimbursements related to tax increments shall be paid December 26. The commissioner of the department of children, families and learning shall reimburse the school districts.

Subd. 5. Appropriation. Appropriates amount necessary to make payment to the departments of revenue and children, families and learning.

38 **Aid payments to school districts.** Provides for payment of the new homestead and agricultural credits to school districts.

39 **Net property tax calculation.** Replaces the education homestead credit with the new homestead and agricultural credits in the calculation of net property taxes.

40 **City, town, school district and special district HACA.** Eliminates HACA for cities, towns, school districts and special taxing districts effective with aids payable in 2002.

41- **Manufactured home HACA.** Eliminates manufactured home HACA for cities, towns, school
43 districts and special taxing districts effective with aids payable in 2002.

44 **State tax on transmission and distribution lines.** Provides that the portion of transmission and distribution power line value that is pooled within each county to fund credits for these landowners is subject to the statewide general tax.

45 **State levy for bonded debt.** Provides that the current statutory authority for a statewide property tax for bonded debt is to be levied on the net tax capacity of all taxable property in the state.

46 **State general tax.**

Subd. 1. Levy amount. Provides for the levy of a statewide tax on commercial-industrial and seasonal recreational property. Sets the amount of the levy at \$592 million for taxes payable in 2002, with annual adjustments based on the change in the implicit price deflator for government

purchases. Beginning in fiscal year 2004, directs the commissioner of finance to deposit growth in the state levy to a new education reserve account dedicated to education aid and higher education funding.

Subd. 2. Commercial-industrial tax capacity. Defines commercial-industrial tax capacity for purposes of the state general tax as the tax capacity of all class 3 and class 5 property, excluding the attached machinery of an electric generating system and property located at the MSP International airport and the St. Paul airport.

Subd. 3. Seasonal recreational tax capacity. Defines seasonal recreational tax capacity for purposes of the state general tax as the tax capacity of all class 4c commercial and noncommercial seasonal recreational property, except that the tax capacity of the first \$76,000 of noncommercial seasonal recreational property is reduced by 60 percent.

Subd. 4. State general tax; apportionment and levy. Provides for the state general tax to be levied at a uniform rate statewide, and within each county. Requires the commissioner of revenue to certify the rate annually by November 1 to each county auditor.

- 47 **TnT; notice of proposed property taxes.** Makes the following changes to the proposed property tax notices:
- the notices must only refer to a subsequent public hearing in those cases in which the local unit must hold a hearing under the amended public hearing statute;
 - the notices must contain a phone number for taxpayers to call if they have questions about the notice.
- 48 **TnT; Public advertisement.** Requires a county and a city with population over 2,500 to show in the public advertisement the current tax rate, the proposed tax rate if no property tax levy increase is adopted, and the proposed tax rate if the proposed levy is adopted. Section 96, paragraph (a), repeals the current tax rate increase authorization requirement.
- Also provides that the advertisement for a particular local unit must state that the local unit will conduct a proposed tax public hearing only if it is required.
- 49 **Proposed property taxes public hearings.** Provides that a local unit of government need not conduct a proposed property tax public hearing unless its proposed property tax levy for taxes payable in the subsequent year exceeds its levy for taxes payable in the current year by more than the increase in the implicit price deflator (a measure of inflation.)
- 50 **Special taxing districts.** Adds to the list of special taxing district levies, levies made by:
- emergency medical services special taxing districts; and
 - water management purposes (currently these are levied in the metro by the county governments).
- 51 **Certification of water management levy.** Provides that the taxes voted by the county for the water management purposes shall be separately certified by the county to the county auditor. Hence, when the county is certifying its levy, the amount that is to be levied for water management purposes is a special taxing district levy and will be shown separately on the TnT notice and the property tax statement. (See sections 3 and 50)
- 52 **Abstract of tax lists.** Requires the auditor to list both the local property tax and the state tax on the abstract of tax lists. Provides that a property's ad valorem tax before credits is the sum of its local taxes and its state tax, if applicable.
- 53 **Conversion of market value referenda.** Authorizes counties, cities and towns to convert market value referenda levies to tax capacity levies on a one-time only basis (by October 1, 2001) if over ten percent of the jurisdiction's referendum market value tax base is in classes that are exempted from referendum levies by this act (farms and cabins).

- 54 **Local government reports.** Modifies the reporting requirements for a levy report that counties and cities with a population greater than 2,500 are required to file. Changes the breakdown in reported levies to reflect the most recently allowed special levies outside of levy limits. Requires the report to be filed only in years when levy limits are not in effect.
- 55 **Contents of tax statements.** Makes the necessary changes to the property tax statement to eliminate the state determined school tax and add the state general tax.
- 56 **Settlement of state general tax to state.** Requires the county treasurer to annually pay the state portion of property taxes before June 30. (This is primarily the first one-half property tax payment.)
- 57 **Apportionment of levy; taconite fiscal disparities.** (Technical.) Excludes the general education tax rate and the tax rate attributable to the first \$415 of referendum levy per pupil from the local school district levy for the previous year for purposes of determining school district fiscal disparities distribution levies.
- 58 **Technical.** Corrects a cross-reference to the definition of class 4c property.
- 59 **Tax-forfeited land; county sales.** Clarifies that if the town or city fails to submit the application to acquire the property within the holding period (6 months) the county may offer the property for sale upon expiration of the holding period.
- 60- **Conveyances of tax-forfeited lands.** Makes changes to conveyances of tax-forfeited lands. Under
63 current law, the state will convey tax-forfeited land to any governmental subdivision for an authorized public use upon approval of the county board. The commissioner of revenue is charged with monitoring the subsequent actual use of the property.

These sections modify the conveyance provisions by providing that if after three years from the date of the conveyance a governmental subdivision to which tax-forfeited land has been conveyed for a specific public use fails to put the land to that use, the governing body may, with the approval of the county board, purchase the property at the present appraised value as determined by the county board. In that case, the commissioner shall issue an

appropriate deed to the subdivision free of a use restriction and reverter. If the governmental subdivision chooses not to purchase the property at the end of the three year period, it can repeat the process of requesting county board approval for a new public use deed. These changes do not pertain to deeds of conveyance issued on property in targeted neighborhoods. (see section 60)

These changes will streamline the process for the commissioner and make it easier to monitor that properties have actually been put to a public use. Under current law, there is a five-year period for putting the property to the specified public use, and, in the case of non-usage, a governmental subdivision can keep the property by proposing a different

public use every five years, whereby making it harder for the commissioner to monitor these properties. Use deeds are sometimes inadvertently sold or used for other purposes, which causes a great deal of administrative work to correct the situation.

Effective August 1, 2001, except that no deed issued before August 1, 2002, shall have a limitation of less than five years.

- 64 **Tax-forfeited lands; repurchase after forfeiture.** Provides that a county board may establish an alternative method of computing the repurchase amount for homestead property which has been in tax forfeiture for more than ten years. The equivalent taxes, interest and penalties are calculated using the average of the market value of the property at the time of forfeiture and the current market value, the class rates under current law and the current tax, penalty and interest rates. The tax, penalty and interest calculated in this manner, together with unpaid special assessments, penalties and interest constitute the repurchase price.
- 65 **Allocation of revenues from sales tax on motor vehicles.** Requires 20.5 percent of the revenues derived from the sales tax on motor vehicles are to be deposited in the metropolitan area transit fund

and 1.25 percent in the greater Minnesota transit fund in fiscal year 2003 and thereafter. Beginning in fiscal year 2004, an additional two percent must be deposited in the metropolitan area transit appropriation account, to be used for metro transit systems subject to legislative appropriation.

Note: This same section was amended by Laws 2001, First Special Session, ch. 8, art. 2, sec. 64, and Ch. 13, sec. 19, which dedicates 30.86 percent of the motor vehicle sales tax in fiscal 2002 and thereafter to the highway user tax distribution fund.

66 **Ramsey county tax-forfeited lands.**

Subd. 1. Sale; valuation. Authorizes the Ramsey County Board to sell tax-forfeited lands in the county to any governmental subdivision to be used for any of its public purposes. The county board is authorized to determine the amount of the sale price. In the case of tax-forfeited land which the subdivision has requested for housing purposes, the county board may sell that land for less than the property's appraised value. In determining the value, the county may consider factors including the need for public subsidy, expected increases in property taxes, and the potential use of the property for affordable housing, environmental contamination, site preparation and infrastructure costs, and other relevant factors. Property conveyed for less than its appraised value cannot be included in the a tax increment financing district.

Subd. 2. Use of land. Provides that the deed of conveyance for these lands to the governmental subdivision is conditioned on the continued use for the proposed purpose. If the governing body of the governmental subdivision determines that a different use should be made of the land, it must hold a public hearing, adopt a resolution, and file a copy of the resolution. This change would not require the approval of the county board or the Commissioner of Revenue as is required under general law. Permitted public uses for the land include: street, storm water ponding, drainage, parks, watershed, wetlands, library, fire and police stations, utility easements, and public facilities.

Subd. 3. Reverter of land. Provides that when land has been conveyed for a housing purpose for less than its appraised value and is not used within three years, it may revert back to the county

Subd. 4. Report. Requires a report to the commissioner of revenue on tax forfeited land conveyed for less than the appraised value by September 1, 2004, and by September 1 of each third year after.

67 **Designated housing corporations.** Grants a property tax exemption to housing owned by all federally recognized tribal housing entities which is located on fee land. This is the same property tax treatment currently given to low and moderate income housing owned by statutorily defined housing and redevelopment authorities (HRAs). The 2000 omnibus tax law granted this property tax exemption to housing owned by the White Earth Indian tribe. This section extends that exemption to housing owned in fee by all other federally recognized tribes.

Low and moderate income housing owned by HRAs is not subject to property tax. Instead, the HRA pays 5 percent of the shelter rents for the housing as a payment in lieu of taxes, which is then divided among the taxing jurisdictions where the property is located. Currently, with the exception of the White Earth's exemption, tribally owned housing on fee land is taxed in the same manner as privately-owned housing. Housing on trust land, whether owned by the tribe or by individuals, is not subject to property taxes.

68 **Targeted neighborhoods.** Updates the references in the target neighborhoods to the "most recent" federal census rather than the "1980" census reference. Effective upon availability of the necessary 2000 data required to determine eligibility requirements.

69 **Enterprise zones eligibility.** References a transit zone definition to the 2000 statutes since the transit zone language is repealed in section 96. Effective beginning with taxes payable in 2002.

70 **Financial assistance; opt-out cities.** Provides that the metropolitan council must annually provide each opt-out city with financial assistance at least equal to the assistance received in 2001 or the transit tax levied within the city for taxes payable in 2001, increased proportionately by the growth

in the metropolitan area transit fund and by the relative growth in the city's market value base relative to the growth in market value tax base of the metropolitan area as a whole.

- 71 **Transit levies; opt-out cities.** Eliminates the authority of opt-out cities to levy property taxes for transit services, except to pay debt service for transit capital expenditures.
- 72 **Transit levies; metropolitan council.** Eliminates the authority of the metropolitan council to levy property taxes to pay for operating costs of transit systems. Expands the geographic area subject to metropolitan transit levies to the entire metropolitan area, and provides for existing as well as new capital levies to be spread against the expanded area. Allows the council to issue certificates of indebtedness if revenues to the metropolitan area transit fund do not grow by at least the same percentage as the consumer price index. Also eliminates the "feathering" program, a state-paid tax relief program which lowered the transit tax in those parts of the transit district receiving a lower level of transit services.

Note: The provisions of this section calling for the Metropolitan Council's transit debt levy to be levied against the entire metropolitan area was modified by Laws 2001, First Special Session, ch. 8, art. 2, sec. 72, which states that notwithstanding the provision in the tax act, the Council may not levy against a municipality outside the transit district as defined on January 1, 2001, unless the Council and the governing body have agreed on a service expansion plan.

- 73 **Apportionment of levy; metro fiscal disparities.** (Technical.) Excludes the general education tax rate and the tax rate attributable to the first \$415 of referendum levy per pupil from the local school district levy for the previous year for purposes of determining school district fiscal disparities distribution levies. Excludes the transit operating tax rate from the metropolitan council's levy for the previous year for purposes of determining the council's fiscal disparities distribution levy. Excludes the transit tax rate from the city levy for the previous year for purposes of determining city fiscal disparities distribution levies for opt-out cities.
- 74 **Tax effort rate.** Increases the tax effort rate used in the city LGA formula to account for the elimination of city HACA in section 40.
- 75 **City aid base; local government aid (LGA).**
- (n) Increases the city aid base portion of a city's LGA payment by \$50,000 for the years 2002 to 2011, for the city of Osseo.
- (o) Increases the city aid base and the maximum aid increase in 2002 of each nonmetro city of at least 10,000 population by an amount equal to the lesser of (1) \$60 times the population of the city in excess of 5,000, as determined by the United States census bureau, or (2) \$2,500,000.
- (p) Increases the city aid base portion of a city's LGA payment by \$50,000 for the years 2002 and thereafter, for a city that meets the following criteria:
- it is located in the seven county metropolitan area;
 - its 2000 population is between 10,000 and 20,000; and
 - its commercial industrial percentage for aids payable in 2001 was greater than 25 percent.
- The cities of Hopkins and Chaska are the only cities that meet these criteria.
- (q) Increases the city aid base portion of a city's LGA payment by \$50,000 for the years 2002 to 2011, for a city that meets the following criteria:
- its 1999 population is between 3,000 and 4,000;
 - its home county is located in the seven county metropolitan area;
 - the percent of its total housing stock built before 1940 is less than 15 percent; and
 - its city net tax capacity in Pay 2000 is less than \$900 per capita.

The city of Newport is the only city that meets these criteria.

- 76 **Town LGA.** Eliminates town LGA beginning with aids payable in 2002.
- 77 **City LGA distribution.** Limits LGA increases in 2002 for first-class cities to 102.5 percent of the sum of its 2001 LGA plus HACA. Limits aid increases for cities other than cities of the first class to 40 percent of the sum of (1) its net levy for taxes payable in 2001, plus (2) its 2001 HACA amount. Removes an obsolete reference.
- 78 **LGA; annual appropriation.** Provides an increase in the city LGA appropriation in 2002, of \$140 million over current law.
- 79 **Rental housing tax base replacement aid.**
- Subd. 1. Aid amount.** Provides aid to counties and cities in 2003 and subsequent years based on the reduction in tax capacity resulting from rental housing class rate reductions for taxes payable in 2003 and 2004. The aid is equal to the jurisdiction's reduction in tax capacity in excess of 0.4 percent of the jurisdiction's total net tax capacity times the jurisdiction's local tax rate for the previous year.
- Subd. 2. County aid.** Provides that a county's 2003 aid amount under subdivision 1 is permanently added to the county's HACA base amount for 2003 and subsequent years, and that a county's 2004 aid amount is permanently added to the county's HACA base amount for 2004 and subsequent years.
- Subd. 3. City aid.** Provides that a city's 2003 aid amount under subdivision 1 is permanently added to the city's grandfathered LGA base amount for 2003 and subsequent years, and that a city's 2004 aid amount is permanently added to the city's grandfathered LGA base amount for 2004 and subsequent years.
- Subd. 4. Appropriation increase.** Provides for an increase in the overall city LGA appropriation limit by the amount of additional aid provided under this section for 2003 and 2004.
- 80 **In-lieu payments.** Provides in lieu payments for certain wetlands acquired by the department of transportation (DOT).
- Subd. 1.** Provides that in lieu payments will be made for land that is acquired from a private owner by the DOT for the purpose of replacing wetland losses caused by transportation projects, if the county contains more than 500 acres of this type of land at the time the certification is made under subdivision 2. The county will receive the same per acre payment for this land as they currently receive for "acquired natural resource land." For payments in 2001, that amount was \$3.56.
- Subd. 2.** Provides that the commissioner of transportation shall annually determine the number of acres of qualifying land, and shall certify to the commissioner of revenue by March 1 of the payment year, the acreage and appraised value in those counties where the number of acres exceed 500. The commissioner of revenue shall include these acres when determining the distributions under this section.
- Subd. 3.** No changes made to current law.
- 81 **Use of funds.** Provides that when the county makes its in-lieu payment to each organized township for the acquired natural resources land, the payment shall also include amounts for these wetland acres located within the township's boundaries. (See section 80)
- 82 **Education Finance Act of 1992.** Strikes language in current law that is scheduled to eliminate the current school finance system. The language was passed in 1992 in an effort to restructure the state's education funding system. (See repealer in section 96, clause (c))
- 83 **Dakota county; conveyance of tax-forfeited land.**
- Paragraph (a)** provides that if special school district No. 6 conveys certain lands (described in (c)) to the state, then the commissioner of revenue shall reconvey that land to special school district No. 6 for no consideration (i.e., at no cost).

Paragraph (b) provides that the conveyance must be in a form approved by the attorney general (which is standard practice). Allows the school district to use or sell the land for other than a public use and further provides that the state shall not retain a reversionary interest and shall convey the land free of the trust in favor of the school district. Under current law, when a taxing district obtains tax-forfeited land, the land must be used for a public use.

Paragraph (c) describes the land to be conveyed, which is in the city of South St. Paul, Dakota county.

84 **Minnehaha Creek watershed district.** Allows the Minnehaha Creek watershed district to annually levy up to \$50,000 for enforcing rules and permits. No local approval is necessary. This is in addition to the general levy increase in section 4.

85 **Sale of tax-forfeited land; St. Louis County.**

Paragraph (a) authorizes St. Louis county to sell certain lands (described in (c)) by private sale to one or more of the owners at the time of forfeiture.

Paragraph (b) provides that the conveyance must be in a form approved by the attorney general (which is standard practice).

Paragraph (c) describes the land to be conveyed, which is in St. Louis county.

Paragraph (d) states that the county has determined that returning the land to private ownership is in its best land management interests.

86 **Red River watershed management board.** Provides that the Red River water management board may compensate counties and townships for property tax revenue lost when land is acquired by the board for a flood damage reduction project. The payment amount cannot exceed the tax payable to the county or city/township on the land in the last taxes payable year before the land was exempted, and cannot exceed \$4/acre, multiplied by 20. (The "20," in effect, allows the payment to reimburse a local government for up to 20 years of lost taxes.)

87 **Additional levy; Nashwauk-Keewatin school district.** Allows the Nashwauk-Keewatin school district to levy up to \$25,000 per year to finance the Nashwauk-Keewatin School-Community Library and Community Service Project.

88 **Reimbursement for annexed property.** Allows Chisago City and Wyoming township to set the time limit for the city's reimbursement for annexed property (commercial and business park) as part of a joint powers agreement. Current law requires reimbursement over a period of not less than two but not more than six years. Effective July 1, 2002.

89 **Penalties and interest; St. Louis county.** Forgives penalties and interest to a property owner in St. Louis County if the taxpayer enters into an installment agreement with the county by August 15, 2001, to pay taxes and special assessments due for payable year 1997 and fulfills the terms of the payment agreement.

90 **MHFA rulemaking authority.** Allows MHFA to adopt administrative rules relating to qualifications for the class 4d low-income apartment classification. Administrative determinations made by MHFA relating to this program are valid until January 1, 2003.

91 **Proposed notices; public hearings; taxes payable 2002 only.**

Subd. 1. Public hearings. Suspends the public hearing requirements for truth in taxation (TnT) for taxes levied in 2001, payable in 2002. However, this does not prohibit a taxing authority from holding a public hearing if it so chooses. Hearing requirements are reinstated for payable 2003 and thereafter.

Subd. 2. Proposed notices. (a) Suspends the parcel-specific notice requirements as contained in current law for taxes levied in 2001, payable in 2002. Requires a modified parcel-specific notice

unless waived by the commissioner of revenue in extenuating circumstances as provided in subdivision 3. Contains a listing of the various items that should be contained on the TnT notice. Generally, it is many of the same items (i.e., the tax itemized by taxing authority) as contained on the current parcel-specific notice **except** this proposed notice requires only the proposed payable 2002 tax information. The notice under current law requires four columns of data: current year, proposed year, and two columns for changes due to spending and other factors.

(b) Requires the **total** (not each taxing authority's) net tax for taxes payable in 2001. Also requires the property's classification and market value for payable 2001 and 2002.

