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Analyst: Steve Hinze (steve.hinze@house.mn)
Chris Kleman (christopher.kleman@house.mn)
Pat Dalton (pat.dalton@house.mn)
Joel Michael (joel.michael@house.mn)
Nina Manzi (651-296-5204)
Sean Williams (sean.williams@house.mn)

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Section**Article 1: Individual Income, Corporate Franchise, and Estate Taxes****Overview**

Modifies the domicile test used to determine if an individual is a Minnesota resident for individual income and estate tax purposes.

Conforms to federal section 179 expensing allowances, effective in tax year 2018.

Establishes an administrative method to conform the Minnesota individual income tax and corporate franchise tax laws to extensions of existing federal tax benefits enacted by Congress after the legislature adjourns its regular session in 2017.

Authorizes \$10 million per year for the angel investment credit for tax years 2018 and 2019.

Allows new income tax subtractions for:

- an amount of Social Security benefits, subject to an income-based phaseout;
- contributions to section 529 college savings plans, including prepaid tuition plans;
- contributions to first-time homebuyer accounts; and
- discharge of debt on student loans with income-based repayment plans.

Increases the state dependent care credit to equal the federal credit for taxpayers with adjusted gross incomes (AGI) up to \$50,000.

Extends the working family credit to apply to on-reservation earnings of enrolled tribal members.

Extends the K-12 education credit to nonpublic school tuition and extends both the credit and subtraction to prekindergarten education programs; increases the credit amount and phaseout threshold and, beginning in 2019 adjusts the credit and the phaseout threshold annually for inflation.

Increases the first tier rate for the research credit from ten percent to 15 percent and the second tier rate from 2.5 percent to five percent and allows an alternative simplified credit election.

Allows new nonrefundable credits for:

- contributions to foundations that provide scholarships for nonpublic K-12 schools, provide transportation scholarships, make grants to charter schools, or are foundations that support public schools;
- sale of assets to beginning farmers;
- beginning farmers who take financial management courses;
- contributions to section 529 college savings plans;
- K-12 teachers who complete master's degrees in their field of licensure; and
- principal and interest payments on student loans.

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Modifies the credit for taxes paid to other states for Minnesota residents who work in Wisconsin in years when an income tax reciprocity agreement is not in effect, and allows for the credit to be refundable. Authorizes the commissioner of revenue to discount the payment due from Wisconsin in a new reciprocity agreement entered before August 1, 2018, and appropriates \$300,000 for a new benchmark study.

Increases the exclusion under the estate tax to the federal exclusion amount; repeals the subtractions for qualified farm and small business property, beginning for decedents dying in 2017; and provides recapture tax is not triggered by transfers of qualified property to governmental units with eminent domain powers, reclassification of a portion of farm as rural vacant land, or reclassification of the decedent's farm home as non-homestead residential property.

1 Beginning farmer program; tax credits.

Subd. 1. Definitions. Defines terms:

“Beginning farmer” is a resident of Minnesota who:

- is seeking to enter or has entered farming within the last ten years;
- intends to provide the majority of physical labor and management to farm on land in Minnesota; and
- is not related to the current owner of the agricultural assets that the beginning farmer intends to purchase or rent.

“Agricultural assets” includes the following items if used for farming in Minnesota:

- land;
- livestock;
- buildings; and
- machinery.

“Farming” means active use of real and personal property for production of farm products; which are defined as plants and animals useful to humans.

Subd. 2. Tax credit for owners of agricultural assets. Grants an income/franchise tax credit to a person who sells or rents agricultural assets to a beginning farmer. The credit equals:

- 5 percent of the sale price of agricultural assets sold to the beginning farmer;
- 10 percent of the gross rental income in the first three years of a cash rental agreement with the beginning farmer; and
- 15 percent of the cash equivalent in the first three years of a share rent agreement with the beginning farmer.

Requires the Rural Finance Authority (RFA) to approve and certify credits before they can be claimed.

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Subd. 3. Beginning farmer management tax credit. Grants an income/franchise tax credit to a beginning farmer who participates in an approved financial management program. The credit equals the program costs paid by the farmer, up to a maximum of \$1,500, for up to three years of program participation.

Subd. 4. Authority duties. Directs the RFA to:

- certify beginning farmers;
- certify owners of agricultural assets as eligible for the tax credit in subdivision 2;
- help beginning farmers to qualify for and participate in approved financial management programs;
- refer beginning farmers to organizations that may provide additional assistance; and
- share data related to the credits with the commissioner of revenue.

Subd. 5. Appeals. Allows decisions of the RFA to be appealed under chapter 14.

Effective date: Tax year 2017.

- 2 **Small business investment credit (angel credit).** Provides for \$10 million of funding per year for the angel investment credit for tax years 2018 and 2019. As in current law, half of the amount provided (\$5 million) would be reserved for investments in greater Minnesota or minority- or women-owned businesses through September 30th of each year, after which any remaining funds are available for any qualifying investment.

Background. The angel investment credit provides qualified investors in certified small businesses with a refundable income tax credit equal to 25 percent of their investments up to a maximum of \$125,000 (\$250,000 for married joint filers). The credit took effect for tax year 2010 and under current law sunsets after tax year 2017. Funding for the credit in 2017 is set at \$10 million.

- 3 **Small business investment credit; sunset (angel credit).** Extends the sunset of the angel investment credit by two years, through 2019.

- 4 **Estate tax; return required.** Modifies the estate tax filing requirement to apply only to estates with an obligation to file a federal estate tax return under current federal law.

Effective date: Decedents dying after December 31, 2016.

- 5 **Resident definition – domicile test.** Modifies the domicile test under the individual income tax’s definition of “resident,” so that the location of:

- the individual’s attorney, certified public accountant, or financial adviser; and
- the place of business of a financial institution where the individual opened or maintains an account

cannot be considered by the Department of Revenue (DOR) or a court in determining where the individual intends his or her permanent home to be (i.e., the domicile test). For example, using a Minnesota or an out-of-state lawyer would not be relevant evidence of the taxpayer’s intent as to the location of his permanent home state.

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Effective date: Tax year 2017.

- 6 Addition to federal taxable income (FTI); individuals; section 179 expensing.** Conforms Minnesota's income tax to the federal section 179 expensing allowances by making the current addition of amounts claimed at the federal level in excess of what was allowed prior to 2003 apply only to tax years beginning before 2018.
- Effective date:** Tax year 2018.
- 7 Addition to FTI; individuals; first-time homebuyer accounts.** Provides an addition to FTI for distributions from a first-time home buyer account that are not used for an eligible purpose under section 45 or amounts remaining in an account at the end of the tenth taxable year after the account was opened.
- Effective date:** Tax year 2017.
- 8 Addition to FTI; individuals; equity and opportunity in education donations.** Requires an add-back to FTI for individuals equal to the amount of the charitable contribution deduction under the federal income tax that is used to claim the equity and opportunity credit in section 34. Federal itemized deductions flow through to the state income tax, resulting in a state tax benefit for charitable contributions claimed at the federal level. This section limits state tax benefits for contributions to qualified foundations to the proposed credit, rather than both the credit and the flow-through deduction.
- Effective date:** Tax year 2018.
- 9 Education expense subtraction.** Extends the education expense deduction of up to \$1,625 for each child in grades K-6 to apply to children at least three years old who are in prekindergarten educational programs. Defines qualifying expenses by reference to the expenses allowed under the education credit, which section 24 expands to include nonpublic school tuition and prekindergarten educational programs. Coordinates with expenses allowed under the dependent care credit and the K-12 education credit so as not to allow two tax benefits for the same expense.
- Effective date:** Tax year 2017.
- 10 Subtraction for contributions to 529 plans.** Allows a taxpayer to deduct up to \$1,500 (\$3,000 for married joint filers) of contributions to any state's section 529 college savings plan or prepaid tuition plan for purposes of computing the Minnesota individual income tax. The subtraction excludes amounts that are rolled-over from other college savings plans. The subtraction is limited to taxpayers who do not claim the credit allowed in section 31.
- Effective date:** Tax year 2017.
- 11 Subtraction for discharge of indebtedness on education loans.** Allows an income tax subtraction for student loan indebtedness discharged by the lender following the borrower's completion of an income-driven repayment plan that sets monthly payments based on the borrower's income and family size. Programs covered include the income-based repayment plan, the income-contingent repayment plan, and the PAYE or REPAYE programs. Also allows a subtraction on debt discharged through the share teacher shortage loan forgiveness program.
- Effective date:** Tax year 2017.

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- 12 Subtraction for first-time home buyer accounts.** Allows a subtraction from FTI for amounts contributed to and earnings on a first-time home buyer account. The maximum subtraction is \$7,500 (\$15,000 for married joint filers) per year. If the taxpayer-contributor's adjusted gross income (AGI) exceeds \$125,000 (\$250,000 for married joint filers), the maximum subtraction is reduced by 25 percent of the amount of AGI over the threshold. The subtraction is fully phased out at \$155,000 of FAGI (\$310,000 for married joint filers). The thresholds are indexed for inflation.
- Effective date:** Tax year 2017.
- 13 Subtraction for social security benefits.** Allows a subtraction for an amount of Social Security benefits, up to a maximum amount. The maximum subtraction is \$8,250 for married couples filing joint returns, \$6,500 for single and head of household filers, and \$4,125 for married couples filing separate returns. The subtraction is reduced by 20 percent of provisional income over a threshold; the threshold is \$77,000 for married couples filing joint returns, \$60,200 for single and head of household filers, and \$38,500 for married couples filing separate returns. Adjusts the maximum amounts and thresholds annually for inflation.
- Provisional income is the income measure used under the federal income tax to determine the amount of Social Security benefits included in FTI. It equals federal adjusted gross income (before the subtractions for student loan interest, higher education tuition expenses, and domestic manufacturing expenses) excluding Social Security benefits, plus tax-exempt bond interest, plus one-half of Social Security benefits.
- Effective date:** Tax year 2017.
- 14 Addition to federal taxable income (FTI); corporations; section 179 expensing.** Conforms Minnesota's income tax to the federal section 179 expensing allowances by making the current addition of amounts claimed at the federal level in excess of what was allowed prior to 2003 apply only to tax years beginning before 2018.
- Effective date:** Tax year 2018.
- 15 Addition to FTI; corporations; equity and opportunity in education donations.** Requires an add-back to FTI for corporate taxpayers equal to the amount of the charitable contribution deduction under the federal income tax that is used to claim the equity and opportunity credit in section 34. Federal deductions flow through to the state income tax, resulting in a state tax benefit for charitable contributions claimed at the federal level. This section limits state tax benefits for contributions to qualified foundations to the proposed credit, rather than both the credit and the flow-through deduction.
- Effective date:** Tax year 2018.
- 16 Federal conformity through administrative action.** Establishes an administrative method to conform the Minnesota individual income tax and corporate franchise tax laws to extensions of existing federal tax benefits to tax year 2017 that Congress enacts after the legislature adjourns the 2017 regular session. The extension is accomplished by the commissioner of the Department of Revenue (DOR) taking action and allocating money set aside in an account for that purpose.