(c) Provides the commissioner shall prescribe the form and can modify its contents. Notices must be mailed by December 14, 2001 (this is about a month extension from current law).

Subd. 3. Waivers. Gives the commissioner the power to waive or modify the parcel-specific notice based on information supplied to the commissioner from a county and at the request of the county board. Also allows the commissioner to waive procedures or deadlines having to do with administration of the property tax for payable 2002.

Subd. 4. Supersedes. Provides that this section supercedes the public hearing and notice requirements in current law for payable 2002.

92 **Report on assessment practices.** Requires an annual report by the department of revenue regarding market values and assessment practices, including:

- market value trends for up to five years;
- analysis of effects of limited market value;
- tax shift implications of market value trends and limited market value;
- assessment qualify indicators (such as sales ratios, etc.);
- consideration should be given to factors such as number of sales, time period, geographical area, etc.;
- state board orders; and
- percentage of parcels that change in value per year.

93 **State aid certification.** Extends the time for the commissioner of revenue to certify state aid payable amounts to September 1, 2001, for aids payable in 2002 only.

94 **Class 4d.** Provides for the treatment of class 4d property for taxes payable in 2003 (the class is eliminated for payable 2004). Provides that any property qualifying for class 4d in payable 2002 automatically qualifies for payable 2003 without filing an application, although the income restrictions and rent restrictions remain in place.

95 **Appropriation.** Appropriates \$5 million from the general fund to the metropolitan council for transition to the conversion of metropolitan area transit funding for FY 2002.

96 **Repealer.**

Paragraph (a) repeals provisions replaced by the tax reform in this law:

- the transit zone personal property tax
- education homestead credit and credit adjustment
- tax increment financing state aid reductions
- authorization for tax rate increases
- transit zone determination
- metropolitan transit area levy

Paragraph (b) repeals 12 watershed special laws made unnecessary by the proposed increase in general law for the maximum property tax levy. (See section 4)

Paragraph (c) repeals the Education Finance Act of 1992, originally intended to replace the current state education finance system with a new education funding system that was never developed.

Paragraph (d) repeals the low income housing program (class 4d), effective for taxes payable in 2004.

Article 3: CLASS RATE CHANGES

	Class Rate Pay 2001	New Class Rates for Pay 2002		
		Class Rate	Subject to State Tax	Subject to Referendum Levies
Residential Homestead:				
Up to \$76,000	1.0 %	1.0 %		yes
\$76,000 - \$500,000	1.65	1.0		yes
Over \$500,000	1.65	1.25		yes
Residential Nonhomestead:				
Single unit:				
Up to \$76,000	1.2	1.0		yes
\$76,000 - \$500,000	1.65	1.0		yes
Over \$500,000	1.65	1.25		yes
2-3 unit and undeveloped land	1.65	1.5 ¹		yes
Apartments:				
Regular	2.4	1.8 ²		yes
Small city	2.15	1.8 ²		yes
Low-income	1.0	0.9 ³		yes
Commercial-Industrial-Public				
Utility:	2.4	1.5	yes	yes
Up to \$150,000	3.4	2.0	yes	yes
Over \$150,000	3.4	2.0		yes
Electric generation machinery				
Seasonal Recreational				
Commercial:	1.0	1.0		yes
Homestead resorts (1c):				
Seasonal resorts (4c):	1.65	1.0	yes	yes
Up to \$500,000	1.65	1.25	yes	yes
Over \$500,000				
Seasonal Recreational				
Residential:	1.2	1.0	yes ⁴	
Up to \$76,000	1.65	1.0	yes	
\$76,000 - \$500,000	1.65	1.25	yes	
Over \$500,000				

Disabled homestead	0.45	0.45	yes
Agricultural land & buildings:			
Homestead⁵:			
Up to \$115,000	0.35	0.55	
\$115,000 - \$600,000	0.8	0.55	
Over \$600,000	1.2	1.0	
Nonhomestead	1.2	1.0	

¹ Rate reduced to 1.25% in pay 2003 and thereafter.

² Rate reduced to 1.5% in pay 2003 and 1.25% in pay 2004 and thereafter.

³ Rate increased to 1.0% in pay 2003, classification abolished in pay 2004.

⁴ Taxed at 40% of regular state rate.

⁵ House, garage, and one acre treated the same as residential homestead.

Article 4: Property Tax Refund Overview

Increases the maximum homeowner property tax refund to \$1,500 and the maximum income eligible to \$80,000.

Revises the homeowner property tax refund for claimants with household incomes under \$50,000 by reducing the income thresholds and the percent of tax over the threshold required to be paid by the taxpayer.

Limits the homeowner refund for farmers to the tax on the house, garage, and one acre of land.

Provides for the special property tax refund ("targeting") to be calculated before the regular refund ("circuit breaker"). Under current law the circuit breaker is calculated first, then targeting.

- 1 **Definition of homestead.** Limits the homeowner property tax refund for farmers to taxes on the house, garage, and one acre of land. Current law allows the property tax refund on the house, garage, and first \$600,000 of market value of agricultural land.
- 2 **Property taxes payable.** Provides that the special homeowner property tax refund ("targeting") will be calculated before the regular property tax refund ("circuit breaker"), beginning with refunds based on taxes payable in 2002.
- 3 **Property tax refund; homeowners.** Increases the maximum homeowner property tax refund and the maximum income eligible for the homeowner property tax refund ("circuit breaker"), effective for refunds based on taxes payable in 2002. With the change in the base year used for adjusting the maximum refund and income for inflation proposed in this article, the new maximum refund is projected at \$1,500 and the new maximum income eligible at \$80,000 for refunds based on taxes payable in 2002. Also decreases the income threshold and the taxpayer's co-payment amount for incomes below \$50,000. Under current law the maximum refund is \$510 and the maximum income eligible is \$71,100.
- 4 **Property tax refund; renters.** Updates the renter property tax refund schedule to the income thresholds and maximum refunds in effect for refunds based on rent paid in 2001. This is necessary in order to put the renter and homeowner refund on a common base year for the annual inflation adjustment.

5 **Targeted refund.** Provides that the special property tax refund ("targeting") is calculated before the regular property tax refund ("circuit breaker").

6 **Inflation adjustment.** Provides for the homeowner and renter property tax refund maximum amounts and income thresholds to be adjusted annually for inflation, with the common base year of 2001.

Article 5: State Takeover of County Services

Overview

Provides for the state takeover of costs of district court administration and mandated court services in judicial districts not yet taken over.

Provides for a county HACA subtraction of seventy-five percent of costs in the first year of takeover and the remaining twenty-five percent in the following year.

The court takeover occurs according to the following schedule:

- July 1, 2003, for the second and fourth districts;
- July 1, 2004, for the first and third districts; and
- July 1, 2005, for the sixth and tenth districts.

The **first district** consists of counties south of Minneapolis/St. Paul: Carver, Dakota, Goodhue, LeSueur, McLeod, Scott and Sibley counties.

The **second district** is Ramsey county.

The **third district** consists of counties in southeastern Minnesota: Dodge, Fillmore, Freeborn, Houston, Mower, Olmsted, Rice, Steele, Wabasha, Waseca, and Winona counties.

The **fourth district** is Hennepin county.

The **sixth district** consists of the Arrowhead region: Carlton, Cook, Lake and St. Louis counties.

The **tenth district** consists of counties north of Minneapolis/St. Paul: Anoka, Chisago, Isanti, Kanabec, Pine, Sherburne, Washington, and Wright counties.

Provides for reimbursement of a percentage of nonfederal out-of-home placement cost to counties beginning with aids in 2003. This reimbursement is only paid if the commissioners of human services and corrections certify that accurate data is available to calculate the payment.

The reimbursements are fund by a HACA reduction in the first year of the program.

1, **Fines and fees.** Provides that various court fines and fees shall be transferred to the state, in
9, counties where the state court takeover has occurred.

10,
17

2 **Court employee units.** Requires the state court administrator to make initial assignment of classifications to bargaining units by August 15 of the year preceding the year in which the state assumes the costs of court administration for each judicial district.

3 **Contract and representation responsibilities.** Provides that rights and duties of exclusive representatives of units of court employees begin on July 1 of the year in which the state assumes funding of court administration for the judicial district.

4 **Contracts.** Provides that negotiations for employment contracts may begin any time after July 1 of the year preceding the year in which the state assumes the cost of court administration, and take effect on July 1 of the year of the takeover.

5 **Aid offset for court costs.** (a) Requires the supreme court to determine each county's cost savings under the provisions of this article by July 15 of the year preceding the year in which the costs of court administration are taken over by the state. The costs determined are the net costs after subtraction of the county's fines transferred to the state.

(b) Specifies that a county's cost savings equals

103 percent of required court administrative expenditures for calendar year 2003, plus an adjustment for salary increases greater than the six percent maintenance of effort requirement, less the county's share of transferred fines in calendar year 2003.

Allows the court and the county to negotiate and certify an amount higher than the calculated amount.

(c) Provides for the salary adjustment allowed in calculating county costs to be based on the difference between:

- (1) the cumulative percentage increase in actual and anticipated salary settlements, and
- (2) the county's maintenance of effort percentage for the year in which the takeover occurs.

(d) Provides that a county's homestead and agricultural credit aid (HACA) payment is permanently reduced by 75 percent of the net cost determined in paragraph (a) in the calendar year in which the state takeover occurs.

(e) Provides that a county's homestead and agricultural credit aid (HACA) payment is permanently reduced by the remaining 25 percent of the net cost determined in paragraph (a) in the second year calendar year after the state takeover occurs.

(f) no change

(g) Provides that a county's homestead and agricultural credit aid (HACA) payment is permanently reduced by the cost of mandated court services in 2002. The supreme court shall determine the amount for each county and certify it to the commissioner by July 15, 2001.

- 6 **Court expenditures; maintenance of effort.** Requires counties in which court services have not yet been taken over by the state to budget for administrative costs and mandated court services using an annual percentage increase of six percent from 2001 to 2003 and eight percent from 2004 to the year of the transfer.
- 7 **Temporary aid; court administration costs.** Provides for additional HACA in calendar years 2004 and 2005 for counties in which court services have not yet been taken over by the state. The additional aid equals the difference between the county's maintenance of effort requirement and the 2003 court administration costs.
- 8 **Aid offset for out-of-home placement costs.** Provides a HACA reduction in calendar year 2003 to offset the state cost of reimbursing counties for a portion of their out-of-home placement costs. The reduction is based on the average out-of-home placement costs for each county over the last three years. The offset only occurs if accurate data is available to allow calculation of the reimbursement amount.
- 11 **Reimbursement of county for certain out-of-home placement.** Beginning in calendar year 2003, provides a new aid to counties to reimburse them for a percent of the nonfederal cost of out-of-home placements.

Subd. 1. Aid payments. Provides that the payment to each county will be based on a percent of its average out-of-home placement costs for the last three years. The percent in the first year is selected so that the reimbursement amount does not exceed the available HACA for the required aid offset in any metropolitan area county. The percent paid can not exceed 30 percent.

Subd. 2. Determination of nonfederal share of costs. Requires counties to provide the data necessary for calculating this aid to the commissioners of human services and corrections. If the commissioners do not certify that the data is accurate enough to calculate the aid, the aid will not be paid.
- 12 **Appropriation.** Provides an open and standing appropriation to pay the out-of-home placement

reimbursement under section 11 beginning with aids in 2003. Provides that the appropriation for this program is limited in future years to the appropriation from the previous year, increased as required by law. The increase is currently undefined.

13 **State employees.** Provides that the court administrator and employees of the court administrator become state employees on this schedule:

- July 1, 2003, for the second and fourth judicial districts,
- July 1, 2004, for the first and third judicial districts, and
- July 1, 2005, for the sixth and tenth judicial districts.

14 **Post-retirement benefit costs.** Requires counties to pay the cost of post-retirement insurance benefits for court administration, guardian ad litem, and interpreter employees who elect to retain county benefits after the takeover.

15 **Judicial districts; scheduled dates of state transfer.**

Subd. 1. Date of state transfer. Provides that court administration costs will be transferred to the state effective:

- July 1, 2003, for the second and fourth judicial districts;
- July 1, 2004, for the first and third judicial districts;
- July 1, 2005, for the sixth and tenth judicial districts.

Subd. 2. Definition; salary expenditures. Defines salary expenditures to include the salary of court administration employees including related fringe benefits and insurance.

Subd. 3. Definition; court administration costs. Defines court administration costs as salary expenditures and other related administrative operating expenses.

Subd. 4. Definition; mandated court services. Defines mandated court services as guardian ad litem, interpreters, rule 20, civil commitment, and in forma pauperis costs. (Mandated services were transferred effective July 1, 2001.)

16 **Facilities.** Requires counties to provide court facilities at the county seat, and to be responsible for the cost of maintaining the facilities.

20 **Miscellaneous cost.** Updates a reference for the proposed takeover of mandated court services.

21 **Transitional provisions.**

Subd. 1. Transfer of property. Provides that personal property used by employees being transferred to state employment is also transferred to the state.

Subd. 2. Rules. Provides that the supreme court may adopt rules to implement the act.

Subd. 3. Budgets. Requires court administrators to submit their budgets to the supreme court for the fiscal year in which the state is assuming the costs of court administration.

22 **Appropriation.** Increases the base appropriation to the supreme court by \$39,240,000 in fiscal year 2004 and \$17,316,000 in fiscal year 2005 to reflect the transfer of the remaining judicial districts.

Increases the base appropriation to the supreme court by \$8,701,253 million in FY 2002 to fund the state takeover of mandated court services.

Appropriates \$1.7 million in fiscal year 2004 and an additional \$1.7 million in fiscal year 2005 to the supreme court to fund court takeover equity adjustments. Adds these amounts to the court's base budget.

Note: This section was modified by the Transportation and Public Safety Omnibus Act (Laws 2001, First Special Session, ch. 8, art. 5, sec. 23) by changing the appropriations from the supreme court to the trial courts.

Article 6: Minerals Taxes

Overview

Provides taconite production tax relief of 21.7 cents per ton consisting of:

- (a) a 7 cent per ton tax rate reduction, and
- (b) a 14.7 cent per ton increase in the investment credit, beginning in 2002.

Redefines the taconite tax relief area to exclude certain property which will begin receiving supplemental homestead relief, which is paid from the state's general fund.

Requires taconite companies to make matching expenditures before receiving certain economic development fund monies (i.e., investment credits)

Transfers about \$10 million from the taconite relief account to cities and towns for property tax relief; payable 2002 only.

Authorizes all remaining counties to impose gravel taxes after a public hearing and approval from the county board.

- 1 **Technical.** Adds cross-references to maintain references to the existing definition of the taconite tax relief area in section 4.
- 2-3 **Taconite school aids.** Provide that due to the property tax reform changes made in this law (i.e., the state takeover of the general education levy), these sections adjust for the elimination of the general education levy determination.
- 4 & 8 **Taconite tax relief area.** Changes the definition of the taconite tax relief area for purposes of the taconite homestead credit only. Sections 4 and 8 together provide that the Aitkin, Crosby-Ironton and Grand Rapids school districts will no longer receive the taconite homestead credit but rather an identical supplemental homestead credit funded by the state general fund. A new paragraph (b) in section 4 maintains the existing definition of the taconite tax relief area for purposes other than the taconite homestead credit.
- 5-7 **Technical.** Cross-references are changed to maintain reference to the existing definition of the taconite tax relief area in section 4.
- 9 **Aid payment dates.** Changes the payment date of the supplemental homestead credit to the dates applicable to most other property tax aids and credits.
- 10-13 **Technical.** Cross-references are changed to maintain reference to the existing definition of the taconite tax relief area in section 4.
- 14 **IRRRB spending.** Requires decisions by the Iron Range Resources and Rehabilitation commissioner to be consistent with the spending priorities set under section 15.
Also includes technical cross-reference change to maintain reference to the existing definition of the taconite tax relief area in section 4.
- 15 **Spending priority.** Requires that when making or approving any expenditures on programs or projects, the highest priority shall be given to programs and projects that target relief to those areas that have the largest percentages of job losses and population losses directly attributable to the economic downturn in the taconite industry since the 1980s, specifically those losses in 2000 and 2001 resulting from the closure of LTV Steel Mining Company. This supersedes any conflicting provisions of law and does not preclude the commissioner and the board from making expenditures in other areas.
Also includes technical cross-reference change to maintain reference to the existing definition of the

taconite tax relief area in section 4.

16- **Technical.** Cross-references are changed to maintain reference to the existing definition of the
19 taconite tax relief area in section 4.

20 **Taconite municipal aid distribution.** Increases the guaranteed aid level for cities and towns containing taconite mines or quarries or concentrate production facilities. Funds needed to pay the difference between the formula-determined amount and the guaranteed amount are from the Taconite Environmental Protection Fund and the Northeast Minnesota Economic Protection Fund. Under current law, these cities and towns get a formula-determined amount of aid subject to a guarantee level of at least the amount of aid received in 1984 (based on 1983 production). The guaranteed aid level is reduced if taconite production is less than 42 million tons region-wide. Under this section, the guarantee level is increased to the amount received in 2000 (based on 1999 production). As in current law, it provides for a reduction in the guarantee level if taconite production is less than 42 million tons region-wide.

Effective for distributions in 2001 and thereafter. For the (retroactive) 2001 aid increase, two-thirds of the funding is to come from the Taconite Environmental Protection Fund and one-third from the Northeast Minnesota Economic Protection Trust Fund.

21 **Taconite economic development fund.** Increases the distribution to the taconite economic development fund by 14.7 cents per ton (i.e., the total is 30.1 cents per ton) beginning in 2002 (see section 27). Under current law the distributions are set at 15.4 cents per ton only through 2002 and are not paid in any year in which the total industry production falls below 30 million tons.

Modifies how the dollars are released from the fund. Provides that the money shall be released by the commissioner after review by a joint committee. The review must be completed no later than six months after a producer presents a proposal for expenditures of the funds.

The producer must provide a matching expenditure of at least 50 percent of the distribution based on 14.7 cents per ton beginning with distributions in 2002. Under current law no match is required. This match is only on the increased cents per ton in the fund. If a producer fails to provide the matching funds for the proposed expenditure within six months after the commissioner approves release of funds, the funds are available for release to another producer.

22 **Taconite tax rate.** Provides a reduction in the production tax rate and freezes the tax rate at the production year 2001 level for three years. The rate will be \$2.103 per ton. (The current rate is \$2.173 per ton.) The rate will be indexed beginning in production year 2004.

23 **Technical.** Adds a cross-reference to the collection, payment and distribution provisions to the changes made elsewhere in the article.

24 **School districts.** Provides that for distributions in 2003 and thereafter, aid distributions to each school district will be redirected to the cities and towns coterminous with the district.

Also allows a school district that is eligible to receive taconite referendum aid to continue to receive that aid if the school district had a referendum allowance in fiscal year 2002 and received revenue under Minn. Stat. § 298.28. Effective for revenue in fiscal year 2003.

25 **Property tax relief account.** Reduces the distribution to the taconite property tax relief account used to fund the taconite homestead credit to 35.9 cents per ton. This change is made since the change to the taconite tax relief area definition (section 4) reduces the amount of dollars needed from this fund.

26 **Technical.** Cross-references are changed to maintain reference to the existing definition of the taconite tax relief area in section 4.

27 **Taconite economic development fund.** Increases the distribution to the taconite economic development fund by 14.7 cents to 30.1 cents per ton for 2002 and thereafter. Under current law the

distributions are set at 15.4 cents per ton only through 2002 and are not paid in any year in which the total industry production falls below 30 million tons.

- 28 **Technical.** Resets the base year for indexing the distribution to the taconite property tax relief account as a result of the change in section 25.
- 29- **Technical.** Cross-references are changed to maintain references to the existing definition of the
31 taconite tax relief area in section 4.
- 32 **2002 Fund.** Extends the prohibition on expending the corpus of the "2002 Fund" by one year to January 1, 2003.
- 33 **Producer grants.** Expands the list of projects qualifying for grants or loans from the Northeast Minnesota economic protection trust fund to include the purchase of haulage trucks and equipment, mining shovels, and plant repairs.
Changes the restrictions on the amount paid out of this fund to be for "grants" only. (Current law provides it can be "grants" or "loans.")
- 34 **Technical.** Cross-references are changed to maintain reference to the existing definition of the taconite tax relief area in section 4.
- 35 **County gravel tax.** Extends the authorization to impose the aggregate removal tax (i.e., the gravel tax) by allowing any county that has not yet been given specific statutory authority to impose the tax, to do so by a vote of the county board. The board must hold a public hearing prior to voting, and must notify the commissioner of revenue if the board votes to impose the tax.
Eliminates "building stone" from the list of materials subject to the gravel tax and adds "borrow" transported on a public road, street or highway.
- 36 **Gravel tax rate.** Authorizes counties to impose the gravel tax at a rate of **up to** 10 cents per cubic yard, or **up to** 7 cents per ton. Current law requires counties that impose the tax to set the tax at these exact rates; this change would authorize lower rates at the discretion of the county.
- 37 **Technical.** Cross-references are changed to maintain reference to the existing definition of the taconite tax relief area in section 4.
- 38 **City and town taconite aid; Pay 2002 only.** Provides a one-time appropriation from the taconite property tax relief account to fund a transitional aid to taconite cities and towns for taxes payable in 2002.
- 39 **Appropriation; taconite state aid.** Provides an appropriation equal to taconite state aid to be added to the taconite production tax distributions equal to 33 cents per taxable ton for production year 2001 and 22 cents per taxable ton for production years 2002 and thereafter. The amounts are to be distributed by the formula under current law.

Article 7: Tax Administration

Overview

Makes various changes recommended by the department of revenue to the income tax, sales tax, property tax, mortgage and deed tax, petroleum tax, health care taxes, cigarette and tobacco taxes, and liquor taxes.

Sets a fixed amount of rent used in calculating the property tax refund for residents of nursing homes, intermediate care facilities, and adult foster care.

Changes the incidence of the mortgage registry tax from the mortgagee to the mortgagor.

Requires a study on the effectiveness of the income tax reciprocity agreement with Wisconsin.

- 1 **Powers of commissioner.** Specifies notice the commissioner must give debtors in certain student loan cases before using specified tax remedies to collect the debt.

- 2 **Proof of sales tax payment.** Provides that before the initial registration of an all-terrain vehicle in Minnesota, the person applying for the registration must file a certificate with the Department of Natural Resources indicating that sales tax was paid or that the purchase was exempt from the sales tax.
- 3 **Water connection fee.** Transfers the responsibility of collecting the water connection fee from the Commissioner of Revenue to the Department of Health. Codifies a long-standing agreement between the departments.
- 4 **Substitutes "bar" for "disbar."** Amends terminology so that a tax practitioner can be "barred," rather than "disbarred," from practicing before the commissioner for certain misconduct.
- 5 **Fee agreements with tribal governments.** Authorizes the commissioner of revenue to enter into agreements with the governing body of any federally recognized Indian reservation in Minnesota concerning fees administered by the commissioner that are paid by the tribe, members of the tribe, and on reservation activities. The agreement is not valid unless signed by the head of the agency, board, or governmental entity that administers the program funded by each fee covered in the agreement.
- 6 **Levy and sale by sheriff.** Makes the time limit for the issuance of a warrant by the commissioner to the county sheriff consistent with the time limit for collection of delinquent taxes. The time limit for issuance of a warrant is changed from five years after the date of assessment to be whenever a filed lien remains enforceable.
- 7 **Liquor posting.** Adds the minimum fee for corporations and partnerships, and the taxes on electing S-corporations on built-in gains, capital gains, and passive investment income to those for which liquor posting is a permitted collection action.
- 8 **Hospital debts.** Sets 2000 as the base year for annually indexing the income level at which hospital debts become subject to revenue recapture. This income level is indexed under present law; the income levels added in this section are the levels in effect for tax year 2000. This is one of a series of technical changes that would update all indexed items to a common base year.
- 9 **Data Privacy.** Classifies as private data (available only to the data subject): data collected by the revenue department from claimant agencies about claims filed under revenue recapture.
- 10 **Protected nonpublic data.** Classifies as protected nonpublic data (not available to anyone outside the agency): criteria for determining what tax violations to criminally prosecute. This is the same data classification as used for tax audit selection criteria.
- 11 **Confidential data on individuals.** Classifies as confidential/protected nonpublic all data provided by a tax informer. Current law covers only unsolicited data provided by an informer.
- 12 **Data collected during a criminal investigation.** Provides that when an investigation becomes inactive, the data from it are private or nonpublic. Under present law, data on closed investigations relating to tax types classified as public (such as cigarette and liquor taxes) are open to the public, but data on closed investigations relating to tax types classified as private (such as individual income tax) are accessible only to the taxpayer.
- 13 **Pollution control exemption.** Extends the pollution control equipment property tax exemption to equipment that prevents discharges and to property installed and operated under federal regulations. Present law limits the exemption to property installed or operated in accordance with a permit or order issued by the pollution control agency (PCA). Also specifies that the commissioner of revenue is to make the exemption decision based on information and advice supplied by the PCA.
- 14 **Appointment of county assessors.** Authorizes the commissioner of revenue to grant two-year probationary approval to county assessor appointments. Present law requires the commissioner of revenue to approve the appointment of each county assessor for the entire four-year term.
- 15 **County assessor vacancies.** Extends the time period allowed to county boards to fill a vacancy in

the office of county assessor from 30 days to 90 days. Also changes the conditions under which a county board may terminate a county assessor before the end of that assessor's four-year term. Current law states that the commissioner of revenue must charge the assessor with "inefficiency or neglect of duty." The new language changes this to "malfeasance, misfeasance or nonfeasance" by the assessor.

- 16 **County/local district assessments.** Eliminates the requirement that the commissioner of revenue approve local agreements entered into under joint powers agreements that provide for the assessment of property within a city or town by the county assessor. Also strikes some obsolete language.
- 17 **Training and education of assessment personnel.** Requires that beginning with the period July 1, 2000, and in every four-year period thereafter, each Minnesota assessor licensed as an Accredited or Senior Accredited Minnesota Assessor will have successfully completed a week-long course on Minnesota property tax laws sponsored by the department of revenue. Also allows the commissioner of revenue to require that each county, and each city for which the assessor performs the duties of county assessor, have a person on staff who has been certified by the commissioner to do sales ratio calculations, tax calculations, and preparation of the abstracts of assessment. Each county may be required to have a person certified by the department to prepare the abstracts of tax lists in proper form.
- 18 **Iron ore value adjustment.** Strikes an obsolete reference to an adjustment that is no longer required by law.
- 19 **Green Acres valuation.** Strikes references to a repealed subdivision that required sales data to be correlated with soil survey information for specified locations. That provision was repealed because the information generated by the soil survey was too specific to be useful. The stricken references relate to developing agricultural-use market values for land in the "green acres" program; and are stricken because the data referenced is no longer computed.
- 20 **Valuation and classification notices.** Makes several changes:
 - requires valuation notices for all properties on the tax rolls, not just for those that were reassessed or reclassified that year;
 - requires the notices to show the market value and classification of the property for both the current and prior year's assessment;
 - authorizes the commissioner to specify the form of the notice for all counties.
- 21- **Local and county boards of review and equalization.** Provide for the local board of review, and
- 22 the county boards of equalization to be referred to as the "board of appeal and equalization." Eliminate the mandate for counties to have Saturday informational meetings if 25 percent or more of the tax base for a city or town within the county is noncommercial seasonal recreational residential property.
- 23 **Tax-forfeited land; abandoned personal property.** Updates references directing how a county may sell personal property that has been abandoned on tax-forfeited land. Provides the same powers to counties as under current law but makes a more specific reference.
- 24 **Mortgage registry tax computation; liability for tax.** Changes the mortgage registry tax from 23 cents for each \$100 or fraction of the debt secured, to 0.23 percent of debt secured. Changes the legal tax incidence from the mortgagee to the mortgagor.
- 25 **Mortgage registry tax; exemptions.** Replaces the exemption for bonds issued by the St. Paul port authority with an exemption for affordable housing loans made by federal, state, or local government agencies. Repeals the general exemption for governmental agencies.
Also provides an exemption for loans that are used to acquire or improve real property that is classified as agricultural.

- 26 **Mortgage registry tax refund claims.** Allows taxpayers 3 ½ years from the date of payment to claim a refund of erroneously paid mortgage registry tax, and an additional 60 days to go to tax court if the county denies the refund. If the county does not make a determination within six months, the taxpayer may go directly to the court for relief. Under present law taxpayers have 60 days from the time of overpayment to either seek a refund from the county or bring an action in tax court.
- 27 **Penalties and interest.** Provides that if the mortgagee collects the mortgage registry tax from the borrower (mortgagor), then penalties and interest for non-payment apply to the mortgagee, rather than the mortgagor.
- 28 **Deed tax; definition of "consideration."** Clarifies the definition of "consideration" in determining the deed tax on certain contracts for deed. Provides that if the contract for deed, or other agreement entered into as a condition executing the contract, requires the property to be improved during the term of the contract, and the price of the real property reflected in the contract does not include the cost of the required improvements, then the consideration to which the deed tax applies is the price for the real property as reflected in the contract and the cost of the required improvements added during the term of the contract.
- 29 **Deed tax; business reorganization.** Clarifies current department treatment of reorganizations for deed tax purposes by adding a reference to the Internal Revenue Code. Transfers occurring during corporate or partnership reorganization are subject to a minimal deed tax.
- 30 **Deed tax computation.** Changes the deed tax from \$1.65 for each \$500 or fraction of the net consideration, to 0.33 percent of the net consideration.
- 31 **Deed tax refund claims.** Allows taxpayers 3 ½ years from the date of payment to claim a refund of erroneously paid deed tax, and an additional 60 days to go to tax court if the county denies the refund. If the county does not make a determination within six months, the taxpayer may go directly to the court for relief. Under present law taxpayers have 60 days from the time of overpayment to either seek a refund from the county or bring an action in tax court. (Same changes as were made to mortgage registry tax in section 26.)
- 32 **Partnership return.** Corrects a cross-reference to a section of statute that is repealed in this article.
- 33 **Purchaser refunds.** Clarifies that a person registered to collect and remit sales or use tax is eligible to file a purchaser claim for refund. The law currently provides that a person must be registered for both sales and use tax in order to file a purchaser claim.
- 34 **Apportionment of income.** Allows a part-year resident who has U.S. bond interest while they are a resident to subtract the assignable interest from the numerator of the ratio used to compute their tax.
- 35 **Political contribution refund.** Allows the commissioner to use the number of the official receipt issued by the party or candidate as documentation that a contribution was made if the political contribution refund claim is filed through the Internet or other electronic means.
- 36 **Dependent care credit; phaseout threshold.** Updates the credit phaseout threshold to the income level in effect for tax year 2000. This income level is indexed under present law, and the income level added in this section was in effect for tax year 2000.
- 37 **Dependent care credit; inflation adjustment.** Sets 2000 as the base year for annually indexing the income level at which the dependent care credit begins to phase out. This is one of a series of technical changes that would update all indexed items to a common base year.
- 38 **Working family credit; phaseout threshold.** Updates maximum earned income amounts and credit phaseout thresholds to the levels in effect for tax year 2000. These amounts and income levels are indexed under present law; the amounts and income levels added in this section were in effect for tax year 2000.
- 39 **Working family credit, inflation adjustment.** Sets 2000 as the base year for annually indexing the

maximum earned income amounts and income levels at which the working family credit begins to phase out. This is one of a series of technical changes that would update all indexed items to a common base year.

- 40 **Marriage penalty credit computation.** Provides that "earned income" is only used in the credit computation to the extent it is included in taxable income.
- 41 **Marriage penalty credit amount.** Replaces the table in statute with text describing how the table is calculated. Requires the commissioner of revenue to construct the table each year based on the formula, with income brackets of no more than \$2,000.
- 42 **Depreciation modifications for corporate AMT.** Allows depreciation modifications made to various classes of property placed in service before January 1, 1990, to be subtracted from alternative minimum taxable income in the first taxable year after December 31, 2000. All outstanding depreciation modifications will be allowed as a deduction in this one year only.
- 43 **Wage levy extension notices.** Expands the effective period from 180 days to one year for notices of intent to levy wages.
- 44 **Gross rent for certain renters.** Changes the definition of gross rent used in the calculation of rent constituting property taxes to be based on fixed rent amounts of \$350 per month for residents of nursing homes and intermediate care facilities, and of \$550 per month for adult foster care residents. Provides for these rent amounts to be adjusted annually for inflation.
- 45 **Property tax refunds; innocent spouses.** Provides that only half of a joint property tax refund of a husband and wife who live together can be applied as a payment of a state tax debt owed by one of the spouses. Under current law the whole refund can be applied to a tax debt of either spouse even if they do not live together.
- 46 **Petroleum tax; claim for refund.** Clarifies that "off-highway business use" does not include the use of a licensed motor vehicle tank in lieu of a separate storage tank for storing fuel to be used for other qualifying purposes. Fuel purchased to be used for another qualifying purpose may not be placed in a licensed motor vehicle and must be stored in a separate supply tank. Eliminates language directing the commissioner to adopt rules for power takeoff refunds, as these rules have already been adopted.
- 47 **Petroleum tax assessments.** Adds a new section providing for assessment of petroleum taxes and commissioner-filed returns. This provision was inadvertently omitted when the Petroleum Tax Chapter was recodified in 1998.
- 48 **Petroleum tax; statute of limitations.** Clarifies that the general 3 ½ year statute of limitations for assessments and claims for refund applies to the petroleum tax.
- 49 **Petroleum tax; time limit for certain refunds.** Clarifies that a one year time limit continues to apply for refund claims for tax paid on fuel to be used for a qualifying purpose. Qualifying purposes include: carrying on a trade or business, off-highway business use, and placement in the fuel tank of a new motor vehicle manufactured in Minnesota and shipped to a destination outside of Minnesota.
- 50 **New sales tax permits after revocation.** Provides a summary procedure for canceling permits issued not in conformance with the statute and rules. Clarifies that the commissioner has the authority to cancel permits when issuance or reinstatement was not in compliance with the statute and associated rules, which provide limits and conditions on the commissioner's authority to issue or reinstate permits after revocation.
- 51 **Prescribed drugs.** Exempts drugs if they are prescribed by a licensed health care professional. The current law allows an exemption for drugs that are prescribed by a physician only. The exemption would include physician assistants, nurse practitioners and other health care professionals who are authorized to prescribe drugs. Effective the day after final enactment.
- 52 **Hospitals and nursing homes.** Clarifies that the exemption for sales to hospitals and nursing

homes owned and operated by political subdivisions is limited to goods and services used at and by these facilities.

- 53- **Payment of sales and use tax on aircraft.** Deletes language requiring that the sales tax on aircraft
54 must be paid to the commissioner of revenue and allows the commissioners of revenue and transportation to enter into an agreement allowing the department of transportation, as agent for the department of revenue, to collect the sales tax on aircraft at the time of registration or licensing in this state. Currently, the aircraft registrant must pay the tax to the department of revenue and secure a certificate to be presented to the department of transportation before the aircraft can be licensed or registered in Minnesota.
- 55 **Exemptions from sales tax on motor vehicles.** Provide the following changes to the list of exemptions from the motor vehicle sales tax:
- exempts vehicles purchased and registered in another country at least 60 prior to removal to this state provided that the registration is in the same name; currently this exemption is only allowed for motor vehicles purchased in another state;
 - clarifies that the exemption for motor vehicles used by organizations for charitable, religious, or educational purposes does not apply to motor vehicles purchases by a public school, university, or library;
- 56 **Cigarette and tobacco taxes; erroneous refunds.** Corrects an error in the recodification of the cigarette and tobacco tax chapters in 1997. Sets the time limit for assessing taxes that result from an erroneous refund at two years after the refund check is sent out. Present law as recodified allows taxes resulting from erroneous refunds to be assessed for up to 3 ½ years after the tax was due, or two years within the time the tax was paid in full, whichever is later.
- 57 **Liquor taxes; erroneous refunds.** Corrects an error in the recodification of the liquor tax chapter in 1997. Sets the time limit for assessing taxes that result from an erroneous refund at two years after the refund check is sent out. Present law as recodified allows taxes resulting from erroneous refunds to be assessed for up to 3 ½ years after the tax was due, or two years within the time the tax was paid in full, whichever is later.
- 58 **Liquor taxes; time limit for refund claims.** Corrects an error in the recodification of the liquor tax chapter. Sets the time limit for filing a claim for refund based upon an order assessing additional tax at one year after the date of the order. Present law as recodified allows claims for refunds for two years after the date of the assessment order. Also strikes notice requirements that only apply to refund claims based upon a bad debt deduction (these requirements are reinstated in the following section.)
- 59 **Liquor taxes; notice requirement for refund claims based on bad debt.** Requires that liquor tax refund claims based on bad debt deductions include notice to the commissioner of federal income tax corrections filed with the Internal Revenue Service.
- 60 **Imposition of solid waste management use tax.** Imposes use tax liability on generators and self-haulers in situations where the waste management service provider has not charged or has not received the solid waste management tax. Gives the Commissioner of Revenue authority to assess generators and self-haulers.
- 61- **Mortgage registry and deed tax computation; Hennepin and Ramsey counties.** Change the
62 mortgage registry tax authorized for Hennepin and Ramsey counties from one cent for each \$100 or fraction of the debt secured, to 0.01 percent of the debt secured. (Sec. 61) Change the deed tax authorized for Hennepin and Ramsey counties from five cents for each \$500 or fraction of the debt secured, to 0.01 percent of the debt secured. (Sec. 62)
- 63 **Tobacco license holder reporting.** Requires local governments to report the true identity of all retail tobacco license holders to the department of revenue.

- 64 **Income tax reciprocity with Wisconsin; study.** Directs the commissioner to report to the senate and house committees on taxes by March 1, 2002, on the effectiveness of the income tax reciprocity agreement with Wisconsin.
- 65 **Appropriation.** Appropriates \$462,000 in fiscal year 2002 and an additional \$462,000 in fiscal year 2003 to the commissioner to administer this article. Also provides one-time appropriations of \$41,000 in fiscal year 2002 and \$43,000 in fiscal year 2003 for administering this article.
- 66 **Repealer.**
Paragraph (a) repeals an obsolete ethanol credit for sales to governmental units and school districts that was phased out in October 1999.
Paragraph (b) repeals:
 - a separate application for net operating loss carryback made obsolete by department consolidation of the application and the amended return; and
 - fiduciary and partnership provisions made obsolete by conforming to the definition of federal taxable income.
Paragraph (c) repeals an obsolete refund provision for park trailers purchased after January 1993 and before January 1997. The statutory period for claiming refund expired on June 30, 2000.
Paragraphs (d) repeals the seasonal recreational residential property "targeting" credit allowed as an income tax subtraction. This credit was last available on 1999 income tax returns, filed in 2000.
Paragraph (e) repeals cigarette and tobacco tax rules that are codified in the cigarette and tobacco tax chapter.

Article 8: Sustainable Forest Incentives

Overview

Establishes a Sustainable Forest Incentive program that gives landowners who implement forest management plans annual incentive payments. (The property is subject to property taxes.)

Claimants enrolling at least 1,920 acres must allow year-round nonmotorized access for fishing and hunting.

Repeals the Tree Growth Tax Law.

Allows property currently enrolled in the Auxiliary forest law to either remain in that program for the length of the contract, or transfer to the sustainable forest incentive program established under this article provided there is mutual agreement between the county and the landowner and a tax payment is made to the county by the landowner.

Entire article is effective for taxes levied in 2002, payable in 2003 and thereafter.

- 1- Sections 1-3. Relate to property enrolled in the auxiliary forest tax law. Current law provides that
- 3 property enrolled in the auxiliary forest law may, without penalty, move into tree growth upon mutual agreement between the county and the landowner and a tax payment is made by the landowner (see tax calculation in the next paragraph). Since this article repeals the tree growth law for taxes payable in 2003 and thereafter, provisions are needed to replace that law.