The administrative authority applies if all of the following conditions are met:

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- A listed expiring federal tax provision (see below for details) is extended.
- Federal enactment occurs after the regular legislative session adjourned.
- The extension affects a tax year that ends before the next regular legislative session convenes.
- There are sufficient funds available in the tax conformity account to offset the revenue loss from conformity.

The conformity applies only to the one tax year that ends before the regular legislative session convenes. That is, it does not permanently conform to the extension, if Congress makes the extension permanent (or conform for two years, if Congress extends the provisions for two tax years and so forth). However, timing differences (e.g., how quickly cost recovery or depreciation is allowed) apply to all of the affected tax years for property placed in service in that tax year.

Federal tax conformity account. Conforming to future extensions of the listed provisions will reduce state tax collections (i.e., they are tax reductions). To offset the revenue loss, the bill sets aside \$20 million from the general fund in a federal tax conformity account on July 1, 2017.

Covered federal tax provisions. The following federal tax extender provisions, all of which expire under current federal law and all of which have been conformed to by prior legislatures, are “eligible federal tax preferences” for administrative conformity:

- Exclusion of discharge of qualified principal residence indebtedness.
- Itemized deduction of mortgage insurance premiums.
- Deduction of qualified tuition and related expenses.
- Classification of certain race horses as three-year property.
- Seven-year recovery period for motorsports entertainment complexes.
- Accelerated depreciation for business property on an Indian reservation.
- Election to expense mine safety equipment.
- Special expensing rules for certain film and television productions.
- Special allowance for second-generation biofuel plant property.
- Energy efficient commercial buildings deduction.
- Five-year recovery period for property qualifying for certain energy credits.
- Additional section 179 allowance in an empowerment zone.
- Bonus depreciation (under Minnesota’s special rule allowing only 20 percent to be deducted in the tax year and the remainder recovered over the following five years).

Conformity rules and procedures (subdivision 4). When the conditions for administrative conformity are met (see above), DOR is directed to adopt the eligible federal tax provisions by administrative action for the designated tax year. Doing so is contingent upon the federal tax conformity account having sufficient money to offset the revenue loss. In determining

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whether there is sufficient money to cover a provision, the bill sets out a list of priorities—that is, the commissioner determines whether there are adequate funds to offset the first priority and if so, then makes a similar determination for the second priority, and so forth. The first item to be adopted is continuation of Minnesota’s special rule for treatment of bonus depreciation; this item results in a small revenue gain in the first tax year and thus would not reduce the amount available in the account for subsequent items. This is the order of priorities:

- Computation of adjusted gross income used in Minnesota income tax, property tax refund, or homestead credit refund computations.
- Computation of Minnesota tax credits.
- “Timing” rules—i.e., rules that determine the period over which capital items are deducted (all of the bulleted items in the list except the first four and bonus depreciation).
- The first three bulleted items in the list of covered provisions.

DOR is, then, directed to publish the qualifying items on its website and the federal provisions are in effect for Minnesota tax purposes for the designated tax year. DOR is directed to prepare forms that reflect the administrative conformity provisions, as well as to draft conformity legislation that can provide for permanent (ongoing) conformity to the covered and any other federal provisions that the commissioner of revenue determines appropriate.

DOR’s actions under the bill are not subject to the administrative procedures act—i.e., the designation of conformity items is not an administrative rule.

Effective date: Day following final enactment.

- 17** **Additional tax; first-time home buyer accounts.** Adds a cross-reference in the income tax calculation section to the additional 10 percent tax on uses of the first-time home buyer savings accounts for other than eligible costs.

Effective date: Tax year 2017.

- 18** **Income tax credit for taxes paid to Wisconsin.** Modifies the credit for taxes paid to other states for individuals who have personal or professional income taxed by Wisconsin, so that the current law limit that restricts the credit to the amount of Minnesota tax that would be paid on the income does not apply. Apportions the credit based on the share of income taxed by Wisconsin that represents compensation for personal and professional services, and makes the resulting amount refundable. The credit would only apply in years in which Minnesota did not have an income tax reciprocity agreement with Wisconsin and essentially provides the same tax treatment to Minnesota residents who work in Wisconsin that they would receive under a reciprocity agreement. Minnesota terminated the reciprocity agreement with Wisconsin after tax year 2009.

Effective date: Tax year 2017.

- 19** **Beginning farmer incentive credit; farm assets.** Allows a nonrefundable credit against the individual income and corporate franchise tax for taxpayers who sell or rent assets to

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beginning farmers. Requires approval and certification by the RFA. Credit amounts in excess of liability may be carried over for 15 tax years.

Effective date: Tax year 2017.

- 20** **Beginning farmer management credit.** Allows a nonrefundable credit against the individual income tax for beginning farmers who participate in an approved financial management program. Requires approval and certification by the RFA. Credit amounts in excess of liability may be carried over for three tax years.

Effective date: Tax year 2017.

- 21** **Dependent care credit.** Increases the state dependent care credit to equal the federal credit. The credit would follow the phasedown of the federal credit and then be subject to a state phaseout, so that the maximum credit by AGI would be:

Maximum State Dependent Care Credit, proposed

AGI	Maximum for One Dependent	Maximum for Two or More Dependents
Less than \$15,000	\$1,050	\$2,100
\$15,000 to \$43,000	maximum credit decreases by \$30 for each \$2,000 of AGI over \$15,000	maximum credit decreases by \$60 for each \$2,000 of AGI over \$15,000
\$43,000 to \$50,000	\$600	\$1,200
\$50,000 to \$62,000	Maximum credit decreases by 5% of AGI over \$50,000	Maximum credit decreases by 5% of AGI over \$50,000
\$62,000 to \$74,000	No credit allowed	Maximum credit continues to decrease by 5% of AGI over \$50,000
Over \$74,000	No credit allowed	No credit allowed

The state credit would remain refundable, as under current law. The income measure for the state phaseout would change from household income (a relatively broad measure that includes most nontaxable income) to AGI. Married couples with dependents under age one and family daycare home operators would remain eligible for the proposed credit, based on deemed expenses, equal to:

- the maximum qualifying expense under the federal credit for parents with dependents under age one;
- the maximum qualifying expense under the federal credit for family daycare home operators who care for their own child if the child is under 16 months of age; or
- the amount family daycare home operators charge for care for older children if they care for their own children who are 16 months of age or older.

Section**Effective date:** Tax year 2017.

22 Dependent care credit; inflation adjustment of phaseout threshold. Resets the indexing base and provides for the new \$50,000 income threshold for the phaseout in section 21 to be adjusted annually for inflation beginning in 2018.

23 Working family credit; on-reservation earnings. Extends the working family tax credit to on-reservation earnings of enrolled tribal members who live and earn income on their tribe's reservation. Current law requires the credit to be apportioned based on the ratio of income taxable by Minnesota to total income. Federal law pre-empts state taxation of on-reservation earnings of enrolled tribal members, so the current law apportionment has the effect of disallowing the state working family credit for enrolled tribal members on live and work on-reservation.

Effective date: Tax year 2017.

24 Education expense credit. Extends the education tax credit to nonpublic school tuition and to prekindergarten educational programs attended by children who are at least three years old. Defines prekindergarten educational programs as:

- programs established by school districts;
- licensed and accredited preschools, nursery schools, and early childhood programs;
- Montessori programs; and
- child care programs operated by providers with a credential in early childhood development.

Coordinates with expenses allowed under the dependent care credit so as not to allow two tax credits to be claimed for the same expense.

Effective date: Tax year 2017.

25 Education expense credit. Increases the maximum education expense credit from \$1,000 to \$1,500 per child. Increases the income at which the credit begins to phase out from \$33,500 to \$42,000 and decreases the rate of phaseout so that the credit would be fully phased out when income reaches \$57,000 for families with one child and would extend by an additional \$15,000 for each additional child.

Effective date: Tax year 2017.

26 Education expense credit; Inflation adjustment of phaseout threshold. Provides for the maximum education expense credit and the income threshold at which the credit begins to phase out to be adjusted annually for inflation, beginning in tax year 2019.

27 Research credit rate. Increases the credit rates under research credit as follows:

- The first tier rate (applicable to the first \$2 million of qualified research expenses) from ten percent to 15 percent
- The second tier rate (for expenses over \$2 million) from 2.5 percent to five percent.

Effective date: Tax year 2017.

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28 **Definition of base amount.** Defines the base amount for taxpayers making the ASC election under section 29 as 50 percent of average qualified research expenses in the three tax years prior to the year for which the credit is claimed. In addition, the amount of qualified expenditures to which the credit applies can never exceed 50 percent of the research expenditures made in the taxable year.

Effective date: Tax year 2018.

29 **ASC election.** Authorizes taxpayers to elect to use the ASC method of calculating the research credit. This election must be made on an original return or any extension but can be revoked without approval of the commissioner. A partnership must make the election on the partnership return and it applies to all of its partners. The election must be made by the date the return is due (including extensions) and remains in effect until revoked.