Under current law, when an auxiliary forest contract expires, the landowner must pay the county a yield tax (i.e., based on the value of the timber). If the landowner wants to transfer the property to tree growth before the auxiliary forest contract expires, it can be done only if there is mutual agreement between the landowner and the county **and** the landowner makes a payment to the county

equal to the tax difference between the auxiliary forest tax (the total of a yield tax and a per acre tax) and what it would be paying under the tree growth tax.

The changes made in these sections continue this same practice, but instead allow the auxiliary forest property to automatically qualify for the new sustainable forest program if there is mutual agreement between the county and the landowner **and** the tax payment is made to the county. The tax calculation is slightly altered under these sections since the amount now has to factor in the number of years left of the contract that the property will now be under the new sustainable forest law. No further penalty is imposed for taking the property out of the auxiliary forest program.

- 4 **Revenue recapture; refund.** Includes refunds under the Sustainable Forest Incentive Act in the definition of tax refunds subject to revenue recapture.

Sections 5 to 15 are the Sustainable Forest Incentive Act

- 5 **Purpose.** Declares that it is state policy to support sustainable forest resource management on both private and public lands. Provides that the purpose of the act is to encourage private forest landowners to make a long-term commitment to sustainable forest management.

6 **Definitions:**

Subd. 1. Provides that the terms have the following meanings.

Subd. 2. "Approved plan writers" are natural resource professionals, including certified foresters, who are approved by the commissioner of natural resources as plan writers.

Subd. 3. "Claimant" means a person who owns forest land in the state and who files a claim under this chapter.

Subd. 4. "Commissioner" means the commissioner of revenue.

Subd. 5. "Current use value" means 90 percent of the statewide average annual income per acre divided by the capitalization rate. The average annual net income is a weighted average based on stumpage prices and annual tree growth rates and acreages by cover type.

Subd. 6. "Forest land" means land of at least 20 contiguous acres, in which at least 50 percent are forested and for which the owner has implemented a forest management plan that was prepared or updated within the last ten years by an approved plan writer.

Subd. 7. "Forest management plan" means a written plan that includes:

- owner-specific forest management goals;
- a reliable field inventory of the property;
- a description of the soil type and quality;
- an aerial photo or map of the property showing vegetation and other natural features;
- the proposed future conditions of the property;
- prescriptions of how to meet the proposed future conditions;
- a recommended timetable for implementing the prescribed activities; and
- a legal description of the parcels included in the plan.

All management activities must be in accordance with timber harvesting and forest management guidelines.

Subd. 8. "Timber harvesting and forest management guidelines" means guidelines developed in chapter 89A (sustainable forest resources) and adopted by the Minnesota forest resources council in 1998.

Subd. 9. "Capitalization rate" is the average annual effective interest rate for St. Paul on new loans made by the Farm Credit Bank.

- 7 **Eligibility requirements.** Provides that property may be enrolled in the sustainable forest tax

program if it meets all of the following requirements:

Property is at least 20 contiguous acres and at least 50 percent of the land must be forested during the enrollment,

A forest resource management plan must be prepared and implemented during the period in which the land is enrolled,

Timber harvesting and forest management guidelines must be used in conjunction with any timber harvesting or forest management activities conducted on the land during the period in which the land is enrolled,

Land must be enrolled for at least 8 years,

No delinquent property taxes on the land, and

Claimants with at least 1,920 acres (i.e., 3 sections of land) enrolled must allow year-round nonmotorized access for fishing and hunting, except within a quarter mile of a permanent dwelling. Property owners are not liable for injury to individuals who gain access to the property under this requirement.

- 8 **Application procedure.** Provides that landowners wishing to enroll in the program need to complete, sign, and submit an application to the commissioner by September 30 in order for the land to be enrolled for the following year. The commissioner shall notify the owner, in writing, within 90 days of receipt of application whether the application was approved. The application, including the commissioner's approval constitute an agreement between the commissioner and the landowner. That agreement shall be deemed a covenant which shall run with the land for at least eight years. Provides for appeal of denied applications.
- 9 **Annual certification.** Provides for an annual certification to the commissioner that all requirements and conditions for enrollment are being met. Failure to certify annual compliance by August 15 shall result in immediate removal of the land from the program and the imposition of penalties.
- 10 **Calculation of average taxable market value; timberland.** Requires the commissioner to calculate a statewide average estimated market value per acre for class 2b timberland.
- 11 **Annual incentive payment.** Provides for an annual payment for land enrolled in the program. The payment, which is annually determined by the department is equal to the **greater of:**
 - (1) the difference between the property tax that would have been paid on the land under the timberland classification and average total township tax rate if it were valued at (i) the statewide average timberland market value per acre and (ii) the average statewide timberland current use value per acre; or
 - (2) two-thirds of the previous year's property tax amount calculated using the previous year's statewide average total township tax rate, the average statewide timberland estimated market value per acre, and the timberland class rate; or
 - (3) \$1.50 for each enrolled acre.
- 12 **Incentive payment; appropriation.** Provides for annual payments to be made on or before October 1, and requires the commissioner to pay interest on any payments not paid by October 1 or 45 days after a completed certification is filed, whichever is later.

Appropriates from the general fund the amount necessary to make annual incentive payments.
- 13 **Removal for property tax delinquency.** Requires the commissioner to immediately remove any property from the program that has a property tax delinquency. The claimant has 60 days to pay the delinquent taxes. Lands terminated due to property tax delinquency are not entitled to an annual incentive payment under this chapter and the owner is subject to removal penalties.
- 14 **Withdrawal procedures.** Provides that a property owner in the program may notify the commissioner of the intent to terminate enrollment after a minimum of four years in the program.

The commissioner shall acknowledge the termination receipt within 90 days and indicate to the owner the effective termination date of the program. Termination occurs on

January 1 of the fifth calendar year beginning after receipt of the termination notice. After termination, an owner wishing to continue the property's enrollment beyond the termination date must reapply for enrollment. Allows the commissioner to allow for early withdrawal without penalty in cases of condemnation for a public purpose.

- 15 **Penalties for removal.** Provides that if the commissioner determines that property enrolled in the program is in violation of the conditions for enrollment, the commissioner shall notify the owner of the intent to remove the property from the program. The owner has 90 days to appeal in writing. The commissioner has 60 days to notify the owner as to the outcome. If the commissioner removes the property from the program, its owner is liable for payment to the commissioner of an amount equal to the tax benefit received under this chapter for the previous four-year period, plus interest. The owner has 90 days to pay the amount due. Provides that the owner may appeal to tax court.
- 16 **Appropriation.** Appropriates \$194,000 in fiscal year 2003 from the general fund to the commissioner of revenue to administer this article.
- 17 **Repealer.** Repeals the tree growth tax law effective for taxes levied in 2002, payable in 2003 and thereafter.

Article 9: Income and Franchise Taxes

Overview

Exempts military pay of active duty personnel stationed outside Minnesota by deeming them to be nonresidents

Extends the subtraction for K-12 education expenses to the purchase of musical instruments

Reduces the rate of the K-12 education credit from 100 to 75 percent of expenses and allows K-12 credit recipients to assign refunds in order to obtain loans to facilitate qualifying expenditures

Repeals the corporate franchise tax on insurance companies

Fully conforms to federal treatment of S-corporation banks

Conforms to the federal charitable contribution deduction for corporations

- 1 **Definition of insurance company.** Moves the definition of "insurance company" to the general definition section of the income and franchise tax chapter. The subdivision that contains this definition under current law is repealed in the exemption of insurance companies from the corporate franchise tax.
- 2 **Definition of resident.** Excludes an active duty member of the armed forces from the definition of resident for income tax purposes only. This has the effect of excluding all income of active duty personnel from the state income tax.
- 3 **Subtractions from federal taxable income; individuals.** Allows one new subtraction, modifies one existing subtraction, and strikes two subtractions:
- The change to **clause (3)** expands the K-12 education deduction for the purchase of musical instruments used in classes offered as part of the school curriculum.
 - The stricken language in **clause (6)** allowed the now-expired subtraction for ACRS depreciation deductions.
 - Strikes existing **clause (12)**, the subtraction for holocaust victims' settlements, which are excluded at the federal level beginning in tax year 2000.

The new **clause (12)** allows the subtraction of subnational foreign taxes in excess of the federal foreign tax credit.

- 4 **Additions to federal taxable income; corporations.** Conforms more closely to federal law by repealing the addition to Minnesota taxable income of the federal charitable contribution deduction.
- 5 **Subtractions from federal taxable income; corporations.** Repeals the credits for enterprise zones and border city development zones.
- 6 **Cross-reference.** Eliminates a cross reference to the statutory section containing the rules for apportioning the income of insurance companies and allowing a credit for premium taxes paid; this section is repealed as part of the exemption from corporate franchise tax for insurance companies.
- 7 **Minnesota corporate charitable contribution deduction.** Strikes the Minnesota corporate charitable contribution deduction. The Minnesota corporate franchise tax will instead conform to the federal charitable contribution deduction.

Also strikes a reference to insurance companies made obsolete by the exemption of insurance companies from the corporate franchise tax.

- 8 **Cross reference.** Eliminates a cross reference to the statutory section containing the rules for apportioning the income of insurance companies and allowing a credit for premium taxes paid; this section is repealed as part of the exemption from corporate franchise tax for insurance companies.
- 9 **Exemption for insurance companies.** Extends the insurance company exemption from corporate franchise tax to all insurance companies. Under present law, the following insurance companies are exempt:

Town and farmers mutual companies

Mutual companies whose total assets on 12/31/1989 were less than \$1.6 billion

Companies domiciled in another state if their state of domicile imposes retaliatory taxes on Minnesota companies. The states that either do not have retaliatory taxes or have reciprocal non-retaliation are Hawaii, Massachusetts, New York, New Mexico, and Rhode Island. The corporate franchise tax applies only to companies domiciled in Minnesota and those five states.

- 10 **Credit for taxes paid to other states.** Limits the credit for taxes paid to Canadian provinces and territories to sub-national liability remaining after subtracting the federal foreign tax credit, if the federal credit exceeds Canadian national-level taxes.
- 11 **K-12 education credit.** Makes several changes:
 - Reduces the credit percentage from 100 percent of qualifying expenses to 75 percent of qualifying expenses, effective in tax year 2002
 - Disallows the credit for amounts paid for extracurricular academic instruction provided by a sibling or lineal ancestor of the student;
 - Allows the credit for the purchase of musical instruments used as part of the school curriculum; and
 - Updates a reference to reflect changes to the K-12 chapter of statute. With this change the credit will continue to be allowed for the same instructional materials and equipment expenses as under present law.
- 12 **Assignment of refund; K-12 education credit claimants.** Allows individuals eligible for the K-12 education tax credit to assign the refund to a financial institution or 501(c)(3) organization in order to secure a loan. The assignment applies to income tax refunds due the taxpayer, but is limited to the maximum K-12 education credit based on the number of children the taxpayer has enrolled in grades K-12. The assignment takes last priority behind delinquent taxes, child support, restitution, and revenue recapture claims. Authorizes the commissioner to disclose prospectively to financial

institutions and 501(c)(3) organizations the aggregate outstanding claims on the taxpayer's refund and the total amount of state taxes owed. The financial institution or organization may request the taxpayer to provide a copy of the income tax return for the previous year and may assist the taxpayer in obtaining one from the department. Provides for any refund in excess of the assignment to be paid to the taxpayer.

The amount assigned must be paid directly by the financial institution or organization to a third party vendor for purchase of products or services qualifying for the credit. The vendor must disclose to the taxpayer, in plain language:

- A list of the items and costs of the products and services
- Process for obtaining repair or replacement for defective products
- Fees charged for tax preparation service
- Executed copies of documents.

The provision prohibits the commissioner from being a party to litigation between the assignee (the financial institution or other organization) and the assignor (taxpayer). Assignments are classified as private data.

- 13 **Alternative minimum taxable income; individuals.** Provides a reference to Minnesota charitable contributions under the 2000 edition of the statutes to maintain the restriction that contributions for purposes of the AMT are limited to Minnesota charities. This restriction is now made by reference to the corporate charitable contribution rules which are repealed by this article.
- 14 **Cross reference.** Eliminates a reference to the premiums tax credit that is repealed as part of the exemption from corporate franchise tax for insurance companies.
- 15 **Cross reference.** Eliminates a cross reference to the statutory section containing the rules for apportioning the income of insurance companies and allowing a credit for premium taxes paid; this section is repealed as part of the exemption of insurance companies from the corporate franchise tax.
- 16 **Cross reference.** Eliminates a cross reference to the statutory section containing the rules for apportioning the income of insurance companies and allowing a credit for premium taxes paid; this section is repealed as part of the exemption of insurance companies from the corporate franchise tax.
- 17 **Minimum fee.** Extends the insurance company exemption from the minimum fee to all insurance companies. Under present law, this exemption applies only to companies domiciled in states with retaliatory taxes that apply to Minnesota companies. Town, farmers, and small mutual Minnesota companies are subject to this fee, even though they are generally exempt from the regular corporate franchise tax.
- 18 **Mutual savings banks.** Eliminates provisions governing the taxation of insurance written by mutual savings banks. These banks would be taxed only on their non-insurance business source of income.
- 19 **Net operating loss limitations.** Corrects a cross-reference to conform to changes made to additions and subtractions to corporate taxable income
- 20 **Cross reference.** Eliminates a cross reference to the statutory section containing the rules for apportioning the income of insurance companies and allowing a credit for premium taxes paid; this section is repealed as part of the exemption of life insurance companies from the corporate franchise tax.
- 21 **Unitary business principle.** Eliminates a cross reference to the statutory section containing the rules for apportioning the income of insurance companies and allowing a credit for premium taxes paid; this section is repealed as part of the exemption of life insurance companies from the

corporate franchise tax.

- 22 **Apportionment formula.** Eliminates a cross reference to the statutory section containing the rules for apportioning the income of insurance companies and allowing a credit for premium taxes paid; this section is repealed as part of the exemption of life insurance companies from the corporate franchise tax.
- 23 **Cross reference.** Eliminates a cross reference to the statutory section containing the rules for apportioning the income of insurance companies and allowing a credit for premium taxes paid; this section is repealed as part of the exemption of life insurance companies from the corporate franchise tax.
- 24 **S corporation banks; franchise tax.** Repeals the corporate franchise tax that applies to financial institutions that have elected S corporation status for federal income tax purposes.
- 25 **Reference.** Eliminates references in the guaranty association credit to the corporate franchise tax liability, consistent with the exemption of insurance companies from the corporate franchise tax.
- 26- **Occupation tax; cross reference.** Correct cross-references to conform to changes made to
27 additions and subtractions to corporate taxable income
- 28 **Border city development zones; cross reference.** Strikes a reference to the border city corporate franchise tax credit, which is repealed.
- 29 **Appropriation.** Provides a \$200,000 appropriation in fiscal years 2002 and 2003 from the general fund to one or more nonprofit organizations for the coordination and provision of taxpayer assistance services. Defines "taxpayer assistance services" to mean accounting and tax preparation services provided by volunteers to help low-income and disadvantaged taxpayers prepare and file federal and state income tax returns, and claims for the property tax refund. Authorizes taxpayer assistance services to represent their clients before the Department of Revenue and the Internal Revenue Service.
- 30 **Repealer.**
Paragraph (a) repeals the job training program (RISE) credit.
Paragraph (b) repeals:
 - the credit for corporate taxes paid by S corporation financial institutions and the reporting requirement for the corporate tax on S corporations. After repeal of the corporate level tax, the credit and reporting requirements would be obsolete;
 - the corporate alternative minimum tax deduction for Minnesota charitable contributions (this is replaced by conforming to the federal charitable contribution deduction); and
 - the apportionment provisions for insurance companies, the premiums tax credit and the statute that provides for the method for insurance companies to take operating loss deduction.**Paragraph (c)** repeals the border city corporate franchise credit.

Article 10: Federal Update Overview

Conforms the Minnesota income tax and other taxes to the 2000 and 2001 changes in the Internal Revenue Code, excluding the 2001 changes to the estate tax. Provides coordinating language for foreign operating companies (FOCs) that were also foreign sales corporations (FSCs).

- 1 **Federal update; administrative.** Updates the administrative chapter Internal Revenue Code reference to federal changes through June 15, 2001. Since there was not any federal tax administration legislation in 2000 or 2001, this change does not have any substantive effect on the

Minnesota administration provisions in chapter 289A.

2 **Foreign operating companies.** Provides that foreign operating companies (FOCs) do not include foreign sales corporations (FSCs). This is intended to ensure that the deduction for extraterritorial income for former FSCs, allowed under section 5, is not provided in addition to the deemed dividend deduction for FOCs.

3 **Net income.** Conforms to federal changes to the definition of net income made in 2000 and 2001. Changes made in 2000 federal legislation include:

- repeals foreign sales corporations but allows the exclusion of net income attributable to sales outside the U.S., subject to limitations;
- clarifies of tax basis of certain stock;
- reinstates the installment method of reporting sales of businesses for accrual-based taxpayers;
- extends medical savings accounts for two years, to December 31, 2002;
- extends the fair market deduction for donation of computers to schools for two years, to December 31, 2002;
- extends the expensing of brownfield cleanup costs for two years, to December 31, 2002;
- provides for creation of 40 new "renewal communities" and nine more empowerment zones, in which businesses and individual investors qualify for special tax treatment;
- allows a dependent exemption and federal earned income tax credit for a child believed by the police to have been kidnapped by someone other than a relative, until the child's 18th birthday or until the child is found dead; and
- makes minor technical corrections.

Changes made in 2001 federal legislation include:

Phases-out the current limitation on itemized deductions and the phase-out of personal and dependent exemptions, beginning in tax year 2006 with the limitation on itemized deductions and the exemption phaseout eliminated in 2010.

Increases the standard deduction for married joint filers from 170% to 200% of the standard deduction for single filers in 2009 and 2010.

Increases the annual contribution limit on education IRAs from \$500 to \$2,000. Expands the definition of qualifying expenses that may be paid from education IRAs to include elementary and secondary school expenses. Increases the income at which eligibility for making contributions to an education IRA begins to phase out for married joint filers to be twice the income level at which single filers are eligible to make contributions.

Extends the exclusion for employer-provided educational assistance to graduate school education and extends both the undergraduate and graduate assistance exclusions through 2010.

Increases the income level at which the student loan interest deduction phases out from \$50,000 to \$65,000 for single filers and from \$100,000 to \$130,000 for married joint filers. Repeals the 60-month limit on the number of months during which the interest deduction is allowed.

Allows private colleges to establish prepaid tuition plans that qualify for special tax treatment under Internal Revenue Code section 529. Allows beneficiaries of prepaid tuition plans to exclude all plan distributions if used for higher education expenses. Allows beneficiaries to claim either the Hope or Lifetime Learning credits if calculated based on expenses not paid for with plan distributions.

Allows a deduction for higher education expenses for taxpayers who do not claim either the Hope or Lifetime Learning credit. Allows the credit for single taxpayers with incomes under \$65,000, and married joint taxpayers with incomes under \$130,000. The maximum deduction equals \$3,000 in tax years 2002 and 2003, and increases to \$4,000 in tax years 2004 and 2005, with a deduction of \$2,000 allowed for single taxpayers with incomes between \$65,000 and \$80,000, and for married joint taxpayers with incomes between \$130,000 and \$160,000.

Increases contribution limits to Roth and deductible IRAs to \$3,000 in 2002 through 2004, to \$4,000 for 2005 through 2007 and to \$5,000 for 2008 through 2010. Also raises the catch-up contribution limits for taxpayers over age 50 by \$500 for 2002 through 2005 and by \$1,000 for 2006 through 2010.

Increases the maximum contribution limits to 401K and 457 plans to \$11,000 for 2002. The limits rise by \$1,000 per year from 2003 to 2006, and remain at \$15,000 through 2010.

Increases the maximum contribution allowed to SIMPLE plans to \$7,000 in 2002, and increases the maximum by \$1,000 per year from 2003 to 2005. The maximum remains at \$10,000 through 2010.

Increases the maximum defined benefit pension amount to \$160,000 starting in 2002.

Increases the maximum amount of compensation that can be used for a limit on a 401 pension contribution to \$200,000 starting in 2002.

Excludes restitution and damage payments to Holocaust survivors or their heirs from gross income for payments received after Dec. 31, 1999.

- 4 **Additions to federal taxable income; corporations.** Provides an add-back of the new federal exclusion for extraterritorial income enacted as part of the repeal of foreign sales corporations.
- 5 **Subtractions from federal taxable income; corporations.** Allows a subtraction for 1.23 times the extraterritorial income exclusion, if the corporation had an FOC that also was an FSC in tax year 2000. This is intended to gross up the new 15% exclusion to be equivalent to the level of the 80% FOC exclusion that was available when the FSC was operated.
- 6 **Income tax definitions.** Updates the income tax chapter Internal Revenue Code reference to federal changes through June 15, 2001. Minnesota conforms to the 2000 federal changes repealing the foreign sales corporation provision and allowing the working family credit for kidnapped qualified children; and to 2001 changes increasing the percentage of qualifying expenses allowed to be claimed as the federal dependent care credit. This last item will have the effect of increasing Minnesota dependent care credits for some claimants, but will not change the maximum state credit of \$720 for one dependent and \$1,440 for two or more dependents, or the maximum income eligible for the state credit(\$32,260 in tax year 2001).
- 7 **Working family credit; phaseout.** Reduces the marriage penalty in the working family credit phaseout by increasing the income at which the credit begins to phase out for married joint filers by \$1,000 for tax years 2002 to 2004, \$2,000 for tax years 2005 to 2007, and by \$3,000 for tax year 2008 and following years. This conforms to federal changes in the earned income tax credit phaseout enacted as part of the Economic Growth and Tax Relief Reconciliation Act of 2001.
- 8 **Working family credit; definitions.** Changes the income definition used in calculating the working family credit phaseout from modified adjusted gross income to adjusted gross income. This conforms to federal changes to the income measure used in the earned income tax credit phaseout enacted as part of the Economic Growth and Tax Relief Reconciliation Act of 2001.
- 9 **Federal update; property tax refund.** Updates the property tax refund chapter Internal Revenue Code reference to federal changes through June 15, 2001. This conforms to changes enacted as part of the Economic Growth and Tax Relief Reconciliation Act of 2001.
- 10 **Federal update; estate tax.** Updates the estate tax chapter Internal Revenue Code reference to

federal changes through December 31, 2000. Since there was no relevant federal legislation in 2000, this change does not have any substantive effect on the Minnesota estate tax in chapter 291. Does not update to changes enacted as part of the Economic Growth and Tax Relief Reconciliation Act of 2001.

Article 11: Civil and Criminal Penalties Reform

Overview

Revises and in many cases reduces civil penalties imposed by the revenue department

Extends the criminal penalty for fraudulent cigarette and tobacco returns to providing fraudulent cigarette and tobacco invoices

1 Interest on penalties. Changes a cross-reference to include a subdivision added in this article.

2 Penalty for failure to pay tax. Rewrites the current penalties for late payment of taxes to reduce graduated penalties to one-time penalties.

For individual income tax returns, the penalty is reduced to four percent of amounts not paid by the due date, and four percent of additional taxes assessed under a tax order and not paid within 60 days.

For corporate franchise, fiduciary income, mining company, estate, partnership, S corporation and nonresident entertainer tax returns, the penalty is reduced to six percent of amounts not paid by the due date but reported on a return file by the due date, five percent of amounts reported but not paid on a return filed after the due date, and five percent of additional taxes assessed under a tax order and not paid within 60 days.

For sales and withholding returns, the penalty for failure to pay tax remains as in current law: five percent for each 30 days in which the tax is unpaid, but not to exceed 15 percent in total.

3 Penalty for failure to file return. Amends the statute on failure to file a tax return.

For individual income tax returns, reduces the one-time penalty from ten percent to five percent of the tax due.

For corporate franchise, fiduciary income, mining company, estate, partnership, S corporation and nonresident entertainer tax returns, changes from a graduated penalty to a one-time penalty of five percent of the tax due.

For sales and withholding returns, clarifies that the late filing penalty of five percent is not imposed if there is an extension and the return is filed within the extension period.

4 Penalties for extended delinquency. Specifies penalties for extended delinquency.

For individual income tax returns, the penalty is the greater of \$100 or five percent for failure to pay within 180 days after a return is filed or an assessment order issued.

For corporate franchise, fiduciary income, mining company, estate, partnership, S corporation and nonresident entertainer taxes the penalty is five percent if the return is not filed within 30 days after written demand.

5 Penalty for frivolous returns. Extends this \$500 penalty provision to all tax returns and to claims for refunds. It currently applies only to individual income tax returns.

6 False or fraudulent returns. Amends the current felony penalty for fraudulent cigarette and tobacco tax filings. Extends its application to one "who maintains or provides invoices subject to review by the commissioner."

7 Appropriation. Appropriates \$570,000 to the Department of Revenue to implement the penalty changes, with \$520,000 specified for system programming changes.

8 Repealer. Repeals a cap on penalties imposed under combined provisions. This is superseded by the

provisions of this article.

Article 12: Sales and Use Taxes

Overview

Adopts the Uniform Sales and Use Tax administration Act which authorizes Minnesota to enter into the Streamlined Sales and Use Tax Agreement. Adopts uniform provisions that are required for Minnesota to participate in the agreement, including uniform audit procedures, a uniform state rate, uniform standards, and uniform definitions. All provisions associated with the agreement are identified and have an effective date of January 1, 2002, unless otherwise noted.

Makes technical corrections to the sales tax recodification passed in 2000. The changes are based on a series of meetings between legislative staff, member of the state bar, business representatives and Department of Revenue staff during the interim. All changes related to this effort are identified as such and have an effective date of June 30, 2001.

Adopts several telecommunications related definitions to bring the state into conformance with nationally developed definitions, expands telecommunications subject to the state tax, and exempts purchases of certain telecommunications equipment from the sales tax.

Eliminates June accelerated payments beginning with June 2003 payments.

Makes a number of minor miscellaneous changes to the sales and use tax law.

- 1 **Sales and use tax; June accelerated payments.** Eliminates the requirement that vendors with annual sales tax liabilities of \$120,000 remit 62 percent of their June liability by two business days before the end of June, with the remainder due August 14. Effective beginning with the June 2003 liability.
- 2 **Sales and use tax.** Removes the refund language from this section. This refund requirement is incorporated into the appropriate sales tax refund section in section 3. [Sales Tax Recodification Technical]
- 3 **Refund of sales to vendors; limitation.** Incorporates the language removed from the second section of this bill into the appropriate refund section. [Sales Tax Recodification Technical]
- 4 **Special fur clothing tax.** Imposes a gross receipts tax on Minnesota retailers of 6.5% on sales of clothing made from fur. The tax is in effect as long as clothing made from fur is not subject to the general sales tax. Requires quarterly payments of the tax if the furrier has an annual tax liability of \$500 or more. Provides for payment by electronic means if the furrier has an annual liability of more than \$120,000 per year. Provides for administration of the tax. Effective for purchases after December 31, 2001. [Streamlined Sales Tax]
- 5 **Definition of storage - sales tax.** Amends section 297A.01, subdivision 5, to remove language that conflicts with the language found in section 297A.01, subdivision 7, which relates to goods in transit that are stored in a public warehouse. This change would clarify that Minnesota no longer has a temporary storage exemption. Effective for sales, purchases, storage, use or consumption occurring after June 30, 2001. Allows refunds for property stored after June 30, 1997, and before June 30, 2001, under certain conditions.
- 6 **Sales tax exemption; waste processing equipment.** Exempts from sales tax the waste processing equipment of an electric generation facility that processes and utilizes waste tires as its primary fuel source.
Effective for purchases and sales made following final enactment.
- 7 **Person.** Clarifies that for sales tax purposes, the definition of person includes groups of organizations classified as persons as well as groups of people. [Sales Tax Recodification Technical]

8 **Sale and purchase; telecommunications services.** Clarifies and expands the definition of taxable telecommunications services to include not only transmissions that originate and are billed to customers in this state but also:

- transmissions that originate outside this state but terminate in this state and are billed to a customer or phone in this state; or
- transmissions provided by a private communications service where the customer has at least one location in the state and the transmission is billed to a customer or phone in this state.

Deletes language for telephone service which is included in the new definition of telecommunications services. Brings the treatment of mobile telecommunications services into compliance with the federal Mobile Telecommunications Sourcing Act.

The telecommunications provisions are effective for sales after July 31, 2001.

Also makes several changes related to both the Streamlined Sales Tax and the Sales Tax Recodification.

Streamlined Sales Tax Changes include changes related to the definition of food items which are taxable in Minnesota to conform with uniform definitions under the streamlined sales tax agreement. The streamlined agreement gives each state the option as to whether they want to tax prepared foods, to tax food sold through vending machines, or to exclude bakery goods from the definition of taxable food. The choices made in this bill reflect current law as closely as possible. The following will be taxed:

- prepared food as defined in section 27;
- soft drinks as defined in section 28;
- candy as defined in section 29; and
- food sold through vending machines as defined in section 30.

Items that are now taxed but would be exempt under these changes include ice, bottled water, unsweetened tea, near beer, single servings of ice cream treats, snack foods sold in bars and restaurants, and food sliced and packaged by a deli.

Items that are currently exempt that would now be taxed are chocolate chips, mini-marshmallows, and beverages containing more than 15 percent juice but less than 50 percent juice.

Sales Tax Recodification Technical changes include the following:

Adds the words "for a consideration in money or by exchange or barter" and "in money or by exchange or barter" in two separate places to clarify what is meant by "for a consideration."

Adds the list of taxable services that had been in a separate definition in the recodification back to the definition of sales and purchase. The definition of "taxable services" is currently under litigation. [Sales Tax Recodification Technical]

9 **Retail sale.** Makes minor language changes to the definition of "retail sale" to conform with required uniform definitions under the streamlined sales tax agreement. [Streamlined Sales Tax]

Also changes a cross reference to specific taxable services that is required by the movement of the taxable service list back into the definition of "sale and purchase." [Sales Tax Recodification Technical]

10 **Use.** Changes the phrase "taxable services" to "services" in response to the litigation on the definition of "taxable services." [Sales Tax Recodification Technical]

11 **Sales price.** Amends the definition of "sales price" to conform with required uniform definitions under the streamlined sales tax agreement. The streamlined agreement gives the state some options

regarding whether certain items are included in the definition of "sales price." Options selected in this section reflect current law to the extent possible. Items that are currently excluded from the definition of sales price which would now be included are:

- credit for property taken in trade for resale (a separate exemption is granted in section 41);
- the rental motor vehicle tax;
- separately stated charges of up to 15 percent in lieu of tips; and
- delivery and installation charges. [Streamlined Sales Tax]

- 12 **Retailer and seller.** Adds "seller" to the definition of "retailer" so that they both have the same meaning for sales tax purposes. [Streamlined Sales Tax]
- 13 **Tangible personal property.** Adds the word "tangible" to the phrase "personal property" in paragraph (c) for consistency and clarity. [Sales Tax Recodification Technical]
- 14 **Farm machinery.** Expands the sales tax exemption for farm machinery to include machinery used in the production of any plants; and stationary feed bunks. Currently feeding systems are exempt only if they are automatic. Effective for sales after July 31, 2001.
- 15 **Leasing; lease.** Removes the phrase "For purposes of this chapter" as redundant. [Sales Tax Recodification Technical]
- 16 **Computer software.** Replaces the definition of storage media with the phrase "contained on tapes, disc, cards or another device." This same phrase is also used in the definition of custom computer software for consistency. [Sales Tax Recodification Technical]
- 17 **For-hire carrier.** Replaces the definition of "common carrier" with a definition of "for-hire carrier." There is no statutory difference between common carriers and contract carriers after transportation deregulation, and for-hire carriers include both. The definition contained in the original recodification language is obsolete. A change from common carrier to for-hire carrier would only change law in § 297A.68, subdivision 15; the term common carrier is left in that section but as an undefined term. [Sales Tax Recodification Technical]
- 18 **Internal Revenue Code.** Updates the reference date for this code. [Sales Tax Recodification Technical]
- 19 **United States Code.** Updates the reference date for this code. [Sales Tax Recodification Technical]
- 20 **Telecommunications services.** Defines telecommunications services as the transmission of information using electronic, satellite, optical, microwave, or other means, and specifically includes access to telephone services at a hotel. Excludes from the definition of telecommunications services prepaid telephone cards, private communications purchased on behalf of the state lottery, information services, and purchase of telecommunications services for resale. Effective for sales after July 31, 2001.
- 21 **Cable television service.** Defines cable television services as transmission of video, audio, and other programming services, and includes point-to-multipoint services in which programming is transmitted or broadcast by microwave directly to the subscriber. Effective for sales after July 31, 2001.
- 22 **Private communication service.** Defines private communication service as exclusive or priority use of a channel or group of channels, which may be connected by switching, and the switching capacity and associate services. It also includes services used to carry traffic over the Internet. Effective for sales after July 31, 2001.
- 23 **Direct satellite service.** Defines direct satellite service as programming transmitted by satellite directly to the subscriber. Effective for sales after July 31, 2001.
- 24 **Purchase price.** Adds a definition for "purchase price" which is the same as "sales price." [Streamlined Sales Tax]

- 25 **State.** Adds a definition for "state" which includes the District of Columbia. [Streamlined Sales Tax]
- 26 **Delivery charges.** Adds a new definition for "delivery charges." Delivery charges would include transportation, shipping, postage, handling, crating and packaging. [Streamlined Sales Tax]
- 27 **Prepared food.** Defines "prepared food" to mean food either (1) sold hot or heated by the retailer, (2) mixed or combined by the retailer, or (3) sold with eating utensils provided by the retailer. [Streamlined Sales Tax]
- 28 **Soft drinks.** Provides a definition of "soft drinks." Includes beverages with less than 50 percent vegetable or fruit juice by volume in the definition of soft drink. Currently beverages and drinks containing 15 percent or more fruit juices are considered exempt food. [Streamlined Sales Tax]
- 29 **Candy.** Defines "candy" as a preparation of a sweetener in combination with other items. Candy does not include any product containing flour (i.e., a Twix bar) nor does it include an item requiring refrigeration (i.e., a popsicle). Candy would include baking chips and similar products which are currently exempt from the tax. [Streamlined Sales Tax]
- 30 **Food sold through vending machines.** Provides a definition of "food sold through vending machines" which is equivalent to current law. [Streamlined Sales Tax]
- 31 **Administration; motor vehicle rental tax and fees.** Eliminates references to the 6.2% motor vehicle rental tax which is repealed under this article. Effective for sales after December 31, 2005. [Streamlined Sales Tax]
- 32 **Exemptions; motor vehicle rental tax and fees.** Eliminates references to the 6.2% motor vehicle rental tax which is repealed under this article. Effective for sales after December 31, 2005. [Streamlined Sales Tax]
- 33 **Definitions.** Changes a reference to "common carrier or a contract carrier" to the inclusive "for-hire carrier." [Sales Tax Recodification Technical]
- 34 **Retailer not maintaining a place of business in the state.** Reinstates the language "within or without this state" from the original law. Changes the phrase "vendors independent of the retailer" to "independent vendors" to improve readability. [Sales Tax Recodification Technical]
- 35 **Sourcing of sale, situs in state.** Provides criteria to determine which of the jurisdictions involved in a sale may impose a sales and use tax on or with respect to the sale. [Streamlined Sales Tax]
- Subd. 1. Sourcing rules.** Provides general sourcing rules for sales except sales of certain digital goods and services. If the buyer takes possession of an item at the seller's location, such as a retail store, the sale is sourced to the seller's location. Otherwise, the sale is sourced to the destination site, or if that is not available it is sourced to the purchaser's address, when possible. Gifts purchased in Minnesota which the seller sends outside the state would be exempt under the sourcing rules. Those gifts would have been taxable under the current sales tax law.
- Subd. 2. Multiple points of use.** Provides that if a business purchases a digital good or service that will be concurrently used in multiple locations, it may provide the seller with an multiple points of use exemption certificate. This certificate relieves the seller from a duty to collect the tax. The buyer is obligated to remit use tax using some reasonable and consistent method of apportioning the sale among taxing jurisdictions.
- 36 **Food and food ingredients.** Modifies the definition of "food" and "food ingredients" which are exempt from the sales tax to conform with required uniform definitions under the streamlined sales tax agreement. The provision provides that alcoholic beverages, dietary supplements and tobacco do not qualify as exempt food items. In order to most closely match our current treatment of food the following items are excluded from the exemption: candy, dietary supplements, soft drinks, prepared foods, or food sold through vending machines. Changes from current law are listed in section 8. [Streamlined Sales Tax]

37 **Clothing.** Amends the definition of clothing for exemption purposes to conform with required uniform definitions under the streamlined sales tax agreement. This section defines clothing as all human wearing apparel suitable for human use and contains a listing of items that would qualify as clothing. The streamlined agreement gives the state some options regarding whether certain item are included in the definition of "clothing." Options selected in this section reflect current law to the extent possible.

Items included in the definition of clothing that would now be taxable under this section include:

- sewing materials, equipment and supplies (although these would be exempt under section 43);
- hard hats and helmets; and
- hair bows and nets. [Streamlined Sales Tax]

38 **Occasional sales.** Clarifies that this exemption does not apply to the occasional sale of items generally used in a trade or business. Those items are exempt under the a separate business exemption and subject to the limitations of that section. [Sales Tax Recodification Technical]

39 **Constitutional prohibitions.** Replaces a laundry list of specific services with the phrase "services." Any limitations regarding which services are exempt are contained in the referenced constitutions and laws. [Sales Tax Recodification Technical]

40 **Maintenance of cemetery grounds.** Changes a cross reference to specific taxable services that is required by the movement of the taxable services list back into the definition of "sale and purchase." [Sales Tax Recodification Technical]

41 **Trade allowance.** Creates an exemption for the portion of the sales price which is offset by a credit for tangible personal property taken by the seller to be resold in the seller's normal regular course of business. This is equivalent to the credit for trade-ins included in the current definition of "sales price." [Streamlined Sales Tax]

42 **Sewing materials.** Provides a sales tax exemption for sewing materials equivalent to the exemption for these materials included in the current clothing exemption. [Streamlined Sales Tax]

43 **Ambulance supplies, parts, and equipment.** Exempts from sales tax the following sales to a licensed ambulance service:

- supplies and equipment used to provide medical care; and
- repair and replacement parts for the ambulances.

Effective for sales and purchases made after July 31, 2001.

44 **Energy efficient products.** Provides a temporary (from August 1, 2001, to July 31, 2005) sales tax exemption for the following products if they have federal energy star or energy guide labels indicating that they are energy efficient:

- residential lighting fixtures and compact flourescent bulbs with energy star labels;
- electric heat pump hot water heater with an energy factor of at least 1.9;
- natural gas water heater with an energy factor of at least 0.62;
- natural gas furnace with annual fuel utilization efficiency greater than 92 percent

Also exempts photovoltaic equipment (devices that convert light to electricity) from the sales tax (effective from August 1, 2001 through July 31, 2005) .