Effective date: Tax year 2018.

30 **Student loan credit.** Allows a non-refundable income tax credit for principal and interest payments on higher education loans. To qualify for the credit, an individual must have one or more qualified education loans. “Qualified education loan” is any loan used to pay for the costs of attending an undergraduate or graduate degree program at an educational institution eligible for federal financial aid. This includes federal direct and Perkins loans, state loans, and private student loans. Only payments made by an eligible individual on the individual’s qualified education loans qualify for the credit. If both the taxpayer and the taxpayer’s spouse have qualified loans, each may claim the credit

The credit equals the least of the following:

- (1) Eligible loan payments minus 10 percent of an individual’s adjusted gross income in excess of \$10,000.
- (2) The earned income of the individual for the taxable year.
- (3) The sum of:
 - the interest portion of eligible loan payments during the taxable year; and
 - 10 percent of the original loan amount of all qualified education loans of the individual.
- (4) \$500.

Effective date: Tax year 2017.

31 **Section 529 college savings plan credit.** Allows a non-refundable income tax credit for contributions to any state’s section 529 college savings plan, including prepaid tuition plans. For individual filers and married couples, the credit equals 50 percent of contributions, up to a maximum of \$500.

For individual filers, the maximum credit is phased out by two percent of adjusted gross income in excess of \$75,000. The credit is fully phased out for individual filers at \$100,000 of adjusted gross income.

Income range (AGI)	Maximum Credit (Single filers)
Up to \$75,000	\$500

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\$75,001 to \$100,000	\$500 minus 2% of AGI in excess of \$75,000
\$100,001 and above	0

For married couples filing joint returns, the maximum credit is phased out in two stages, and is fully phased out when AGI reaches \$160,000.

Income range (AGI)	Maximum Credit (Married Couples Filing Joint Returns)
Up to \$75,000	\$500
\$75,001 to \$100,000	\$500 minus 1% of AGI in excess of \$75,000
\$100,001 to \$135,000	\$250
\$135,001 to \$159,999	\$250 minus 1% of AGI in excess of \$135,000
\$160,000 and above	\$0

Revokes credits from individuals who withdraw contributions from an account for purposes other than qualified higher education expenses (e.g., tuition, fees, books, or the student's living expenses). Revoked credit must be repaid by the individual who makes the withdrawal in the taxable year in which the withdrawal was made, regardless of who made the contributions. Contributions used to claim the credit are considered to be the first amounts withdrawn.

Effective date: Tax year 2017.

- 32 Credit for attaining master's degree in teacher's licensure field.** Allows a non-refundable individual income tax credit of \$2,500 to licensed K-12 teachers who complete a master's degree program in a core content area directly related to their field of licensure. Requires elementary school teachers to complete a master's degree in a core content area in which the teacher provides direct classroom instruction. Core academic subjects defined in federal and state law include English, reading or language arts, mathematics, science, foreign languages, civics and government, economics, arts, history, and geography. Limits the credit to the amount a teacher pays for tuition, fees, and instructional materials, excluding amounts paid by the teacher's employer or through a scholarship. Limited to teachers who begin a program after June 30, 2017, and teachers would claim the credit in the year they complete the degree. Teachers may claim the credit once for each master's degree completed.

Effective date: Tax year 2017.

- 33 Angel investment credit; sunset.** Adds a subdivision to the small business investment credit (angel investment credit) that provides that the tax provisions in chapter 290 sunset at the same time as the substantive program requirements and procedures contained in chapter 116J.

- 34 Equity and opportunity in education tax credit.**

Subd. 1. Definitions. Defines terms for this section. Key terms are:

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“Eligible student” is a Minnesota resident child whose household has annual income less than 200 percent of the income standard used to qualify for the federal reduced-price lunch program (200 percent of the income reduced-price lunch standard for the current school year is \$89,910 for a family of four). A child who was eligible in a previous year remains eligible, without regard to changes in the family’s income.

“Qualified charter school” is a charter school at which at least 30 percent of students qualify for the federal free or reduced-price lunch program.

“Qualified foundation” is a 501(c)(3) nonprofit organization.

“Qualified grant” means a grant from a foundation to a charter school.

“Qualified public school foundation” means a qualified foundation that supports the mission of one or more public schools or districts at which at least 30 percent of students qualify for the federal free or reduced-price lunch program.

“Qualified scholarship” means a payment from a foundation either to a parent or to a qualified school for the cost of a child’s tuition for enrollment.

“Qualified school” means a nonpublic elementary or secondary school in Minnesota at which a student may fulfill the state’s compulsory attendance laws.

“Qualified transportation scholarship” means a payment from a foundation either to or on behalf of a parent for the cost of transporting an eligible student to school.

Subd. 2. Credit allowed. Allows a credit equal to 70 percent of the amount contributed to a qualified foundation. Foundations other than public school foundations must award scholarships or transportation scholarships to eligible students, or make grants to qualified charter schools, or both. Public school foundations must make direct expenditures in support of public schools. The maximum annual credit is \$21,000 for married joint filers, \$10,500 for other individual filers, and \$105,000 for corporations. Requires claimants to provide a copy of a receipt from a qualified foundation. Allows credits that exceed the liability for tax to be carried forward for five tax years.

Subd. 3. Application for credit certificates. Requires taxpayers to apply to the commissioner of revenue for tax credit certificates, which are available on a first-come, first-served basis beginning on January 1 of each year until the maximum statewide credit amount is reached. The maximum for donations to foundations that award scholarships or transportation scholarships is \$32 million per year beginning in tax year 2018. The maximum for donations to public school foundations and foundations that award grants to charter schools is \$3 million per year beginning in tax year 2018. The application for a credit certificate must specify the qualified foundation to which the taxpayer intends to make a donation, and if the donation is to be used to award scholarships, transportation scholarships, make grants to charter schools, or support public schools.

Subd. 4. Responsibilities of qualified foundations.

(a) Entities must apply to the commissioner to be qualified foundations. The application must:

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- document that the entity is a 501(c)(3) nonprofit; and
 - demonstrate the entity's accountability and financial viability.
- (b) and (d) require foundations to provide receipts to taxpayers who make donations and, if they award scholarships, to annually verify that each school to which it awards scholarships:
- complies with health and safety laws;
 - holds a valid occupancy permit if required;
 - certifies that it adheres to the provisions of the U.S. Civil Rights law and the Human Rights chapter of Minnesota law; and
 - provides regular reports to parents on student progress.
- (c) Requires participating foundations that award scholarships to:
- award scholarships or transportation scholarships to eligible students;
 - not restrict scholarships to any one qualified school;
 - not charge fees to scholarship applicants; and
 - require schools receiving payment of tuition through a scholarship to not use different admissions standards for scholarship students.
- (e) Requires foundations to annually report by June 1:
- its financial viability;
 - documentation of criminal background checks of employees and board members;
 - documentation that it has used donations to provide scholarships or make grants within one year;
 - a list of qualified schools to which it provided scholarships and charter schools to which it made grants;
 - the number and dollar amount of donations received and scholarships awarded and grants made;
 - the number and dollar amount of expenditures made in support of public schools; and
 - the amount used for administrative expenses (limited to 5 percent of donations under paragraph (f)).

Subd. 5. Commissioner duties. Requires the commissioner of revenue to make applications for qualified foundations available by August 1 of each year, and to approve or deny applications within 60 days. Requires the commissioner to post a list of qualified foundations on the Department's website by November 15 of each year. Directs the commissioner to develop standard forms for use as receipts and in reporting, conduct audits of foundations after finding evidence of fraud or intentional misreporting, and bar from participation a foundation that intentionally and substantially fails to submit information as required in subdivision 4.

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Subd. 6. Special education services. Provides that receiving a scholarship under this section does not affect a student's eligibility for special education services and instruction.

Effective date: Tax year 2018.

35 Income tax reciprocity agreement; Wisconsin. Authorizes the commissioner of revenue to enter into an income tax reciprocity agreement with the Wisconsin secretary of revenue. Requires that the state with a net revenue loss be reimbursed for the amount of that loss by the other state on a quarterly basis. For agreements entered into before August 1, 2018, the amount received by Minnesota must equal net revenue loss minus up to \$3,000,000. Requires that an agreement with Wisconsin must:

- ▶ suspend the agreement in case of late payment;
- ▶ specify the interest rate applied to payment;
- ▶ provide for annual reconciliation of payments;
- ▶ require each state to conduct a benchmark study every five years;
- ▶ require the two states to annually exchange a list of taxpayers who request exemption from withholding; and
- ▶ require that the sum of the quarterly payments reasonably estimate the revenue loss.

Effective for agreements entered into beginning in tax year 2018 or 2019.

36 Alternative minimum tax; definitions. Allows the subtractions for Social Security benefits in section 13, discharge of indebtedness income in section 11, and the first-time homebuyer subtraction in section 12 for the purposes of the alternative minimum tax.

Effective date: Tax year 2017.

37 Estate tax; domicile definition. Extends application of section 5's rules to the definition of domicile under the estate tax. Residency status does not affect the estate taxation of tangible property (e.g., real estate, vehicles, jewelry, art, and so forth), but does determine whether intangible property (e.g., stocks, bonds, and bank accounts) are subject to Minnesota estate tax. (Minnesota real estate is subject to tax and tangible personal property is subject to tax if it is normally kept in Minnesota.)

Effective date: Decedents dying after December 31, 2016.

38 Estate tax subtractions. Repeals the estate tax subtractions for qualified small business and qualified farm properties and allows a subtraction for the federal estate and gift tax exclusion amount in computing the Minnesota taxable estate. The federal amount is \$5.49 million for decedents dying in 2017 and is indexed for inflation.

Effective date: Decedents dying after December 31, 2016.

39 Estate tax rates. Repeals the estate tax rates that apply to decedents dying before 2017 and adjusts the permanent tax rate schedule to drop the brackets that applied to the dollar value of estates below the federal exclusion amount.

Effective date: Decedents dying after December 31, 2016.

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- 40 Citation; first-time home buyer accounts.** Provides a name or citation for the proposed new chapter of statutes: The First-Time Home Buyer Savings Account Act.
- 41 Definitions; first-time home buyer accounts.** Defines terms used in the act, including:
- **Account holder** is the person establishing the account—this need not be the home buyer. For example, a parent could establish an account for a child and take the subtraction for contributions and earnings.
 - **Commissioner** is the commissioner of DOR.
 - **Eligible costs** are a down payment or closing costs (listed on the settlement statement) for a single family residence for a qualified beneficiary. They include paying construction costs if a new home is constructed, as well as purchasing an existing home.
 - **Financial institution** includes banks, credit unions, savings banks, and similar institutions, as well as money market mutual funds.
 - **First-time home buyer** is someone who does not own a principal residence for the three-year period ending on the earlier of: (1) the purchase of the home funded with the proceeds from the account; or (2) the end of last tax year in which a subtraction was claimed for the account. For a married couple, ownership interests of either spouse would count. Because ownership is for a principal residence, owning investment properties (e.g., a rental property) would not be disqualifying.
 - **First-time home buyer savings account** is an account held in a financial institution that is designated by the account holder as a first-time home buyer savings account.
 - **Principal residence** has the same meaning used in the capital gain exclusion under the federal income tax (Internal Revenue Code, section 121).
 - **Qualified beneficiary** must be: (1) a Minnesota resident; (2) a first-time home buyer; and (3) designated as the beneficiary on the account.
 - **Single-family residence** means a single-family residence located in Minnesota that is the first-time home-buyer's principal residence and may include a manufactured home, trailer, mobile home, condominium unit, townhome, or cooperative.
- 42 Establishment of first-time home buyer accounts.** Authorizes an individual to open a first-time home buyer account at a financial institution. A beneficiary must be designated (can be either the individual opening the account or someone else) by April 15 of the year after the account is opened. The beneficiary can be changed at any time, but this does not extend the ten-year limitation on an account's duration under section 45.

Although the bill does not explicitly provide a procedure for designating beneficiaries, it is apparent (based on section 44, which provides the financial institutions are not responsible) that designation is to be done through DOR. DOR is directed to establish a process for reporting on various aspects of the accounts.

Married individuals who file joint tax returns may own joint accounts. Accounts must have only one designated beneficiary, except a married couple is considered one beneficiary. An

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individual may own multiple accounts, but each must be for a separate beneficiary (i.e., no one can own multiple accounts for the same beneficiary).

Contributions to accounts must be made in cash.

43 First-time home buyer account holder responsibilities. Requires account holders to report to DOR:

- information on the account (to be specified by DOR under section 42, which directs DOR to establish reporting requirements);
- the eligible costs paid with amounts withdrawn from the accounts; and
- amounts remaining in the account after payment of eligible costs or at the end of the ten-year duration limit.

Account holders are allowed to transfer amounts from one first-time home buyer savings account to another designated first-time home buyer account, either at the same or a different financial institution. Deductions by financial institutions of service fees are permissible uses, but account holders are otherwise not permitted to use an account to pay for administering it.

44 Financial institutions; first-time home buyer accounts. Clarifies that financial institutions have no statutory duties with respect to the accounts, such as designating accounts, tracking their use, reporting to DOR (except as otherwise required by law), or otherwise ensuring that account holders are complying with the program requirements under the statute. These responsibilities will fall only on the account holders and DOR.

45 First-time homebuyer accounts; income tax subtraction and addition; additional tax. Specifies the amounts qualifying for the subtraction from FTI under section 12, the addition to FTI under section 7, and the additional tax under section 17.

The **subtraction** equals the amount contributed to the account during the tax year, which cannot exceed \$5,000 (\$10,000 for married joint filers) and the interest or dividends earned on the account. Section 12 imposes higher total limits (\$7,500 and \$15,000), which apply to contributions to and earnings on all accounts. The subtraction does not apply to amounts withdrawn from the account within six months of its designation as a first-time home buyer account.

The **addition** equals amounts withdrawn from an account during the tax year and not used for eligible costs and amounts remaining at the end of the tenth tax year after the account was opened. If amounts are transferred between two accounts, the ten-year period is calculated based on the shortest period that applies to either account.

A 10 percent **additional tax** applies to withdrawals that are not used for eligible costs or on the amount remaining in the account at the end of the tenth taxable year after the account was opened. The additional tax does not apply to amounts remaining after the designated beneficiary's death or disability, amounts distributed through bankruptcy, or subject to garnishment.

46 Angel investment credit; effective date. Revives the Laws 2010 effective date for the angel investment credit and removes the sunset from the effective date. Laws 2016, chapter 158 (the Revisor's correction bill) repealed the effective date, since the credit had technically expired, while Laws 2016, chapter 189 (the supplemental appropriation bill) extended the

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credit to tax year 2017. This bill replaces the sunset in the original effective date with the statutory sunset in chapter 290 provided in section 3.

- 47** **Income tax reciprocity benchmark study.** Requires the Department of Revenue, in conjunction with the Wisconsin Department of Revenue, to conduct a study to determine the number of residents from each state who earn income from personal services in the other state; and the total amount of income earned by these residents; and the change in tax revenue in each state if a reciprocity agreement were resumed. The Department of Revenue must submit a report to the House and Senate tax committees by March 1, 2019. The study may only be conducted if the Wisconsin Department of Revenue fully participates. Appropriates \$300,000 one-time in fiscal year 2018 for the study.
- 48** **Recapture tax exemptions (estate tax).** Provides retroactive exemptions from the recapture tax, the tax that applies to qualified farm and small business property under the estate tax, if the recipient heirs fail to use or maintain the property as required by the qualified property definitions for the three year period after the decedent's death. The recapture tax is repealed by section 50; these exemptions apply for the entire period of the tax's existence (decedents dying after June 30, 2011 and before January 1, 2017). They provide that the tax is not triggered by:
- Acquisition of the qualified property by a governmental entity with eminent domain powers for a public purpose (e.g., if the Department of Transportation acquires part of a qualified farm for a highway right of way, that would not trigger recapture tax)
 - Less than one-fifth of the qualified farm property being reclassified from homestead farm to rural vacant land
 - Reclassification of the house, garage, and one acre of a qualified farm as class 4bb property (nonhomestead residential – e.g., the heirs do not live in the farm home, but instead rent it out to someone who is not a qualified heir)
- 49** **Estate tax; special construction rules for certain documents.** Provides special rules for construing clauses or other provisions of wills, trusts, disclaimers, and similar instruments for decedents who are affected by section 38's increase in the estate tax exclusion but who died before the law is enacted. (The increase in the exclusion is effective retroactively for deaths after January 1, 2017.) To qualify under this provision, the affected instruments must provide for distribution to two or more individuals or classes of beneficiaries based on the state estate tax exclusion or exemption.

The purpose of the provision is to provide a method for the trustee or personal representative to obtain a court order allowing distributions that more closely reflect the decedent's actual intent, rather than the literal terms of a provision that refers to amounts under the Minnesota estate tax. A typical situation would be a clause that funds a family trust at the amount that is exempt from state estate tax and provides the rest of the property goes to the surviving spouse. The decedent may have expected that family trust would not receive more than \$2 million (the maximum under current law), but the bill increases that amount to \$5.49 million. As a result, the surviving spouse may not receive as much as the decedent expected and intended.

The personal representative, trustee or other interested person is authorized to request the court to construe the language of the instrument to refer to the prior Minnesota estate tax

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provision, rather than the new, higher exclusion amount (as the literal or plain language of the instrument would provide). For other than disclaimer instruments, these proceedings must be started before December 31, 2018. Proceedings to construe disclaimer instruments are not subject to the time limit.

Effective date: day following final enactment

- 50** **Repealer.** Paragraph (a) repeals the Greater Minnesota internship credit, which allows a refundable income and corporate franchise tax credit to employers of postsecondary student interns at locations outside the 11-county metro area (Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington, and Wright Counties). The credit equals 40 percent of compensation paid to the intern, up to a maximum of \$2,000. Employers and students must meet various program requirements.

Paragraph (b) repeals the phaseout of the dependent care credit, which is restructured and moved to section 21.

Paragraph (c) repeals various provisions that are obsolete as a result of allowing subtraction of the federal estate tax exclusion amount.

Section	Description
289A.10, subd. 1a	Filing requirement for recapture tax—e.g., if qualified heirs fail to use farm or small business exemption property as required by their agreement
289A.12, subd. 18	Filing requirement for information returns to verify compliance with the qualified farm and small business exemptions
289A.18, subd. 3a	Due dates for filing recapture tax returns
289A.20, subd. 3a	Payment dates for recapture returns
291.03, subd. 8	Definitions related to qualified farm and small business property
291.03, subd. 9	Qualified small property exemption
291.03, subd. 10	Qualified farm property exemption
291.03, subd. 11	Imposition of recapture tax

Section**Article 2: Property Taxes****Overview**

Makes changes to Minnesota's property tax system including:

- Exempting the first \$150,000 of commercial-industrial property from the state general tax
- Freezing the state general tax at the 2018 level
- Exempting a Major League Soccer stadium to be constructed in St. Paul from state and local property taxes
- Providing a reduced class rate for congressionally-chartered veterans' services organizations
- Eliminating the annual application requirement for the disabled veterans' exclusion and creating a new spousal eligibility for the program
- Narrowing the property tax exemption for agricultural containment facilities
- Providing for more efficient management and disposal of tax-forfeited property
- Modifying the requirement that all assessors obtain an accredited Minnesota assessor license
- Requiring the commissioner of revenue to prepare testimony on the adequacy of state rules and procedures governing the valuation of pipeline properties.