45 **Materials consumed in industrial production.** Additional language is added to space heating and lighting to include "cooling" and to clarify that fuel for these purposes are only exempt to the extent that the temperature and lighting requirements are outside a normal range and are necessary to the production process. Removes the word "industrial" as redundant. [Sales Tax Recodification Technical]

- 46 **Materials used in providing certain taxable services.** Additional language is added to space heating and lighting to include "cooling" and to clarify that fuel for these purposes are only exempt to the extent that the temperature and lighting requirements are outside a normal range and are necessary to the production process. Corrects a cross-reference related to the movement of the taxable services list back into the definition of "sale and purchase." Removes the word "taxable" as redundant and potential confusing given the litigation on what is meant by "taxable services." [Sales Tax Recodification Technical]
- 47 **Capital equipment.** The following changes are made to this section:
- Combined the third and fourth sentences in paragraph (a) to clarify that the requirement that it be "essential to the integrated production process" is part of the basic definition of capital equipment. Adds the list of qualifying processes for clarity.
 - Added general space "cooling" to the list of purposes for which equipment does not qualify for this exemption.
 - Removed the definition of "integrated production process" and moved its definition back to the definition of machinery. Under the old law, this language only applied to "machinery" and not to "equipment." Integrated production process remains undefined for the definition of "equipment."
- [Sales Tax Recodification Technical]
- 48 **Advertising materials.** Rewritten extensively to clarify that this exemption applies to all advertising ultimately mailed to persons outside of the state, regardless of where the mailing occurs or whether the advertising material is temporarily stored in the state. [Sales Tax Recodification Technical]
- 49 **Outstate transport or delivery.** Rewritten to clarify that all the conditions listed in the section must be met in order to qualify for the exemption. [Sales Tax Recodification Technical]
- 50 **Property in transit.** The headnote is changed to clarify that this an exemption for property in transit. The phrase "common carrier" is replaced with "for-hire carrier." The word "intermediate" is removed from the phrase "without use" since it was not part of the old statutory language. [Sales Tax Recodification Technical]
- 51 **Custom computer software.** Replaces the phrase "storage media" with the phrase "contained on tapes, disc, cards or another device." This is then consistent with the definition of computer software. [Sales Tax Recodification Technical]
- 52 **Petroleum products.** Exempts from the sales tax petroleum products purchased by a transit system receiving medical assistance transportation payments and by licensed ambulance services. Effective for sales and purchase made after July 31, 2001.
- 53 **Sale of property used in a trade or business.** The headnote is changed to clarify what qualifies for this exemption. Paragraphs (a) and (b) are combined and rewritten to clarify which criteria must be met in order to qualify for the exemption. Language is added to clarify that this exemption applies to storage, use, and consumption as well as to the sale if the sale meets the listed requirements. [Sales Tax Recodification Technical]
- 54 **Machinery and equipment for telecommunications service provision.** Provides a sales tax exemption for machinery, equipment, and attachments used by a telecommunications provider to provide telecommunications services. Telecommunications services include telephony, television, radio, and Internet access service or other information transmission services, regardless of the means of transmission. Effective for sales after July 31, 2001.
- 55 **Materials consumed in agricultural production.** Additional language is added to space heating and lighting to include "cooling" and to clarify that fuel for these purposes are only exempt to the extent that the temperature and lighting requirements are outside a normal range and are necessary

to the production process. [Sales Tax Recodification Technical]

- 56 **Exemptions for governments and nonprofit groups (Scope).** Language added to clarify that some exemptions listed in this section refer to purchases by certain entities while others refer to sales by certain entities. [Sales Tax Recodification Technical]
- 57 **Sales to governments.** Exempts from the sales tax Metropolitan Council purchases of construction materials, supplies, and equipment used for its transit operations. Effective for sales after July 31, 2001.

Note: This portion of the section was amended in Spec. Sess. Ch. 8, art. 2, § 63 to limit the exemption to vehicles and repair parts for light rail transit operations.

Also changes a cross reference to specific taxable services that is required by the movement of the taxable services list back into the definition of "sale and purchase" in section 9. [Sales Tax Recodification Technical]

- 58 **Sales of certain goods and services to government.** Eliminates the exemption for supplies and equipment used to provide medical care by an ambulance service owned and operated by a political subdivision. This is superseded by the general exemption in section 43. Also expands the exemption for leased transit vehicles to include vehicles leased by opt-out transit programs and non-metro transit programs. Effective for sales after July 31, 2001.
- 59 **Sales to nonprofit groups.** Replaces "entity" with the list of qualifying types of organizations that were included in the old law. Went back to the original language related to maintenance of cemeteries owned by a religious organization. This is necessary since some organizations who perform this function may not be organized and operated exclusively for this purpose. [Sales Tax Recodification Technical]

Also provides that purchases by a single member, limited liability company (LLC) would qualify for this exemption if the single member of the LCC would qualify for the exemption. For example, if Nonprofit Inc. qualifies as an exempt nonprofit entity under the sales tax and creates a single member LLC, the LLC would be permitted to make exempt purchases on the same basis as Nonprofit Inc.

- 60 **Hospitals and outpatient surgical centers.** Clarifies that although the outpatient surgical center may be licensed by another state, only procedures authorized or required by this state to be performed at this type of facility qualify for the exemption. [Sales Tax Recodification Technical]
- Also provides that purchases by a single member, limited liability company (LLC) would qualify for this exemption if the single member of the LCC would qualify for the exemption. For example, if Nonprofit Inc. qualifies as an exempt nonprofit entity under the sales tax and creates a single member LLC, the LLC would be permitted to make exempt purchases on the same basis as Nonprofit Inc.

- 61 **Regionwide public safety radio communication system; products and services.** Incorporates a limitation on the exemption that used to be contained in a revisor's note. [Sales Tax Recodification Technical]

- 62 **Nonprofit tickets or admissions.** Clarifies that a nonprofit organization only qualifies for the exemption for tickets and admissions to arts events if the following conditions are met:

- the ticket sales are recorded on the nonprofit organization's books;
- at least a percentage of the organization's annual revenue in the previous fiscal year is from charitable contributions (sets the percentage at three percent for fiscal year 2002, four percent for fiscal year 2003, and five percent for fiscal year 2004 and thereafter); and
- all net revenues from the event must be used to fund other arts events.

This portion is effective for events held after July 1, 2001, provided that tickets did not go on sale

before August 1, 2001.

Note: This portion of the section was amended in Laws 2001, Spec. Sess. Ch. 13, § 16 so that the required percent of annual revenues coming from charitable contributions in the previous year is equal to three percent for fiscal years 2002 and 2003, four percent for fiscal year 2004, and 5 percent for fiscal year 2005 and thereafter.

Also exempts Minnesota Zoo tickets and admissions from the sales tax. Tickets and admissions to performances or events held on zoo grounds which are not sponsored and conducted by the zoo are not exempt. Effective for sales after July 31, 2001.

- 63 **Fundraising sales by or for nonprofits.** Provides a sales tax exemption for the sales of tangible personal property if the following conditions are met:

- the entire proceeds, less the cost of obtaining the item(s) for sale, will be contributed to a registered combined charitable organization;
- the combined charitable campaign has given written permission for the sale; and
- the sales period does not exceed 24 days per year.

Effective for sales after July 31, 2001.

Also standardizes references to young people "age 18 and under." [Sales Tax Recodification Technical]

- 64 **Fundraising sales sponsored by nonprofit group.** Removes a reference to taxable services not included under the old law. [Sales Tax Recodification Technical]
- 65 **Business incubator and industrial park.** Provides that purchases by a single member, limited liability company (LLC) would qualify for this exemption if the single member of the LCC would qualify for the exemption. For example, if Nonprofit Inc. qualifies as an exempt nonprofit entity under the sales tax and creates a single member LLC, the LLC would be permitted to make exempt purchases on the same basis as Nonprofit Inc. Effective for sales and purchases after June 30, 2001.
- 66 **Soybean oilseed processing facility construction and agricultural processing materials.** Exempts from the sales tax construction materials and supplies for, and equipment incorporated into, the construction, improvement, or expansion of a cooperative soybean oilseed facility if located in a county with less than 21,000 people. Effective for sales and purchases after June 30, 2001, and before July 1, 2004.
- 67 **Poultry litter and other biomass generation facility construction materials and equipment.** Provides a sales tax exemption for materials, supplies, and equipment incorporated into the construction, improvement, or expansion of a electricity generation facility if the facility meets certain criteria:
- it utilizes poultry litter or other biomass as a primary fuel source; and
 - it generates power under a contract approved by the public utilities commission (PUC) under the state biomass power mandate.

The exemption is for purchases made after June 30, 2001, and before January 1, 2003.

- 68 **Disaster relief; Construction materials; Yellow Medicine county law enforcement.** Exempts from sales tax construction materials and supplies, and furnishings, fixtures, and equipment used in the construction, improvement, or expansion of county law enforcement and family service center in the county of Yellow Medicine. Requires that the tax be paid upfront, with the county applying for the refund. Effective for sales after June 30, 2000, and before January 1, 2003.
- 69 **Construction materials and equipment; waste tire co-generation electric generation facility.** Exempts materials and supplies used or consumed in, and equipment incorporated into, the construction, improvement, or expansion of a waste processing facility that uses waste tires. Effective for purchase made on or after June 1, 2001, and before January 1, 2004.

- 70 **Construction materials and equipment for qualified low-income housing.** Provides a sales tax exemption for purchases by a public housing agency, a political subdivision's Housing and Redevelopment Authority, or a nonprofit organization of construction materials and supplies and equipment incorporated into buildings, if the materials are used in construction, improvement, or expansion of qualified low-income housing projects. The exemption applies to purchases by the owner of the building or a contractor. Effective for sales after July 31, 2001.
- 71 **Duty of retailer.** Provides that a retailer is relieved from collecting and remitting the sales tax if the retailer receives a fully completed exemption certificate from the purchaser and it repeals the language requiring that the certificate be taken in good faith. [Streamlined Sales Tax]
- 72 **Refund appropriation.** Adds the refund mechanism for building materials for the Long Lake Conservation Center. This was accidentally left out of the recodification. [Sales Tax Recodification Technical] Also provides a refund mechanism for purchases for the Yellow Medicine law enforcement and family center construction project.
- 73 **Collection at time of sale.** Removes the phrase "or charge for service" as redundant since it is already included in the sales price. [Sales Tax Recodification Technical]
- 74 **Credit for taxes paid to other states and their political subdivisions.** Provides that if an item subject to the Minnesota sales and use tax has already been subjected to tax in another state or political subdivision of a state, Minnesota will give a credit against its tax for the taxes paid in the other state. Currently, Minnesota gives a credit for taxes paid to another state but only gives credit for taxes paid to political subdivisions of states that have entered into the Multistate Tax Compact. Effective for sales after December 31, 2001.
- 75 **Revocation of sales and use tax permits.** Allows the commissioner to revoke a retailer's sales tax & permit for violation of the cigarette and tobacco products chapter in excess of a threshold. Sets the
86 threshold for permit revocation at purchase from an unlicensed seller of at least 100 cartons of cigarettes or \$500 of tobacco products. Also provides for administrative appeal before revocation. Effective August 1, 2001.
- 76 **Commissioner may permit.** Eliminates obsolete language since all local taxes must have a corresponding use tax. [Sales Tax Recodification Technical]
- 77 **Registration; records.** Eliminates obsolete language since all local taxes must have a corresponding use tax. [Sales Tax Recodification Technical]
- 78 **Seizure of property used in illegal transport.** Changes the reference from "common carrier" to "for-hire carrier." [Sales Tax Recodification Technical]
- 79 **Auctions of security.** Replaces a reference to "service of a notice of deficiency" with "an order of assessment" since there is no prescription for serving the former under current law. [Sales Tax Recodification Technical]
- 80 **Deposit of revenues.** Changes a cross reference to specific taxable services that is required by the movement of the taxable services list back into the definition of "sale and purchase." [Sales Tax Recodification Technical]
- 81 **Exemptions.** Makes a correction to a cross-reference. Clarifies that sales delivered to a common carrier for delivery outside of a city are not subject to a city's local sales tax. [Sales Tax Recodification Technical]
- 82 **Enforcement, collection, and administration.** Repeals the authority for Duluth to continue administering and collecting its own local sales tax after December 31, 2002. All local sales taxes are required to be collected and administered by the department of revenue under the streamlined sales tax agreement. [Streamlined Sales Tax]
- 83 **Department's cost of collection.** Requires that the commissioner of revenue deduct from payments of local sales tax collections to local jurisdictions, the cost of constructing and maintaining a zip

code or geo-code data base as required by the streamlined sales and use tax agreement for administration of local sales taxes. Effective for costs incurred after June 30, 2001. [Streamlined Sales Tax]

84 **Uniform Sales and Use Tax Administration Act.** Authorizes the commissioner of revenue to enter into an agreement with other states to develop a simplified sales and use tax collection and administration system.

Subd. 1. Title. Gives the title "Uniform Sales and Use Tax Administration Act" to the section.

Subd. 2. Definitions. Defines the following phrases. "Agreement" means the Streamlined Sales and Use Tax Agreement. "Certified automated system" means software jointly certified by member states as capable of determining the tax owed to each state. "Certified service provider" means an agent jointly certified by member states to calculate and remit the tax for a seller.

Subd. 3. Legislative finding. States that the intent of entering into the agreement is to simplify the burden of tax administration and compliance for sellers.

Subd. 4. Authority to enter agreement. Authorizes the commissioner of revenue to enter into the streamlined sales and use tax agreement and work jointly with other member states to establish administrative standards. Allows the commissioner to take steps necessary to implement the provisions of the agreement.

Subd. 5. Relationship to state law. Requires that any changes needed to state law in order to implement the agreement are not automatic but must be enacted by the legislature.

Subd. 6. Agreement requirements. Lists the requirements that each state must comply with in order to participate in the agreement. These include the following:

- one uniform rate per state with no caps or thresholds on application of the rate to any transaction, as required by December 31, 2005, under the agreement;
- uniform standards regarding sourcing, administration of exemptions, bad debts, and tax returns and remittances;
- adoption of uniform definitions as developed under the agreement;
- one central registration system for sellers which is valid for all member states with agreement that use of the system can not be used to determine whether a seller has nexus in any state for any tax;
- identical state and local tax bases within a state with state collection and administration of all local taxes, as required by December 31, 2005, under the agreement;
- agreement to provide a yet to be determined collection allowance to sellers and certified service providers;
- agreement to certify and maintain compliance with the provisions of the agreement while a member state;
- agreement to a uniform policy for certified service providers to protect the privacy of consumers; and
- agreement to an advisory council made up of representative of the private sector and non-member states to consult with the member states on administration of the agreement.

Subd. 7. Cooperating sovereigns. Agreement to an advisory council made up of representative of the private sector and non-member states to consult with the member states on administration of the agreement.

Subd. 8. Limited binding and beneficial effect. States that no one may bring a challenge against a state agency or have a state law declared invalid based on the argument that the agency's action or the law are inconsistent with the agreement.

Subd. 9. Seller and third party liability. Reduces liability and audits for sellers using a certified service provider or a certified automated system for sales tax collection. States that if a seller contracts with a certified service provider, the service provider is liable for the tax collection and remittance, not the seller, except if the seller commits fraud. Sellers using a service provider would not be subject to audit on transactions handled by the service provider. Requires that a person providing a certified automated system be responsible for any underpayment of tax attributable to the system.

The streamlined sales and use tax agreement provides much more detail on implementation of the requirements listed in this act. Other provisions contained in the agreement but not explicitly stated in this act include:

- that all necessary changes to state and local tax rates and bases be effective by December 31, 2005;
- a 60 days notice of a rate or boundary change and that changes in rates only take effect on the first day of a calendar quarter;
- that the state maintain a zip code or geo-code data base for administering local sales taxes;
- that the state provide amnesty for uncollected or unpaid sales and use taxes for sellers who take part in the agreement if the seller was not registered in the state for 12 months prior to commencement of the state's participation in the agreement; and
- that the state allow alternate collection and remittance methods such as use of a third-party Certified Service Provider (CSP), a Certified Automated System (CAS), or the seller's own automated sales tax system if it has been certified as a CAS. [Streamlined Sales Tax]

85 **Exemptions from sales tax on motor vehicles.** Provide an exemption for the purchase of vehicles used for transit outside the metropolitan area or for transit in an opt-out area in the metropolitan area. Effective for sales after July 31, 2001.

87 **Liquor, lodging and restaurant taxes; city of Minneapolis.** Allows the city of Minneapolis to levy the entire extra three percent tax on lodging in hotels or motels with more than 50 rooms by increasing the maximum combined rate of all sales taxes on this type of lodging from 12 percent to 13 percent. The revenue from this tax is used to fund the city convention center.

Currently the cap limits the imposition of this tax to two percent because the combined rate of all the other sales taxes is 10 percent as outlined below:

- 6.5% general sales tax rate;
- 0.5% Minneapolis local sales tax rate; and
- 3.0% general Minneapolis lodging tax.

Effective the day after final enactment.

88 **Effective dates.** Extends the expiration date for a sales tax exemption for construction materials used to build a biomass electrical generating facility to July 1, 2003. Currently this exemption expires July 1, 2001.

89 **Effective date.** Extends the expiration date on the sales tax exemption for construction of the Prairie Farmers Cooperative agricultural processing facility by one year, to December 31, 2001. Applies retroactively to sales made on or after December 31, 2000.

90 **Plan for replacement of revenue raised by current taxes on alcohol.** Requires that the commissioner of revenue submit a plan by January 1, 2003, for a new tax to replace the revenues currently raised by the existing higher sales tax on liquor and the current liquor tax. The different sales tax on liquor is required to be eliminated under the agreement by December 31, 2005. Effective the day after final enactment. [Streamlined Sales Tax]

91 **Plan for replacement of revenue raised by taxes on short term motor vehicle rental.** Requires

that the commissioner of revenue submit a plan by January 1, 2003, for a new tax to replace the revenues currently raised by the existing extra 6.2% sales tax on short term motor vehicle rentals contained in chapter 297A. This tax must be eliminated under the agreement by December 31, 2005. The 3.0% fee that is retained by the lessor is not repealed. Effective the day after final enactment. [Streamlined Sales Tax]

- 92 **Direction to the commissioner of revenue.** Requires the commissioner of revenue to request that a uniform definition of "clothing made from fur" be developed and adopted under the streamlined sales tax agreement. Effective July 1, 2001, since no explicit effective date was given. [Streamlined Sales Tax]
- 93 **Instruction to Revisor.** Requires the revisor to:
- put the definitions in the capital equipment exemption back into alphabetical order; and
 - move the motor vehicle exemption from the business exemptions to the general exemptions. [Sales Tax Recodification Technical]
- 94 **Appropriation.** Appropriates \$1,701,500 in fiscal year 2002 and \$1,125,000 in fiscal year 2003 to the commissioner of revenue to administer this article.
- 95 **Repealer.**
- Paragraph (a)** repeals the definition of taxable services which is added back to the definition of sale and purchase, the exemption for electricity for snowmaking equipment which has been replaced with a general snowmaking exemption; and the construction materials and equipment exemption for the Duluth, and St. Paul convention centers effective June 30, 2001.
- The portion of the taxable services definition related to cable television is not repealed until July 31, 2001, when the new definition of cable television services are enacted.
- Paragraph (b)** repeals the 9 percent sales tax rate on liquor and the extra 6.2% tax on short term motor vehicle rentals. These sales must be subject to the standard state rate of 6.5 % for sales after December 31, 2005, to be in compliance with the agreement. [Streamlined Sales Tax]
- Paragraph (c)** repeals the construction materials and equipment exemption for the Minneapolis convention center effective June 30, 2002.
- Paragraph (d)** repeals the penalty for underpayment of the accelerated June sales tax liability effective for liabilities after January 1, 2003.

Article 13: Special Taxes

Overview

Allows the commissioner to waive solid waste management taxes in areas affected by disasters.

Provides for leased motor vehicles to be subject to the registration tax on the same basis as purchased vehicles.

Exempts licensed ambulance services from gasoline and special fuels taxes.
Provides for quarterly payment of the insurance premiums tax.

Repeals the automobile self-insurance tax and makes a corresponding increase in state police aid.

- 1 **State police aid.** Provides for an annual appropriation for state police aid equal to the fiscal year 2001 amount collected under the automobile risk self-insurance tax. This tax is repealed by section 15, 9, 41.

2- **Motor vehicle registration tax; leased vehicles.** Provide that the tax will be applied to leased motor
3 vehicles at the full amount for the first year of registration, the maximum of \$189 for the second year
of registration, and the minimum \$99 for the third and subsequent years of registration. The 2000
Omnibus Tax Law reduced registrations for the first and second renewal periods; since leased
vehicles are re-registered every four months they received the \$189 rate for the fifth through eighth
months of registration, and the \$99 rate for the ninth through twelfth months of registration. The
change will treat leased vehicles the same as purchased vehicles.

4 **Petroleum inspection fees.** Changes the imposition of the petroleum inspection fee to the first
licensed distributor receiving the product in Minnesota. This is the same point of imposition as for
gasoline and special fuel taxes. Under present law, the inspection fee is imposed on the petroleum
product held in storage and sold or withdrawn from that storage.

The petroleum inspection fee is collected by the Revenue Department along with any taxes due under
Chapter 296A. The fee is deposited in the general fund and an appropriation is then made to the
Public Service Department to pay for the petroleum related inspections of the weights and measures
program.