- 1 Allowed commercial and industrial operations.** Allows cell towers to be installed on property within an agricultural preserve in greater Minnesota.
Effective the day following final enactment.
- 2 Referendum revenue (schools).** Requires a school district to state on both its referendum ballot and on its notice to taxpayers the amounts of any board-approved local optional revenue and board-approved referendum authority.
Effective August 1, 2017.
- 3 Assessor accreditation waiver.** Extends the deadline by which assessors must obtain licensure as an accredited assessor from the State Board of Assessors (SBOA), from July 1, 2019, or within four years of becoming a certified assessor, whichever is later, to July 1, 2022, or within five years of becoming certified. Allows an assessor who was licensed prior to July 1, 2004, to request a waiver from the accreditation requirements under certain conditions. The waivers expire on June 30, 2032.
Effective the day following final enactment.
- 4 Secondary liquid agricultural chemical containment facilities.** Modifies the agricultural containment facilities exemption to apply to secondary containment tanks, cache basins, and berms used to contain liquid agricultural chemical spills.

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Effective beginning with taxes payable in 2016, except that properties exempted under this section for taxes payable in 2016 or 2017 will retain their exemptions for those two years.

- 5 Apprenticeship training facilities.** Changes the criteria under which township property may qualify for the training facilities exemption by lowering the population threshold to 1,400. (Allowing a facility in Haverhill Township, Olmsted County to qualify)

Effective beginning with taxes payable in 2018.

- 6 Electric generation facility; personal property.** Provides an exemption from taxes and payments in lieu of taxes for a new electric generating facility owned by a municipal power agency in or near Owatonna.

Effective beginning with taxes payable in 2018.

- 7 Certain property owned by an Indian tribe.** Provides a ten-year property tax exemption for a medical clinic in Duluth owned and operated by an Indian tribe.

Effective for taxes payable in 2018 through 2027.

- 8 Leased seasonal-recreational land.** Makes changes to the law affecting the taxation of land leased from governmental units by private entities and used for seasonal-recreational purposes.

- Automatically exempts land leased from the state, a county, a city, or a town from taxation, whereas under current law, exemption requires county approval (for land leased from the federal government, the exemption is already automatic).
- Eliminates the requirement that in order to qualify for an exemption, the property had to be exempt in 2008 and rented for the same purpose.
- Allows the exemption for homesteaded resort property, whereas under current law, it applies only to noncommercial seasonal-recreational property.

Effective beginning with taxes payable in 2019.

- 9 Definitions; wind energy production systems.** Changes the definition of how multiple wind energy elements can be combined to determine the appropriate size category, which determines the production tax rate. Allows multiple small wind energy producers in the same area with some combined system elements to retain their status as separate small-scale producers for tax purposes.

Effective the day following final enactment.

- 10 Restrictions on transfers of specific parts.** Allows a county to review a deed conveying a parcel of land for transfer or division for conformity with the county's land use regulations.

Effective the day following final enactment.

- 11 Special agricultural homestead rules.** Eliminates language allowing certain special agricultural homesteads owned by grantor trusts to qualify for homestead property tax status. This language is moved to section 12, which contains most of the rules relating to trust ownership of homestead and agricultural homestead property.

Effective beginning with taxes payable in 2018.

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- 12 Trust property; homestead.** Allows agricultural land and other property (e.g., the house, garage, and agricultural buildings) to qualify as a homestead when all or portions of the property are owned by a trust for which a deceased or surviving spouse was the grantor.
Effective beginning with taxes payable in 2018.
- 13 Manufactured homes; sectional structures.** Increases the minimum value for a storage shed, deck, or similar structure on a leased manufactured home site to be considered taxable from \$1,000 to \$10,000.
Effective beginning with taxes payable in 2019.
- 14 Class 1c (homestead resort) classification.** Extends eligibility for class 1c homestead resort classification to resort properties abutting state trails (currently this classification is limited to resorts abutting public waters). Allows title to the homestead portion of class 1c property to be held by an owner of a business or the business itself, when the homestead is occupied by the owner.
Effective beginning with taxes payable in 2019.
- 15 Class 2 (agricultural property).** Allows land enrolled in a conservation program administered by a local agency such as a city, town, or water conservation district to qualify as agricultural for property tax purposes, provided that under the program the landowner receives incentive payments in return for restrictions placed on the use of the land. Currently, land enrolled in the Reinvest in Minnesota (RIM) program, or the federal Conservation Reserve Program (CRP), or a similar state or federal conservation program, are allowed to qualify as agricultural.
Also broadens the definition of agricultural products to include all products of aquaculture cultured in an aquatic farm.
Effective beginning with taxes payable in 2019.
- 16 Class 4 (miscellaneous property classification).** Allows garage condominiums with separate parcel identification numbers to be classified under class 4bb, which is the classification for single-family residential rental units, with a class rate of one percent (up to \$500,000 value).
Also provides a reduced class rate (one percent) for manufactured home park lots whose owner or park manager meets certain continuing education requirements.
Also reduces the class rate for property of nonprofit community service organizations that are congressionally chartered veterans' organizations, i.e. the American Legion and the VFW, from 1.5 percent to 1 percent.
The first two provisions are effective beginning with taxes payable in 2019, while the third is effective beginning with taxes payable in 2018.
- 17 Homestead of disabled veteran or family caregiver.** Allows the surviving spouses of certain veterans to qualify for the spousal benefit if the veteran qualified at the time of death or if the spouse is receiving dependency and indemnity compensation (DIC).

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Also eliminates the annual application requirement, but requires notification for eligibility changes and requires the county veterans service officer to annually certify each qualifying veteran's disability rating and permanent address.

Effective beginning with taxes payable in 2018, and provides an extended application deadline for persons newly eligible for the exclusion.

- 18** **General levy amount.** Freezes the state general levy for both commercial-industrial property and seasonal-recreational property at the payable 2018 level for taxes payable in 2019 and thereafter, and then further reduces the commercial-industrial portion of the levy by \$74.7 million, which is the amount estimated to be paid by the first \$150,000 of each commercial-industrial property.

Effective beginning with taxes payable in 2018.

- 19** **Commercial-industrial tax capacity.** Provides that the first \$150,000 of each parcel of commercial-industrial property is exempt from the state general levy.

Effective beginning with taxes payable in 2018.

- 20** **Apportionment and levy of the state general tax.** Eliminates the 95%/5% apportionment of the state general levy between commercial-industrial and seasonal-recreational property, since each levy amount is now stated separately in section 18.

Effective beginning with taxes payable in 2018.

- 21** **Underserved municipalities distribution.** Provides for a distribution of the state general levy paid by properties within a municipality back to the municipality, provided that the municipality: (1) lies within the metropolitan area but outside the transit district area; and (2) has a net fiscal disparities contribution tax capacity in excess of eight percent of the municipality's total net tax capacity. The distribution is equal to the contribution tax capacity in excess of eight percent times the municipality's tax rate. The distribution cannot exceed the amount of state general levy paid by properties within the municipality.

Effective beginning with taxes payable in 2018.

- 22** **Proposed levy certification dates.** Changes the date by which towns and special taxing districts must certify their proposed levy to the county auditor from September 15th to September 30th, except that the Metropolitan Council and the Metropolitan Mosquito Control Commission must certify their proposed levy by September 15th. Under current law, school districts, cities and counties must certify their proposed levy by September 30th, while towns must submit their proposed levy by September 15th.

Effective for taxes payable in 2018 and thereafter.

- 23** **Certification of levy.** Changes the date by which a town must certify its levy from September 15 to September 30.

Effective for taxes payable in 2018 and thereafter.

- 24** **Proof of timely payment.** Clarifies that a postmark or registration mark qualify as proof of timely mailing of current or delinquent property tax payments and that other evidence may be considered, except for electronic stamps purchased online.

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Effective the day following final enactment.

- 25 Due dates; penalties.** Equalizes the penalties for first- and second-half late payments of property taxes and restructures the existing statute for clarity.
Effective for taxes payable in 2018 and thereafter.
- 26 Abatement of penalty.** Requires the county treasurer to abate the penalty for late payment of tax if an envelope is postmarked within one business day of the due date, provided that the taxpayer has not had a penalty abated under this section in a previous year.
Effective for taxes payable in 2018 and thereafter.
- 27 Agricultural properties.** Changes the due date for class 2b property (rural vacant land) that is part of an agricultural homestead to be the same as the due date for the rest of the agricultural homestead (Nov. 15), and provides that late payment penalties for agricultural properties are the same as for non-agricultural properties under section 25.
The provision regarding penalties is effective for taxes payable in 2018; the provision providing the later due date for certain 2b parcels is effective for taxes payable in 2019.
- 28 Conditions.** Allows the county auditor to offer financial literacy counseling as part of an agreement to enter into a confession of judgment.
Effective the day following final enactment.
- 29 Period of redemption.** Updates a reference for targeted communities and clarifies that the property classification as of the assessment year of the judgment is used to determine the period of redemption.
Effective for tax judgment sales after January 1, 2018.
- 30 Summons and complaint.** Allows a county to commence an action to reduce the period of redemption for abandoned property.
Effective the day following final enactment.
- 31 Summons and complaint.** Allows a county to commence an action to reduce the period of redemption for vacant property.
Effective the day following final enactment.
- 32 Maintenance; expenditure of public funds.** Provides that a property owner who is a governmental entity is not bound to an agreement or easement to maintain the property with public funds.
Effective the day following final enactment.
- 33 Limited right of entry.** Allows the county auditor to protect and secure a vacant or unoccupied property.
Effective the day following final enactment.
- 34 Sale; method; requirements; effects.** Allows a county board to sell individual parcels by alternate means, including through a real estate broker.
Effective the day following final enactment.

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- 35 Online auction.** Allows the county auditor to sell tax-forfeited property through an online auction.
Effective for sales on or after August 1, 2017.
- 36 Prohibited purchasers.** Broadens the number of prohibited purchasers of tax-forfeited land to include a person who is delinquent on property taxes for other properties, has a revoked rental license in the last five years, or was a vendee on a canceled contract for a purchase of tax-forfeited property. Clarifies that a prohibited purchaser may not use another person to make a purchase.
Effective the day following final enactment.
- 37 Land on or adjacent to public waters.** Authorizes a county to sell property on or adjacent to public waters with written authorization from the commissioner of natural resources.
Effective the day following final enactment.
- 38 List of lands for sale; notice; online auctions permitted.** Amends the notice requirements for sales pursuant to section 35.
Effective for sales on or after August 1, 2017.
- 39 Rights before sale; improvements, insurance, demolition.** Amends the procedure for the sale and disposal of personal property after forfeiture.
Effective the day following final enactment.
- 40 Repurchase requirements.** Reduces the length of time that an owner at the time of forfeiture may repurchase nonhomestead property from one year to six months.
Effective January 1, 2018.
- 41 Forfeited lands list.** Makes technical and clarifying changes to the list of properties withheld from sale for purchase by the state or a political subdivision of the state and amends a reference pursuant to section 39.
Effective January 1, 2018.
- 42 Early termination of agricultural preserve.** Allows a property's enrollment in the metropolitan agricultural preserves program to be terminated upon the death of an owner of the property. Provides that when an agricultural preserve is terminated under this provision, the property is subject to additional taxes equal to 50 percent of the current year's taxes. *(Background: under current law, an agricultural preserve can only be terminated eight years after the owner notifies the city or county of her/his intention to terminate, and there are no additional taxes imposed when the preserve is terminated.)*
Effective July 1, 2017.
- 43 Allowed commercial and industrial operations.** Allows cell towers to be installed on property within a metropolitan agricultural preserve.
Effective the day following final enactment.
- 44 Grounds.** Authorizes evictions after the redemption period expires on a real estate tax judgement sale.

Section

Effective the day following final enactment.

- 45 Recreation levy for Sawyer by Carlton County.** Reinstates and makes permanent authority for Carlton County to levy a tax within the unorganized territory of Sawyer for recreational purposes, limited to \$1,500 per year.

Effective beginning with taxes payable in 2018.

- 46 Soccer stadium property tax exemption; special assessment.** Exempts the stadium and related facilities used for the primary purpose of providing a Major League Soccer stadium from state and local property taxes. The property remains subject to special assessments. The exemption applies to property subject to a lease or use agreement between the city and a private party as long as the use is related to operation of the stadium and related parking facilities. The exemption does not apply to property under a lease or use agreement for residential, business, or commercial development unrelated to the operation of the stadium.

Effective upon compliance with the city of St. Paul with Minnesota Statutes, section 645.021.

- 47 Commissioner of revenue to study pipeline valuation procedures.** Requires the commissioner of revenue to prepare testimony to be presented to the House and Senate Tax committees on the adequacy of the rules and practices relating to the valuation of pipeline properties assessed by the state.

Effective the day following final enactment.

- 48 Repealer.** Repeals a notice requirement for parcels that have not been sold one year before the expiration of the redemption period.

Effective the day following final enactment.

Section**Article 3: Sales and Use Taxes****Overview**

This article provides a number of sales tax exemptions for:

- admissions to Minnesota State High School League events;
- nontaxable food sold through vending machines;
- precious metal bullion;
- sports suite licenses and stadium builder licenses;
- jukebox music;
- fiber and conduit for telecommunication companies;
- purchases by the Duluth Heritage Sports Center; and
- purchases by and memberships to the Detroit Lakes community center.

Provides a number of sales tax exemptions for construction materials whether purchased by the entity or its contractors for:

- local governments, charitable religious and educational nonprofits, and certain other governmental and nonprofit organizations;
- the city of Plymouth (retroactive) for ice arena and other facilities;
- property destroyed in the Madelia and Melrose fires (retroactive);
- a new professional soccer stadium; and
- a nonprofit 501(c)(3) grocery store in Trimont (retroactive).

Modifies the sales tax exemption for certain outstate economic development to increase the benefits for larger projects, including a wholesale electronic component distribution center.

Extends the duty to collect and remit sales tax to Internet marketplace providers located in the state unless sellers on the marketplace site are already collecting the tax. Effective July 1, 2019 or earlier if the Supreme Court or congress allows for collection of sales tax on remote sellers.

Expands the exemption for nonprofit fundraising sales on leased property from five days to ten days.

Dedicates a portion of sales tax revenue related to the sale of personal fireworks.

Reimburses the legacy funds for revenue losses due to sales tax changes in this article and tobacco taxes in article 9 for the 2018-2019 biennium.

Effective dates: All sections in this article are effective for sales and purchases made after June 30, 2017, unless explicitly stated otherwise.

- 1 Volunteer fire assistance grant account.** Establishes this new account in the special revenue fund to be used for making grants to local fire departments for equipment and training. The account is funded with the dedicated estimated sales tax revenue from the sale

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of personal fireworks in the state in section 36. Effective beginning with deposits in fiscal year 2018.

- 2 **Certification of qualified business.** With section 3, increases the allowed sales tax exemption for larger qualified businesses located outside the seven-county metropolitan area. Currently a qualifying business is only eligible for a refund on purchases for seven years; this is increased to ten years for businesses investing at least \$200,000 over ten years.
- 3 **Available tax incentives.** With section 2, increases the allowed sales tax exemptions for a qualified business in greater Minnesota from \$2 million annually to \$5 million annually and increases the total maximum exemption from \$10 million to \$40 million over the course of the development agreement.
- 4 **League fund transfer.** Provides a cross reference to the sales tax exemption in section 24, requiring the Minnesota State High School League (MSHSL) to transfer an amount equal to the annual sales tax saving to a foundation to fund student participation in extracurricular activities. Effective from June 30, 2017, until July 1, 2027.
- 5 **Sales and purchase.** Removes sales through vending machines from the definition of taxable food. Also clarifies that the taxable sales price for an admission or ticket to a place of amusement or sporting event does not include the price of nontaxable amenities if the amenities are stated separately and the purchaser can choose to include or decline the amenity.
- 6 **Taxable food sold through vending machines.** Defines taxable food sold through vending machines to match the definition of taxable food in section 5. This includes prepared food, candy, soft drinks, and dietary supplements.
- 7 **Definitions.** Modifies the definition of a “retailer maintaining a place of business in the state” to include having a storage facility in the state, employing a state resident who works from a home office in the state, or having a marketplace provider or other third party operating in the state under the retailer’s authority to facilitate or process sales in the state. Defines a marketplace provider as a person who facilitates sales for a retailer through any forum. This includes Internet based sales sites.
Effective date in section 43.
- 8 **Retailer maintaining place of business in the state.** Provides an exception to the sales tax collection and remittance requirements for retailers making less than \$10,000 of taxable sales in the state, if their sole physical connection to the state is through a marketplace provider.
Effective date in section 43.
- 9 **Affiliated entities.** A retailer having an in-state affiliate is required to collect and remit sales and use tax. This section modifies the definition of “affiliated entities” to include in-state entities that sell the same products as the retailer; facilitate the retailer’s sales; use the retailer’s intellectual property; deliver, install, assemble, or maintain certain property sold by the retailer; facilitate deliveries for the retailer; or assist in maintaining the retailer’s market.
This section also deems entities as related parties if they are related under certain provisions of the Internal Revenue Code, or have one or more ownership relationships designed to avoid affiliate nexus.

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Effective date in section 43.

- 10 Collection and remittance requirements.** Establishes collection and remittance requirements for marketplace providers and market place retailers. Provides that a marketplace provider has no liability if the failure to collect and remit was due to incorrect or insufficient information provided by the retailer.
- Effective date in section 43.
- 11 Food and food ingredients.** Includes nontaxable food sold through vending machines from the sales tax exemption for food and food ingredients. However, since candy, soft drinks, and prepared food continue to be excluded from the definition of tax exempt food, those items will continue to be taxable when sold through vending machines.
- 12 Exempt meals at residential facilities.** Limits the taxability of food sold in vending machines at residential facilities to only taxable food as defined in section 6.
- 13 Exempt meals at schools.** Limits the taxability of food sold in vending machines to only taxable food as defined in section 6, in machines located at all schools, including both K-12 and post-secondary schools.
- 14 Other exempt meals.** Limits the taxability of food sold in vending machines to only taxable food as defined in section 6 in machines located at places serving food exclusively to seniors or disabled persons and their spouses.
- 15 Precious metal bullion.** Provides a sales tax exemption for bullion in bars or rounds consisting of at least 99.9 percent by weight of gold, silver, platinum, or palladium. The bullion must be marked with weight, purity, and content.
- 16 Suite licenses.** Excludes from the taxable price of admissions a suite, skybox, or private box seat license if (1) the lessee may arrange to use the suite, sky box or private box on nongame or event days, and (2) the sales price for the admission, excluding the license, is equal or greater than the highest priced general admission ticket closest to the suite or box.
- 17 Stadium builder's licenses.** Excludes from the taxable price of admissions consideration paid for a stadium builder's license at the new Vikings stadium. Effective the day after final enactment.
- 18 Capital equipment.** Makes a technical change in the items excluded from the capital equipment exemption to conform to the expansion of the telecommunication sales tax exemption in section 21.
- 19 Super Bowl admissions and related events.** Expands the sales tax exemption for Super Bowl tickets to also exempt tickets and admissions to other Super Bowl-related events sponsored by the NFL or Super Bowl Host Committee, and to sales of nonresidential parking by the NFL to the Super Bowl and related events. Allows the Super Bowl Host Committee to purchase nonresidential parking as a sale for resale.
- Effective for sales and purchases made after June 30, 2016, and before March 1, 2018.
- 20 Petroleum products.** Exempts from the general sales tax fuel purchased exempt from the highway fuels excise tax because it is used to power either unlicensed motor vehicles not

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used on roads, or equipment on a motor vehicle that is not part of the motor vehicle engine. Fuel that is not taxed under the excise tax otherwise would be subject to the general sales tax.