5- **Ambulance services exemption.** Exempt licensed ambulance services from liability for gasoline
6 taxes and special fuels taxes.

7 **Petroleum tax; shrinkage allowance.** Reduces the petroleum tax shrinkage allowance from three
percent to 2.5 percent, to more closely correspond to actual shrinkage and the allowance provided by
other states. One-third of this percentage will continue to be passed on to the dealers.

8 **Disposal of mixed municipal solid waste; rate of tax.** Clarifies that the commercial tax rate applies
to non-mixed municipal solid waste (Non-MMSW) that is separately collected and disposed of, if it
is disposed of at a land disposal facility that also actively accepts and disposes of mixed municipal
solid waste (MMSW). This condition does not apply if (i) the facility owner and operator can
demonstrate a physical separation between the MMSW disposal area and the Non-MMSW disposal
area, and (ii) the emissions from the two areas are collected separately.

Non-MMSW (such as construction and demolition debris and industrial waste), is subject to a solid
waste management tax of 60 cents per non-compacted cubic yard of waste that is managed. This
section clarifies that when the Non-MMSW and MMSW is commingled, it shall be taxed at the
higher commercial tax rate, unless it meets the strict specifications of being physically separated and
its emissions collected separately.

9 **Waiver of solid waste management tax.** Allows the commissioner of revenue to waive the solid
waste management taxes that would otherwise be paid to dispose of construction debris from events
in areas included in a Presidential Declaration of Major Disaster. Requires the debris to be disposed
of within 18 months of the declaration to qualify for the waiver. Effective for disaster area
declarations made after April 15, 2001.

10 **Insurance premiums tax payment dates.** Provides for quarterly payments of insurance premiums
tax, which would be due on the same dates as other business taxes payable on a quarterly basis.
Present law requires insurance premiums tax payments to be made three times per year.

11 **Insurance premiums tax; amount of required payments.** Requires that insurance premiums tax
estimated installment payments be one-fourth rather than the current one-third of tax liability,
consistent with the shift to quarterly payments.

12 **Insurance premiums tax; March estimated payment.** Changes the installment payment to which
an overpayment on an insurance premiums tax annual return can be applied from March 15 to April
1, consistent with the shift to quarterly payments..

13 **Lawful gambling tax; report of tax savings.** Repeals the requirement that each organization
annually calculate and report to the gambling control board 5.26 percent of bingo/paddlewheel/raffle

taxes and combined receipts taxes paid after 1998 (the year of the first lawful gambling tax reduction), and only spend the amount so calculated on specified lawful (charitable) purposes within one year of receipt.

- 14 **Appropriation.** Appropriates \$140,000 in fiscal year 2002 from the highway user tax distribution fund to the commissioner of revenue for system modifications associated with petroleum tax reform.
- 15 **Repealer.** Repeals the automobile self-insurance tax.

Article 14: MinnesotaCare Taxes

Overview

This article extends the reduced (1.5%) rate under the health care provider tax for two additional years (through 2003) and makes minor changes in the items subject to the MinnesotaCare taxes. The federal reserve is repealed.

- 1 **Financial management.** Makes conforming changes in the MinnesotaCare financial management provisions to reflect repeal of the federal reserve under section 15, 9, 41.
- 2 **MN Care tax - gross revenues of staff model health plan companies.** Clarifies that all gross revenues received by a staff model health plan company for patient services are subject to tax. Current law refers to fees for patient services covered under contracts with groups and enrollees. The new provision clarifies that any service given to a patient, even if that patient is not an enrollee or part of a group, is taxable.
- 3 **MN Care tax - adult day care centers.** Exempts adult day care centers from the definition of a health care provider. Under the current law, adult day care centers that employ a licensed health care provider (generally, a licensed practical nurse who is the center director or an employee who is responsible for medication assistance) are required to register and pay the tax, if applicable. Other similar facilities such as adult foster homes and day training and habilitation services are already exempt.
- 4 **MN Care tax - definition of legend drug.** Clarifies that a legend drug is a drug that is required to bear one of two statements: "Caution: Federal law prohibits dispensing without prescription" or "Rx only." Current law refers only to the first statement. A change in federal law now allows legend drugs to bear the statement "Rx only." Changes the MinnesotaCare definition to meet the new federal requirements.
- 5 **MN Care tax - use tax on prescription drugs.** Replaces the term 'paid the tax' with 'subject to tax.' Under current law, a person who receives drugs from someone other than a wholesale drug distributor who *paid* the tax is subject to the use tax. The proposal clarifies that the use tax applies to a person who bought the drugs from someone other than a wholesale drug distributor who is *subject* to tax.
- 6 **Extension of tax reduction.** Extends the 1.5 percent rate for the provider tax rate through calendar year 2003.
- 7 **MN Care tax - application of other chapters.** Clarifies that enforcement, interest, and penalty provisions under Chapter 289A apply to the MinnesotaCare tax. Chapter 294, which the MinnesotaCare law currently refers to, is obsolete. It refers to the gross earnings taxes, which no longer exist.
- 8 **Tax exemption.** Extends the exemption from the premiums tax for health maintenance organizations and nonprofits through calendar year 2003.
- 9 **Repealer.** Repeals the federal reserve requirement for the health care access fund management requirements for the MinnesotaCare program.

Article 15: Local Development

Overview

Makes a large number of minor policy and technical changes in various TIF and abatement laws.

Establishes a grant program to make up TIF deficits resulting from the class rate reductions and the state takeover of the general education levy. \$205 million is appropriated to this fund.

Allocates an additional \$1.5 million for border city enterprise zone credits, and the city of Luverne is given border city development zone powers.

- 1 **Iron Range fiscal disparities.** Adds a cross reference in the fiscal disparities law for the taconite tax relief area to make it clear that all pre-existing TIF districts are exempt from contributing to the fiscal disparities pool until they are decertified. It is effective retroactive to the effective date of the taconite area fiscal disparities law (payable 1998). The new language is consistent with the way in which the law is being administered.
- 2 **Additional enterprise zone allocations.** Directs the commissioner of the Department of Trade and Economic Development (DTED) to allocate \$1.5 million for additional border city enterprise zone credits for cities along the western border. These credits are to be allocated among the qualifying cities (Breckenridge, Dilworth, East Grand Forks, Moorhead, and Ortonville) on a per capita basis. Based on 1999 population, the \$1.5 million would be allocated approximately as follows:

Breckenridge	\$108,705
Dilworth	88,882
East Grand Forks	243,245
Moorhead	998,553
Ortonville	60,613

These enterprise zone credits can be used for a variety of tax reductions under present law.

A "but-for" type finding is required to award the tax reductions (i.e., the city must find that the reductions are needed to attract or retain the business). The allocation may also be used for reductions under the border city development zone law. Authority is granted to re-allocate any unused amount at the end of the biennium if requested by a city that expended its allocation.

- 3 **Bonds.** Includes interfund loans and advances in the definition of bonds. Section 21 explicitly authorizes repayment of interfund loans with tax increments. *The corrections bill, 20001 Laws, First Special Session, ch. 13, sec. 1, corrects an erroneous cross reference in the effective date.*
- 4 **Blight test.** Substitutes the term "similar structures" for "improvements" in the blight test for redevelopment districts and renewal and renovation districts. This clarifies that gardens, lawns, landscaping, farm fields, and similar items do not meet the occupancy test.
- 5 **Cross reference correction.** Corrects erroneous cross references in the renewal and renovation district statute to the redevelopment district definition and makes a similar change in the use of the term improvement to that contained in section 4.
- 6 **Economic development districts.** Eliminates the prohibition on creating an economic development district, if it could qualify as another type of district.
- 7 **Contents of TIF plans.** Eliminates the authority to waive increments for redevelopment, housing, and hazardous substance subdistricts.
- 8 **Filing of TIF plans with the state.** Reinstates the requirement that copies of the TIF plan and amendments to the plan be filed with the commissioner of revenue. The commissioner is to provide a copy to the State Auditor on the request of the Auditor. Filing must be done within 60 days of the latest of the (1) request for certification of the district, (2) approval of amendments to

the plan by the municipality, or (3) adoption of amendments to the plan by the development authority for plan amendments that do not require municipal approval.

9 **Cross reference correction.** Eliminates a cross reference to a repealed statute.

10 **Duration limits.** Makes two changes in the basic duration limit statute:

It eliminates the shorter duration limits for redevelopment, housing, and hazardous substance subdistricts that waive increments. These districts would not be permitted to waive increments under the amendment in section 7.

It provides that receipt by a hazardous substance subdistrict of an increment (i.e., an increment as a result of the write-down of original tax capacity) does not start the duration limit running on the overlying TIF district itself. The district's duration limit will only begin to run when the tax capacity of the district increases over the original tax capacity for the district (rather than the subdistrict).

11 **Hazardous waste subdistricts, waiving increments.** Repeals the shorter duration limit for hazardous substance subdistricts that waive increments.

12 **Approval for early decertification.** Requires the commissioner of revenue to approve early decertification of a TIF district, if two conditions are met:

The district is a pre-existing district (i.e., one where the request for certification was made before August 1, 2001)

There are pre-existing obligations (bonds or binding contracts) outstanding secured by other districts in the municipality.

The commissioner is to approve only if the commissioner determines early decertification is unlikely to increase entitlements to a grant under section 24.

13 **Administrative expenses.** Modifies the limitation on administrative expenses to provide that the limit will be calculated relative to increments from the district, rather than the expenditures for the project. This change is effective for new districts.

14 **General government use.** Moves the restrictions on the uses of increments for social and recreational facilities to a separate subdivision and eliminates the need for the municipality to approve operating and management policies for social and recreational facilities financed with increments.

15 **Social and recreational facilities.** Recodifies (without substantive change) the prohibition on using increment for social, recreational, and similar facilities. The effective date includes the grandfather provision that was contained in the 1999 legislation and permits assigned binding contracts and letters of intent to qualify under the grandfather provision.

16 **Pooling for deficits.** Redefines when pooling is permitted for deficits in increment revenues. The permitted uses are expanded to include binding contracts (e.g., "pay as you go" agreements). This change makes the pooling authority consistent with the grant program. The new allowance is for districts for which the request for certification was made before June 2, 2001, and covers reductions in increments as a result of the class rate changes and the elimination of the general education tax levy under this act. This change allows the pooling to be used to cover deficits created by the property tax reform changes.

When two authorities (e.g., an HRA and an EDA) are located in the same city, a limit is imposed on the ability to pool across the two authorities. Before using increment from one authority's districts to cover deficits in the other authority's district, the own authority's increments must be exhausted first.

In addition, authority is granted to allow pooling to cover "pay-as-you-go" agreements where the amount available is less than projected, although the authority's obligation is limited to paying an

amount of actual increment.

- 17 **Adjustment to original net tax capacity for exempt property.** Allows the development authority to exclude improvements the authority makes to exempt property from original net tax capacity when the exempt property becomes taxable.
- 18 **State tax and increment computation.** Provides that the state property tax does not generate tax increment.
- 19 **Deduction for enforcement costs.** Directs the commissioner of revenue to adjust percentage of tax increments dedicated to the office of the state auditor for enforcement to maintain the current level of funding after elimination of the general education tax levy and class rate compression.
- 20 **Enforcement scope.** Extends the scope of the section relating to enforcement (both private actions and State Auditor's powers) to include the special taxing district authority to eliminate deficits and the new provisions granting special authority to reduce deficits and continuing developer's obligation after the repeal of the state aid offset.
- 21 **Interfund loans.** Authorizes the authority or municipality to pay project costs with interfund loans and receive reimbursement, with interest, from increments. In order to do so, the authority or municipality must adopt a resolution authorizing the loan and setting its terms, in writing. These terms must include, at least, the principal, interest, and maximum term. The interest that may be charged is limited to the higher of the judgment interest rate or the rate on unpaid state taxes. Pre-existing interfund loans are ratified, if the interest rates comply with the maximum rate limits and the amount does not exceed the largest negative balance in the fund that received the loan or advance.
- 22 **Deficit authority.** Allows an authority with a preexisting district (request for certification before August 1, 2001) to take the following actions to reduce increment shortfalls resulting from class rate compression or the general education takeover:
 - Uncapping the original tax rate (i.e., allowing increment to be calculated using the current tax rate, rather than the rate that was certified in the year the district was created)
 - Changing the fiscal disparities option to Option A so that the contribution is spread to the taxing districts, rather than reducing the district's increments.These actions can only be used to pay binding obligations (bonds or contracts) entered into before August 1, 2001. Pooling authority must be used first to make up these shortfalls. Exercise of the authority under this section is a condition for qualifying for a grant. The authority can be used to help make a developer whole under a pay as you go obligation, even if the authority does not have an explicit legal obligation to do so.
- 23 **Developer obligations.** Continues developer obligations to reimburse the municipality for its state aid offset, even though the offset is repealed by section 15, 9, 41.
- 24 **TIF grants.**
 - Subd. 1. TIF grants.** Provides for grant payments to municipalities in 2003 and thereafter for deficits in tax increment financing districts caused by the changes in class rates and the elimination of the state-determined general education levy under this act. The amount of the grant equals the lesser of (1) the reduction in the district's revenues from the class rate changes and the elimination of the general education levy or (2) the amount needed by the district to pay off bonds issued before and binding contracts entered into before August 1, 2001, less the municipality's total tax increments including unspent increments from previous years and any local contribution or state aid offset that would have applied before the repeal of those requirements under section 15, 9, 41.
 - Subd. 2. School district abatement levy authority.** Allows school districts that granted abatements of the general education levy, pledged to the payment of bonds or binding contracts, to levy to make up the loss as a result of the repeal of the general education levy, but not to exceed

the amount of the obligation.

Subd. 3. Appropriation. Appropriates \$91 million in FY 2002, and provides a standing appropriation of \$38 million for the fiscal years after that. The appropriations are available until spent. If the grant entitlements for a year exceed the amount available, all grants are proportionately reduced.

- 25 **Abatements by towns.** Clarifies that for property tax abatements by towns, the board of supervisors is the governing body. The 1999 legislature authorized town boards (rather than the annual meeting) to approve abatements. When this change was made, the reference in the definition of governing body was not changed. This section corrects that mistake and is made retroactive to the date of the 1999 change.
- 26 **Duration limit on abatements.** Clarifies that the duration extension for abatements (from 10 to 15 years) when only two political subdivisions approve an abatement applies to both political subdivisions, not just the requesting unit of government.
- 27 **Abatement make-up levy.** Authorizes political subdivisions to increase their abatement levies to make up for shortfalls in the ability to pay obligations entered before August 1, 2001, if the shortfalls result from class rate compression.
- 28 **Abatement bonds.** Limits the referendum exemption for abatement bonds. Abatement bonds used for buildings primarily used to conduct the business of a unit of government would require approval by the voters in a referendum.
- 29 **Grant program extension.** Extends the TIF grant program for deficits caused by the 1997-99 property tax compression for one additional year.
- 30 **Grant program extension; effective date.** Makes a conforming change to the effective date for the 1997-99 TIF grant program, extending it through taxes payable in 2001.
- 31 **Effective date, housing outside project area.** Extends the 2000 legislation permitting spending of a share of increments on low income housing activities outside of the project areas to all post-1982 districts.
- 32 **Hollman housing, exemption for low-rent public housing.** Provides that low-rent public housing built under the Hollman decree qualifies for the property tax exemption and the requirement to make payments in lieu of property taxes, even if the properties are owned by municipalities or other entities. Under present state law, this exemption extends only to housing and redevelopment authorities. Federal law requires these properties to be exempt from property taxes.
- 33 **Luverne; Border city development zone.** Allows the city of Luverne to designate up to three areas of the city as border city development zones. Each area or zone is limited to no more than 100 acres.

The general law rules for border city development zones apply to these zones. The bill allocates \$175,000 to the city to be used in providing tax reductions for the zones. This limit or cap on the zone tax reductions does not apply, if the commissioner of revenue waives the limit.
- 34 **Aurora, TIF.** Allows the city of Aurora to extend the duration of a pre-1979 TIF district through December 31, 2009. This will allow the city six additional years of increment. This district is scheduled to be decertified at the end of 2003. The section allows the district's increments to be spent on public redevelopment costs anywhere within the project area. General law prohibits use of increments from pre-1979 districts after April 1, 2001, except to pay for bonds issued before April 1, 1990 (or bonds issued to refund them).
- 35 **Gaylord TIF, effective date.** Authorizes the city of Gaylord to extend the duration of a pre-1979 TIF district. The extension may not extend beyond December 31, 2008. The 1997 legislature authorized an extension of the duration of this district, but the city, county, and school district apparently failed to act. The authority to approve special legislation expires on the first day of the

next biennial legislative session. Thus, the authority to approve this legislation expired in January 1999.

Because this is a pre-1979 district without pre-1990 bonds outstanding, this district was effectively decertified at the end of 2000 and, thus, will generate no increment in 2001. As a result, the bill would, in effect, revive the district in 2002. In addition, the section provides authority to spend increments during the extension period. Effective upon local approval by the city, county, and school district.

- 36 **North St. Paul, TIF grant.** Directs the commissioner of revenue to pay a \$12,800 grant to the city of North St. Paul. This grant is to be charged against the appropriation to make up TIF deficits caused by the 1997, 1998, and 1999 property tax class rate compressions. The commissioner is to pay the grant within 60 days after enactment. Effective day following final enactment without local approval.
- 37 **Park Rapids, TIF.** Extends the 5-year rule by one year for a redevelopment district in Park Rapids. Effective upon local approval by the city of Park Rapids.
- Background information.** The 5-year rule requires the "in-district" portion of increments to be spent (or bonds to be issued) within 5 years after the TIF district is certified. The pooling rules require either 80% of increments (most districts) or 75% of increments (redevelopment districts) to be spent on activities actually located inside the TIF district. This percentage is the "in-district" percentage. After the end of the 5-year period, the in-district portion of the increment must be spent only to pay obligations incurred to finance these activities completed during the first 5 years. When they are paid, the district must be decertified. The pooling percentage (i.e., the rest of the increments, either 20% or 25%) can continue to be spent on new activities after the end of the 5-year period.
- 38 **Minneapolis, approval extension.** Extends the period of time for the city of Minneapolis, Hennepin County, and the school district to approve a 1998 special law allowing creation of a TIF district for the old Sears site. The authority to approve this special law expired in 1999.
- 39 **Washburn Crosby project; grant procedures.** Allows the city of Minneapolis to apply for a grant from the TIF grant fund for the Washburn Crosby historic mill project. This application will be based solely on the increments of the district and will not take into account other increments of the city. The authority will have until August 1, 2001, to enter binding contracts to issue bonds that qualify as preexisting obligations.
- 40 **St. Louis Park, local contribution.** Allows St. Louis Park to qualify for a TIF grant for special law district as if the local contribution option applied. This is a district that was subject to the state aid offset (at a reduced rate) and under the general law rules would have been subject to the higher deduction for the state aid offset from its grant.
- 41 **Repealer.** Repeals both of the state aid offsets (i.e., the one for new districts and for extensions of district duration limits), effective for taxes payable in 2002. With the state takeover of the education levy, the state aid impact of TIF is minimal.

Article 16: Levy Limits

Overview

Re-imposes levy limits on all counties and on cities with a population greater than 2,500, for taxes levied in 2001 and 2002, payable in 2002 and 2003.

The article allows for two alternatives for calculating a local government's levy limit. The limit will be based on the greater of (1) its 1999 (Pay 2000) levy limit base, increased by two years of growth in the allowed growth factors; or (2) the sum of its 2000 (Pay 2001) levy for non-special levy purposes plus

2001 aids, increased by one year of growth in the allowed growth factors.

The allowed growth factors for calculating levy limits are (1) the increase in the implicit price deflator for state and local government purchases, (2) the increase in number of households; and 50 percent of the increase in tax base due to new commercial and industrial property.

Local governments will be able to levy outside of limits (special levy) for long-term debt, market value based referenda, increases in matching funds requirements above 2001 levels; natural disasters, certification errors, economic development abatements, increases in PERA employer contribution rates, costs of mandated jail operating expenses, operation of a lake improvement district, loan repayments for certain transportation projects, \$1 per capita for redistricting costs, and mandated court administrative costs.