- 21 Telecommunications or pay television services machinery and equipment.** Expands the sales tax exemption on equipment purchases for the telecommunications and pay television industries to include the purchase of fiber and conduit.
- 22 Jukebox music.** Provides a sales tax exemption for music sold for use in a juke box that is made available for selling access to the music to the general public.
- 23 Sales to nonprofits.** Provides a sales tax exemption for purchases by nonprofit organizations that qualify for the membership exemption in section 25, for items used in the performance of their mission.
- 24 Minnesota State High School League tickets and admissions.** Provides a separate subdivision to exempt tickets and admissions to MSHSL sponsored events (i.e. regional and state tournaments and competitions). Under the expired law these had been included in the existing exemption for school tickets to “regular season” school activities. Effective for ten years, beginning after June 30, 2017, and ending July 1, 2027.
- 25 YMCA, YWCA, JCC, and similar memberships.** Expands the existing sales tax exemption for the sale of memberships to YMCAs, YWCAs, and JCCs to similar 501(c)(3) organizations whose mission is to support youth and families and who provide free or reduced-price memberships to seniors or low-income persons.
- 26 Fundraising events sponsored by nonprofit groups.** Allows the sales tax exemption for fund-raising events sponsored by nonprofits to include events held on premises leased for up to ten days. Currently the exemption does not apply to events held on premises leased for more than five days but less than 30 days. (Leases of 30 days or more are considered long-term leases.)
- 27 Ice arenas and rinks.** Provides a sales tax exemption for materials used by a nonprofit, 501(c)(3) corporation for the operation of ice rinks or ice arenas that are part of the Duluth Heritage Sports Center and are primarily used for youth and high school programs. Covers materials and supplies for capital improvements, if purchased directly by the organization, but does not cover materials purchased by a contractor under a lump sum contract.
- 28 Building materials; capital projects.** Allows an upfront exemption for a sports facility project of at least \$100 million that begins construction between July 1, 2016, and December 31, 2017. This allows an upfront sales tax exemption for the St. Paul soccer stadium, rather than requiring the tax to be paid and the city to file for a refund. Effective the day after final enactment.

Also allows the city of Plymouth a sales tax exemption on materials and supplies used in and equipment incorporated into the construction, remodeling, expansion or improvement of an ice arena or other city-owned buildings and facilities. The exemption applies to purchases by contractors, subcontractors, and builders as well as direct purchases by the city. The tax must be paid at the time of purchase and the city must apply for the refund. The total amount of refund that the city may apply for is \$2.5 million. Effective retroactively to sales and purchases made after January 1, 2013.

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29 Construction materials purchased by contractor; exemption for certain entities. Allows a contractor, subcontractor, or builder a sales tax exemption on construction materials and supplies used in buildings and facilities used principally by one of the following:

- school districts;
- other local governments;
- government owned hospitals and nursing homes;
- libraries;
- charitable, religious, and educational nonprofits;
- nonprofit hospitals, nonprofits, and critical access dental providers; and
- nonprofit nursing homes and boarding care homes.

Each of these groups already have a sales tax exemption for their purchases and may currently buy these materials exempt if they purchase the materials themselves under a separate contract.

Also exempts materials used in the construction, reconstruction, and repair of public infrastructure like roads, bridges, sewers, and water treatment facilities.

The tax is paid by the contractor at the time of sale, and the tax is refunded to the tax exempt entity under sections 32 to 34.

30 Property destroyed in the fire. Provides a sales tax exemption for construction materials, equipment, and supplies used to construct or replace property affected by the February 2016 fire in Madelia. The exemption applies to purchases by the property owner or by a contractor, subcontractor, or builder. The tax must be paid at the time the material is purchased and the owner of the property must apply for a refund of the tax.

Effective retroactively for purchases made after December 31, 2015 and before July 1, 2018.

31 Properties destroyed by fire. Provides a sales tax exemption for construction materials, supplies, and equipment used for construction or replacement of real property destroyed by a fire in the city of Melrose on September 8, 2016. Provides that for the period between September 30, 2016, and July 1, 2017, the tax must be paid at the time of the purchase and refunded.

Effective retroactively for purchases made after September 30, 2016, and before January 1, 2019.

32 Tax collected. Adds the construction exemptions in sections 29 to 31 to the list of exemptions that are handled as refunds.

33 Refund; eligible person. Indicates that the following people must apply for refunds of the tax paid by the contractor, subcontractor, or builder:

- the city eligible for the new exemption under section 29; and
- the owner or developer of a project under sections 30 and 31.

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- 34 Application.** Requires the contractor, subcontractor, or builder to provide the refund applicant with the information needed to apply for the refund.
- 35 Appropriation.** Provides that for fiscal year 2018 and fiscal year 2019 only the revenues to the legacy funds will not be reduced for their relative share of the new refunds under this bill.
- 36 Deposit of revenues.** Requires the commissioner of revenue to deposit 25 percent of the estimated sales tax from the sale of personal fireworks in the account created in section 1 and 25 percent of the revenue to the existing fire safety account. The other 50 percent remains in the general fund. The estimate is a flat percentage of total sales tax revenues as determined under section 37.
Effective for sales and purchases made after December 31, 2017.
- 37 Use of local tax revenues by cities of the first class.** Provides a conforming change to accommodate the change for the upfront soccer stadium sales tax exemption in section 28.
- 38 Calculation of the percent of sales tax revenue attributable to the sales of certain fireworks related items.** Requires the commissioner of revenue to consult with industry groups and make an estimate by December 31, 2017, of the amount of sales taxes collected in 2016 that were attributable to the sale of personal fireworks. This percentage shall be used to make future dedications under section 36.
Effective the day after final enactment.
- 39 Sales tax exemption for construction materials used by a nonprofit economic development corporation.** Provides a sales tax exemption and refund of taxes paid on materials, supplies, and equipment used in construction of a multipurpose retail development owned by a 501(c)(3) nonprofit economic development corporation. To qualify the development must be located in a city with no grocery store and be at least 20 miles away from a city with a grocery store. The only qualifying entity is Town Center Inc. in Trimont.
Effective the day after final enactment, applying to purchases made between January 1, 2013, and January 1, 2017.
- 40 Certain reimbursements authorized, considered operating or capital expenses.** Allows the Minnesota Sports Facility Authority to reimburse the NFL, its affiliates, and the Minnesota Super Bowl Host Committee for up to \$1.6 million in state and local taxes paid on purchases, nonresidential parking, and lodging in connection with the Super Bowl LII and related events from its reserve funds.
Effective for sales and purchases made after June 30, 2016, and before March 1, 2018.
- 41 Reimbursements to certain constitutionally dedicated funds for expanded sales tax exemptions.** Reimburses the legacy funds from the general fund for the Pay 2018-2019 biennium for revenue losses due to the sales and tobacco tax changes in this bill.
Effective the day after final enactment.
- 42 Severability.** Provides that if any provision in sections 7 to 10 are held invalid, other provisions not affected by the invalidity are given effect. Effective the day following final enactment.

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- 43** **Effective date.** Establishes that the provisions of sections 7 to 10 are effective at the earlier of: (1) the U.S. Supreme Court overturning Quill; (2) July 1, 2019; or (3) congressional authorization for states to impose collection and remittance requirements on remote sellers.

Article 4: Aids, Credits, and Refunds**Overview**

Creates a new school building bond agricultural credit equal to 40 percent of the school debt levy on all agricultural property.

Increases LGA and CPA payments by \$6 million each for aids payable in 2018 only.

Provides \$14.8 million in additional debt service equalization aid per year to school districts for fiscal years 2019 and 2020 only.

Provides for a report on the percentage of rent constituting property tax used in calculating renter property tax refunds by geographic region.

Provides aid to counties and tribes to offset expenditures for out-of-home-placement expenses under the Indian Child Welfare Act (ICWA).

Authorizes an additional \$3 million in border city enterprise zone tax reductions, and authorizes the city of Taylors Falls to designate border city enterprise zones.

Provides aid to school districts as repayment for prior interest paid on maximum effort school loans.

Makes several minor changes in the LGA formula including (1) fixing an error that caused a few cities to lose aid even though their unmet need was greater than their aid in the previous year; (2) expanding the transition range for cities moving between the medium size city need formula and the large city need formula; and (3) providing a new sparsity factor.

Also provides for the following:

- A starting point of \$95 per capita in calculating 2018 LGA for the new city of Rice Lake.
- LGA penalty forgiveness and payments to a number of cities.
- Aid to Stearns County and the city of Melrose to offset costs related to a major fire.

Repeals the library debt aid to the city of Minneapolis and the Lewis and Clark debt service aid.

- 1** **Debt service equalization revenue.** Increases the state share of school debt service revenue for taxes payable in 2018 and 2019 only by reducing the minimum debt service tax rate to qualify for state tier I equalization from 15.74 percent to ten percent for those two years only.

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Effective for taxes payable in 2018 and thereafter.

- 2 Equalized debt service levy.** Increases the state share of school debt service revenue for taxes payable in 2018 and 2019 only by increasing the equalizing factor for tier I equalization from 55.33 to 75 percent of the statewide average ANTC per pupil unit for those two years only.

Effective for taxes payable in 2018 and thereafter.

- 3 Payments to school funds.** Provides that state payments to school districts for non-operating funds must be paid over the first six months of each fiscal year. Under current law, the payments are spread evenly over the entire fiscal year. This is needed so that school districts receive their state credit payments under section 4 in a time frame that more closely approximates when the property tax payments would have been received.

Effective beginning with fiscal year 2019.

- 4 School building bond agricultural credit.** Provides for a property tax credit on all property classified as agricultural, excluding the house, garage, and surrounding one acre of land of an agricultural homestead, equal to 40 percent of the tax on the property attributable to school district bonded debt levies. Provides an open and standing appropriation to pay for the credit.

Effective beginning with taxes payable in 2018.

- 5 Payment; school districts.** Provides for state payment of school bond agricultural credit reimbursements to school districts according to the schedule under section 3.

- 6 Computation of net property taxes.** Includes the new school bond agricultural credit in the list of credits that reduce taxes.

- 7 Notice of proposed property taxes.** Provides for the new school bond agricultural credit to be shown on the Truth-in-Taxation statement.

- 8 School district levies; special requirements.** Defines which school district levies are considered to be debt service levies for purposes of the school bond agricultural credit.

- 9 Computation of tax rates.** Requires the county auditor to compute a school debt tax rate for each school district so that the school bond agricultural credit can be computed.