- 1 **County auditor.** Prohibits the county auditor from extending taxes greater than the amount permitted under levy limits.
- 2 **Application.** Provides that the definitions in section 275.70 apply to the proposed levy limitations in sections 275.70 to 275.74.
- 3 **Implicit price deflator.** Defines the implicit price deflator as the deflator for state and local government purchases as prepared by the U.S. Department of Commerce.
- 4 **Local governmental unit.** Defines "local governmental unit" as a county, or as a city with population greater than 2,500.
- 5 **Population; number of households.** Defines population and number of households as the numbers determined in the most recent federal census or estimate prepared by the metropolitan council or state demographer.
- 6 **Special levies.** Eliminates the following from the definition of special levies:
 - levies for un-reimbursed expenses due to the 1997 floods;
 - levies for abatements due to floods in 1997 or tornadoes in 1998; and
 - levies to fund correctional service retirement plans with employer matches greater than 5.49% of total salary.

Local governments will still be able to special levy outside of levy limits for debt, market value referenda, natural disasters, certification errors, economic development abatements, mandated jail operating expenses, increases due to matching fund requirements after 2001, operation of a lake improvement district, and to repay loans related to certain transportation projects.

In addition, the following special levies have been added:

- for increases in employer contributions to PERA that are effective after June 30, 2001;
 - for counties; \$1 per capita for redistricting costs with a portion of the levy going to cities for their costs (identical to the special levy granted in 1991 for redistricting purposes); and
 - for counties, for court costs associated with the phased-in state takeover of the remaining judicial districts.
- 7 **Levy limits.** Imposes levy limits on counties and cities with a population greater than 2,500.
 - Subd. 1. Limit on levies.** States that these levy limits supersede any other law or charter provision that authorizes imposition of higher property tax levies.
 - Subd. 2. Levy limit base.** Defines the levy limit base used for calculating the levy limit in each year. For taxes levied in 2001 (Pay 2002), a local government's levy limit is the greater of:
 - its adjusted levy limit base for 1999, plus the amount levied in 1999 under the repealed special levies and increased for (1) household growth, (2) inflation growth, and (3) one-half

of the tax base growth due to new non-public utility commercial-industrial construction for one year; or

- its levy for 2000 (Pay 2001) plus its Pay 2001 aids minus the portion of the pay 2001 levy that was levied for purposes allowed under special levies.

For taxes levied in 2002, the levy limit base is equal to the adjusted levy limit base for 2001, as determined in subdivision 4.

Subd. 3. Adjustments for state takeovers. Makes adjustments to levy limits for state takeovers of various functions.

For a county where the state has not yet assumed judicial court funding, the limit is reduced by the county's 2001 certified budget amount for those court costs. The county may continue to levy for these costs under a special levy outside of levy limits until the actual takeover occurs.

For metropolitan area cities that currently levy for transit costs, their levy limit base is reduced by the sum of their payable 2001 non-debt opt-out transit levy plus non-debt opt-out transit HACA.

For counties in which the state assumed certain mandated court services July 1, 2001, a reduction equal to ½ of their offsetting HACA loss in calendar year 2002.

Subd. 4. Adjusted levy limit base. Increases the levy limit base each year for the annual increase in number of households and inflation, and for one-half of any tax base growth due to new non-public utility commercial-industrial construction. For a county, this amount is reduced in 2001 and 2002 to reflect any reduction in a county's levy due to a water management board becoming a special taxing district.

Subd. 5. Property tax levy limit. Calculates the levy limit by subtracting the certified amounts of general purposes aids from the adjusted levy limit base. The subtraction excludes the extra LGA paid to the cities of Newport, Osseo, Hopkins, and Chaska beginning in 2002. The new out-of-home placement aid and transit aid are also subtracted from the base.

Exempts the local government from any charter levy limits that are less than the amount allowed under this subdivision or any charter referendum requirements related to levy increases due to lost aid.

Subd. 6. Levies in excess of levy limits. Prohibits the county auditor from spreading a levy for a local government that is in excess of the amount allowed under levy limits.

8 **Levy limit adjustments for consolidation and annexation.** Provides the method to be used to adjust a local government's levy limit in the case of consolidation, annexation, changes in service levels, or transfer of governmental functions. This provision is similar to the adjustment provisions in law when levy limits were last imposed, for taxes levied in 1999. Annexation adjustments need only be done if the annexation involves an area with a population of 50 or more.

9 **Elections for additional levies.** Allows a local government to exceed its levy limit determined in section 7 by passing a local referendum. This provision is identical to the election provision in law when levy limits were last imposed, for taxes levied in 1999.

10 **State regulation of levies.** Provides for administration of levy limits.

Subd. 1. Calculation and notification. Outlines certification and reporting requirements for the commissioner of revenue and the local governments subject to levy limits. This provision is similar to the calculation and notification provision in law when levy limits were last imposed, for taxes levied in 1999 however the dates are modified to reflect the more compressed time table for 2001.

Subd. 2. Authorization for special levies. Requires that a local government request authorization from the commissioner of revenue in order to special levy for costs associated with natural disasters.

This provision is identical to the authorization provision in law when levy limits were last imposed, for taxes levied in 1999.

Subd. 3. Information necessary to calculate the 2001 levy limit. Requires local governments to file by July 20, 2001, the information necessary to allow the calculation of levy limits under both alternatives. If the necessary information is not to the commissioner of revenue by the required date, the commissioner has the discretion to calculate a local government's limit based solely on its Pay 2000 levy limit.

Article 17: Electronic Filing and Payment

Overview

Provides that the commissioner is only required to notify the taxpayer of electronic filing requirements once, if the notification specifies the threshold for electronic filing.

Changes terminology from "electronic funds transfer" to "electronic means."

- 1 **Electronic filing; hazardous waste generator tax.** Changes terminology from "electronic funds transfer" to "electronic means." Strikes obsolete language prescribing tax payments in 1983 and 1984.
- 2 **Returns; date of delivery.** Expands language defining the date a document is considered to be delivered to documents filed by electronic means, setting the date of delivery as the date of the confirmation time and date stamp.
- 3 **Proof of filing.** Provides that confirmation time and date stamp on electronically filed returns is proof of payment authorization and time of filing.
- 4 **Payments required electronically.** Changes terminology from "electronic funds transfer" to "electronic means."
- 5 **Penalty for failure to pay electronically.** Provides that the commissioner is only required to notify the taxpayer of electronic filing requirements once, if the notification specifies the threshold for electronic filing. Changes terminology from "electronic funds transfer" to "electronic means."
- 6 **Apportionment of mortgage registry tax.** Changes terminology from "electronic funds transfer" to "electronic payment."
- 7 **Electronic means; definition.** Defines "electronic means" as a method defined in the Uniform Electronic Transactions chapter, and prescribed by the commissioner.
- 8 **Sales and use tax return.** Changes the filing date for June sales tax returns for persons required to make accelerated June sales tax payments. Currently they must file the June return by August 14th; this is changed to August 20th.
- 9 **Income taxes; time for payment.** Changes terminology from "electronic funds transfer" to "electronic payment." Clarifies that the time for payment by electronic means the same as the time for payment by non-electronic means.
- 10 **Withholding taxes; time for payment.** Changes terminology from "electronic funds transfer" to "electronic payment." Clarifies that the time for payment by electronic means the same as the time for payment by non-electronic means.
- 11 **Sales and use tax; time for payment.** Changes terminology from "electronic funds transfer" to "electronic means." Changes the time for payment from the 14th to the 20th day of the following month.
- 12 **Corporate taxes; time for payment.** Changes terminology from "electronic funds transfer" to "electronic payment." Clarifies that the time for payment by electronic means the same as the time for payment by non-electronic means.

- 13 **Penalty for failure to file electronically.** Provides that the commissioner is only required to notify the taxpayer of electronic filing requirements once, if the notification specifies the threshold for electronic filing. Changes terminology from "electronic funds transfer" to "electronic means."
- 14 **MinnesotaCare taxes; time for payment.** Changes terminology from "electronic funds transfer" to "electronic payment." Clarifies that the time for payment by electronic means the same as the time for payment by non-electronic means.
- 15 **Petroleum taxes; time for payment.** Changes terminology from "electronic funds transfer" to "electronic payment." Clarifies that the time for payment by electronic means the same as the time for payment by non-electronic means.
- 16 **Lawful gambling taxes; time for payment.** Changes terminology from "electronic funds transfer" to "electronic payment." Clarifies that the time for payment by electronic means the same as the time for payment by non-electronic means.
- 17 **Cigarette and tobacco taxes; time for payment.** Changes terminology from "electronic funds transfer" to "electronic payment." Clarifies that the time for payment by electronic means the same as the time for payment by non-electronic means.
- 18 **Alcoholic beverages taxes; time for payment.** Changes terminology from "electronic funds transfer" to "electronic payment." Clarifies that the time for payment by electronic means the same as the time for payment by non-electronic means.
- 19 **Insurance premiums taxes; time for payment.** Provides that the commissioner is only required to notify the taxpayer of electronic filing requirements once, if the notification specifies the threshold for electronic filing. Changes terminology from "electronic funds transfer" to "electronic payment." Clarifies that the time for payment by electronic means the same as the time for payment by non-electronic means.
- 20 **Penalty for failure to file electronically; insurance premiums taxes.** Changes terminology from "electronic funds transfer" to "electronic payment." Provides that the commissioner is only required to notify the taxpayer of electronic filing requirements once, if the notification specifies the threshold for electronic filing.
- 21 **Metropolitan solid waste landfill fee; time for payment.** Changes terminology from "electronic funds transfer" to "electronic payment." Clarifies that the time for payment by electronic means the same as the time for payment by non-electronic means.

Article 18: Seizures of Contraband

Overview

Provides for contraband seizures for tax law violations to be treated similarly to controlled substance seizures.

- 1 **Seizure; fuels contraband.** Changes a cross reference to reflect a repealer.
- 2 **Disposition of seized property.** Amends the law on seizure of fuel being delivered in violation of motor fuel tax laws. Provides that an inventory will be served by certified mail rather than being delivered. Expands the persons who will receive the inventory. Requires the notice to explain the right to demand judicial forfeiture determination. Increases from ten to 60 days the time a person has to request a judicial determination. Specifies the procedure for making the demand.
Requires that after forfeited fuel is sold, the commissioner of revenue must pay bona fide liens of persons lacking knowledge of the tax violation, and deposit the balance in the general fund. Currently all proceeds are deposited in the state treasury.
- 3 **Seizure; court review.** Amends the law on seizures pursuant to the sales and use tax law. Changes from two days to ten days the deadline for delivering an inventory of what was taken. Requires the

inventory to include notice of the right to a judicial forfeiture determination. Increases from ten days to 60 days, the deadline for requesting a judicial determination. Specifies the procedure for making this request.

- 4 **Seizure; gambling contraband.** Strikes a reference to reflect a repealer.
- 5 **Inventory.** Amends the law on seizure of gambling contraband. Specifies an inventory must be "served by certified mail." Current law is unclear on how an inventory is to be provided. Specifies the persons who will get the inventory. Requires the inventory to explain the right to a judicial forfeiture determination. Increases from ten to 60 days the deadline for requesting a judicial determination. Specifies the procedures for doing so.

If a judgment of forfeiture is entered, bona fide liens of persons ignorant of the violation must be paid. Divides the balance between the seizing authority (70 percent), the prosecutor (20 percent), and department of human services compulsive gambling programs (ten percent).
- 6 **Contraband defined.** Amends the list of properties subject to forfeiture for tax law violations. Adds to the list: property used to transport or store untaxed tobacco products.
- 7 **Seizure; tobacco contraband.** Strikes a reference to reflect a repealer.
- 8 **Inventory.** Specifies that if tobacco products are seized, an inventory must be served by certified mail. Specifies who will receive it. Requires it to include notice of the right to a judicial forfeiture determination. Expands from ten days to 60 days the deadline for requesting this determination. Specifies the procedure for making the request.

If tobacco products are sold after forfeiture, requires payment of bona fide liens of persons ignorant of the tax violation. Divides the balance of proceeds between the revenue department (75 percent) and the prosecutor (25 percent); or if no prosecutor is involved, 25 percent is deposited in the general fund.
- 9 **Seizure; liquor contraband.** Strikes a reference to reflect a repealer.
- 10 **Inventory.** Specifies that if liquor is seized, an inventory must be served by certified mail. Specifies who will receive it. Requires it to include notice of the right to a judicial forfeiture determination. Expands from ten days to 60 days the deadline for requesting this determination. Specifies the procedure for making the request.

If liquor is sold after forfeiture, requires payment of bona fide liens of persons ignorant of the tax violation. Divides the balance of proceeds between the revenue department (75 percent) and the prosecutor (25 percent); or if no prosecutor is involved, 25 percent is deposited in the general fund.
- 11 **Repealer.** Repeals procedures that are replaced in this article.

Article 19: Biomedical Innovation Initiative

Overview

Charters a for-profit entity, the Biomedical Innovation Commercialization Initiative (BICI), as a joint public/private venture to help develop commercial applications for research and technologies developed at the university. Provides a \$10 million grant to BICI, contingent on its receiving three-to-one matching contributions.

- 1 **Biomedical innovation and commercialization initiative (BICI).** Directs the commissioner of trade and economic development to establish a Biomedical Innovation Commercialization Initiative (BICI) as a joint venture of (1) the state, (2) the U of M, (3) the Minnesota medical technology community, and (4) private investors. This joint venture would be a for-profit entity. The maximum cash investment is \$40 million. (The bill does not specify whether investments in non-cash property would be permitted.) Distributions would be required to be made to the investors in proportion to the amount invested. The amount of the state's investment would equal the \$10 million grant in section 2.

Board. The BICI board would consist of seven members:

- a representative chosen by the governor
- a representative chosen by the University of Minnesota
- five representatives of the state's medical technology industry, chosen by private sector investors (presumably elected by the private investors in BICI).

BICI's duties are to:

- add business and financial expertise to technologies developed by U of M faculty and staff to give it commercial value
- help create productive relationships among the academic, research, and business communities
- make a profit for its investors and other stakeholders
- help start up new companies and market technology to existing companies.

The board may use up to 5% of its capital for a management and administration. It has standard powers of a corporate entity to carry out its duties, such as to contract, sue and be sued, acquire and hold property, hire employees, accept appropriations and gifts, and so forth. Board members are compensated as provided for members of state boards under the statute (\$55 per day, plus expenses). The board must adopt by-laws and make them available to the public.

2 **Appropriation.** Appropriates \$10 million to the commissioner of trade and economic development for BICI in fiscal years 2002-2003, contingent on BICI's receiving three-to-one matching contributions.

Article 20: Miscellaneous

Overview

Allows the commissioner expanded authority to reissue refund checks and requires earlier reporting of uncashed checks as unclaimed property.

Allows state agencies to waive certain fees in Presidential Disaster Areas and provides affected cities and towns with an automatic filing extensions for financial reporting.

Permits publication of lists of the names of taxpayers with delinquent tax liability of \$5,000 or more.

Transfers administrative and enforcement responsibility for the Unfair Cigarette Sales Act (UCSA) from the Commissioner of Revenue to the Commissioner of Commerce.

Increases the budget reserve to \$653 million.

- 1 **Waiver of agency fees.** Authorizes state agencies, with the approval of the governor, to waive fees for services in areas included in a Presidential Declaration of Major Disaster. Requires agencies to report to the legislative committees with oversight. Effective for disaster declarations made after April 15, 2001.
- 2 **Budget reserve; amount.** Sets the amount of the budget reserve at \$653 million.
- 3 **Budget reserve; dedication of surplus.** Strikes language dedicating 60 percent of the budget surplus in excess of the reserve requirement to the property tax reform account, which is repealed in this article. Allocates any budget surplus after an economic forecast first to maintaining the budget reserve at the amount set in statute, with any remaining surplus becoming an unrestricted balance in the general fund. Present law allocates any budget surplus after the November forecast in odd-numbered years to maintaining the budget reserve at \$622 million.
- 4 **Commerce definitions.** Extends the definitions under Commerce Department statute to the Unfair

Cigarette Sales Act (UCSA).

- 5 **Commissioner of revenue powers; unfair cigarette sale.** Eliminates the responsibility of the commissioner of revenue to enforce the UCSA.
- 6 **Reissuance of uncashed checks and rebates.** Allows the commissioner of revenue to reissue tax refunds and rebates on taxpayer showing of reasonable cause. Limits the authority to five years after the refund or rebate was originally issued.
- 7 **Appropriation.** Provides an open appropriation for the reissuance of lapsed rebate checks on showing of good cause.
- 8 **Power of attorney.** Allows a taxpayer to have department of revenue notices and correspondence sent to a holder of the taxpayer's power of attorney. The power of attorney would need to be made in a form prescribed by the commissioner of revenue. In addition, the taxpayer would be required to make the election in writing.
- 9 **Publication of delinquent taxpayer list.** Provides for the publication of names of delinquent taxpayers with at least \$5,000 minimum liability. Requires that all published liabilities are listed on previously filed liens.
- 10 **Revocations for violations of UCSA.** Eliminates the authority of the commissioner of revenue to revoke cigarette distributor and subjobbers licenses for violations of the UCSA.
- 11 **Authority to examine for violations of UCSA.** Eliminates the commissioner of revenue's authority to examine invoices of retailers and subjobbers of cigarettes to enforce the provisions of the UCSA.
- 12 **Commissioner defined; UCSA.** Defines commissioner as the commissioner of commerce for purposes of the UCSA.
- 13 **Penalty; UCSA.** Transfers authority to collect penalties under the unfair cigarette sales act from the commissioner of revenue to the commissioner of commerce.
- 14 **Investigations; UCSA.** Provides investigations of violations of the UCSA will be conducted under the commissioner of commerce's power, rather than the commissioner of revenue's powers.
- 15 **Distributor fees; UCSA.** Repeals the authority to revoke licenses of cigarette distributors and subjobbers for nonpayment of the UCSA fees.
- 16 **Report of unclaimed property.** Requires the commissioner of revenue to annually report to the commissioner of commerce any uncashed tax refund checks that were issued more than two years previously.

Under present law, uncashed refund checks are reported to the commissioner of commerce for inclusion in the annual published notice of unclaimed property three years after the date of issue.
- 17 **Financial report filing extension.** Provides a 90-day extension for filing financial reports for cities and towns located in Presidential Declaration of Major Disaster, if the disaster declaration includes at least one day in the 30-day period immediately preceding the time for filing. Effective for disaster declarations made after April 15, 2001.
- 18 **Lottery.** Provides that employer distributions to employees who participate in a payroll contribution plan do not constitute a lottery even if the distributions exceed \$500 in a year.
- 19 **BAT Study.** Extends the appropriation for the business activity tax (BAT) study for two additional years (through FY2003). This appropriation is to the legislative coordinating commission. Completion of the study was delayed by difficulties in obtaining IRS approval to allow a consultant to use the federal corporate tax data. These problems have now been solved and a contract with a University of Minnesota economics professor is pending to complete the study in the next two years.
- 20 **Prohibition against appropriations from trunk highway fund.** Allows that sales tax payments using trunk highway funds shall not be considered a non-highway expenditure for biennial budgeting purposes.

- 21 **Transfer of responsibilities; UCSA.** Provides that the general statute governing transfers of administrative powers among states agencies applies to the transfer of the administrative enforcement of the UCSA from Revenue to Commerce. Provides for the transfer of funds by the department of finance from revenue to commerce in connection with this change.
- 22 **Budget reserve increase.** Increases the budget reserve from \$622 million to \$653 million, effective July 1, 2001. Directs the commissioner of finance to transfer \$31 million to the budget reserve on July 1, 2003 (potentially increasing the account to \$684 million, if it has not been drawn down below the \$653 million level).
- 23 **Appropriation.** Appropriates \$4,370,000 in fiscal year 2002 only from the trunk highway fund to the commissioner of transportation from the general fund to pay sales tax on department purchases.
- 24 **Repealer.**
- Paragraph (a)** repeals the property tax reform account.
- Paragraph (b)** repeals the commissioner's authority to refuse to grant licenses to individuals who violate the UCSA.
- 25 **Effective date.** Provides that unless otherwise specified, all provisions of this act are effective July 1, 2001.