- 10 Contents of tax statements.** Provides for the school bond agricultural credit to be shown on the tax statement.

- 11 Border city allocation.** Provides an additional \$3 million allocation for border city aid. This amount, minus \$50,000 allocated to Taylors Falls under section 27, is allocated among the five qualifying cities (Breckenridge, Dilworth, East Grand Forks, Moorhead, and Ortonville) on a per capita basis. Each city could choose whether to use the allocation for tax reductions under the regular border city enterprise zone program or the border city development zone program. Allocations are used to provide tax reductions to businesses in the cities (either new and expanding businesses or existing businesses). The allocations remain available until used.

Effective for fiscal year 2018.

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- 12 City revenue need.** Adds a sparsity adjustment factor to both the medium city revenue need formula and the small city revenue need formula. Medium cities are those with a population between 2,500 and 10,000 while “small cities” have a population of 2,500 or less.
- Also modifies the transition provision between the medium and large city formula. The transition range will now be from 10,000 to 11,000 population rather than the current range of 10,000 to 10,500.
- Effective beginning with aids payable in 2018.
- 13 Sparsity adjustment.** Adds a new sparsity adjustment for medium and small cities equal to \$200 per capita for cities with a population density of less than 30 per square mile. There is a current sparsity adjustment of \$100 per capita for any large city with a population density of less than 150 per square mile.
- Effective beginning with aids payable in 2018.
- 14 County and tribe reimbursement for out-of-home placement costs.** Establishes a new aid program for counties and tribes for out-of-home placement costs of children under the Indian Child Welfare Act. Aid to tribes shall be the greater of: (1) five percent of the average reimbursement amount received from the federal government for out-of-home placement costs for three calendar years; or (2) \$200,000. Aids to counties shall be the county’s proportionate share of the appropriation that remains after the aid for tribes has been paid. \$2,000,000 is annually appropriated to the commissioner of revenue from the general fund to make the aid payments.
- Effective beginning with aids payable in 2018.
- 15 City formula aid.** Uses certified aid, minus special adjustments, from the previous year as the starting point for calculating a city’s formula aid. A city’s formula aid (aid increase) is equal to a percentage of the difference between a city’s unmet need and its certified aid, minus special adjustments, for the previous year.
- Effective beginning with aids payable in 2018.
- 16 City aid distribution.** Provides that if a city’s aid from the previous year is less than its unmet need for the current year, its new aid amount will be its certified aid, minus special adjustments, from the previous year plus its formula aid calculated under section 15, plus special adjustments for the current year.
- If a city’s aid in the previous year is equal to or greater than its current unmet need, its new aid amount is the greater of:
- ▶ its current unmet need; or
 - ▶ its aid from the previous year minus the lesser of: (1) \$10 per capita; or (2) 5 percent of its net levy in the previous year.
- These are the decreases allowed under current law.
- Effective beginning with aids payable in 2018.
- 17 Certified aid adjustments.** Increases the Pay 2018 LGA for any city whose aid is less than its unmet need. The adjustment for each city is a percent of this difference where the percent

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is chosen to distribute the additional \$6 million in one-time money appropriated to city LGA in section 19.

Effective for aids payable beginning in 2018.

- 18 Aid reduction for operating an unauthorized diversion program.** Requires that if a county or city is found by the courts to have operated a diversion program not authorized by law, the county's CPA or city's LGA is reduced by the amount of fees that the county or city collected under the program while it was in operation. Allows a taxpayer to challenge the legality of a diversion program in court.
- Effective beginning with the second half payment of calendar year 2017 aids.
- 19 City LGA appropriation.** Provides \$6 million in additional LGA for 2018 only.
- Effective for aids payable in 2018 and thereafter.
- 20 County program aid (CPA).** Provides \$6 million in additional CPA for 2018 only, split equally between need aid and tax base equalization aid, using the existing aid formulas.
- Effective for aids payable in 2018 and thereafter.
- 21 Maximum effort loan aid.** Makes payments over a five-year period to school districts that repaid the outstanding principal on their maximum effort capital loans, equal to the interest payments these districts had previously paid to the state.
- Effective for fiscal years 2018 through 2022.
- 22 Payments for other natural resources land.** Increases payments in lieu of taxes (PILT) for all other natural resources land from \$1.50 to \$2.00 per acre.
- Effective for aids payable in 2018 and thereafter.
- 23 Lake Vermilion-Soudan underground mine park; annual payment.** Provides that the appraised value of state-owned land within the Lake Vermilion-Soudan Underground Mine State Park shall not be reduced below the 2010 appraised value of the land.
- Effective beginning with aids payable in 2017.
- 24 Base year formula for newly incorporated city.** Provides a starting city LGA base amount for Pay 2018 LGA equal to \$95 per capita for a town that incorporated into a city on October 13, 2015. The new city is Rice Lake in St. Louis County. The amount used as a starting point for the city's Pay 2018 aid will increase from \$5,639 to \$389,500.
- Effective for aids payable in 2018.
- 25 2013 city aid penalty forgiveness.** Provides an extra \$37,473.50 in LGA to the city of Oslo with the July 2017 LGA payment to compensate the city for the loss of one-half of its calendar year 2013 LGA payment, due to the city not filing its 2012 financial reports in a timely fashion. The city filed its 2012 financial reports by December 31, 2013. \$37,473.50 is appropriated from the general fund to make this payment.
- Effective the day after final enactment.
- 26 2014 city aid penalty forgiveness.** Forgives penalties to the cities of Dundee, Jeffers, and Woodstock who lost all or part of their calendar year 2014 LGA payment as a penalty for not filing calendar year 2013 financial reports with the state auditor in a timely fashion. The

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penalty is only forgiven if the city has filed both its calendar year 2013 and 2014 financial statements with the auditor by June 1, 2015. The restored aid will be paid with the July 2017 LGA payment and the \$101,570 needed to make the payments is appropriated from the general fund.

Effective the day after final enactment.

- 27** **Taylors Falls border city development zone.** Authorizes the city of Taylors Falls to exercise border city development powers and allocates \$50,000 for state tax reductions in the zones. The allocation to border cities along the North Dakota and South Dakota borders under section 11 will be reduced by the amount for Taylors Falls.

Under this authority, the city may designate all or any part of the city as a border city development zone. The general law rules for border city development zones apply to these zones. This law allows businesses locating or expanding in designated zones to qualify for property tax exemptions, corporate franchise tax credits, and sales tax exemptions. Cities with these powers also can extend some of these benefits to businesses located within their cities, but outside a development zone.

The commissioner of revenue is authorized to waive the \$50,000 dollar limit, if the commissioner determines that the general law rules would permit waiver.

Effective July 1, 2017, without local approval.

- 28** **Renter property tax refund study.** Requires the commissioner to report by March 1, 2018, on the actual percentage of rent constituting property tax for renters claiming the property tax refund based on rent paid in 2016. Instructs the commissioner to match property tax or parcel identification numbers on the certificate of rent paid (CRP) submitted with each claim to property tax data, and determine the actual percentages for four areas:

- ▶ the city of Minneapolis;
- ▶ the city of St. Paul;
- ▶ the counties of Anoka, Dakota, Hennepin (excluding Minneapolis) and Ramsey (excluding St. Paul); and
- ▶ the rest of Minnesota.

Effective the day following final enactment.

- 29** **Debt service equalization aid appropriation.** Appropriates \$14,773,000 from the general fund to the Department of Education for the additional debt service aid provided under sections 1 and 2.

Effective for fiscal year 2019.

- 30** **Appropriation; Melrose fire remediation.** Appropriates \$1,296,458 to the city of Melrose, and \$95,800 to Stearns County to remediate the effects of fires in the city of Melrose on September 8, 2016. Grants must be used for remediation costs, including disaster recovery, infrastructure, reimbursement for emergency personnel and equipment costs, and reimbursement for property tax abatements.

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31 Repealer. Paragraph (a) repeals the library debt service aid to the city of Minneapolis. Effective starting in calendar year 2018.

Paragraph (b) repeals the debt service aid to the Lewis and Clark Joint Powers Board. Effective the day following final enactment.

Article 5: Local Option Sales and Use Taxes**Overview**

Prohibits local governments from adopting ordinances related to merchant bags.

Modifies existing local sales taxes for:

- Duluth
- Mankato and North Mankato
- Hermantown
- New Ulm
- Albert Lea
- Proctor
- Worthington

Authorizes new local sales taxes for Clay County, the Garrison, Kathio, and West Lake Mille Lacs Sanitary District, and the cities of:

- East Grand Forks
- Fairmont
- Fergus Falls
- Moose Lake
- New London
- Spicer
- Walker

Authorizes a new local lodging taxes for the city of Sleepy Eye.

All sections are effective upon the local government filing approval with the secretary of state unless stated otherwise.

1 Merchant bags. Prohibits a local government from imposing a fee or tax on merchant-provided bags.

Effective May 31, 2017. Invalidates ordinances enacted before the effective date.

2 Duluth food and beverage tax. Changes the boundary line defining the area in which Duluth may spend revenues from its extra half percent food and beverage tax from 34th Avenue West to 14th Avenue West, including Skyline Parkway and the area south.

3 Duluth hotel and motel tax. Changes the boundary line defining the area in which Duluth may spend revenues from its extra one-half percent lodging tax from 34th Avenue West to 14th Avenue West, including Skyline Parkway and the area south.

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- 4 Mankato; use of revenues.** Allows the city to extend its sales tax for different projects, as approved by the voters at the 2016 general election.
- Allows the city to raise another \$47 million plus associated bond costs to fund:
- construction and improvements to regional recreational facilities including indoor athletic facilities;
 - improvements to the flood control and levee system;
 - water quality improvement projects in Blue Earth and Nicollet Counties;
 - expansion of a transit building and related transit improvements;
 - regional public safety and emergency communications equipment, and
 - matching funds for regional facilities such as a historic museum, supportive housing, and a senior center.
- 5 Expiration of taxing authority and expenditure limitation.** The current expiration for the Mankato local sales tax of December 31, 2022, is extended to the earlier of December 31, 2038, or when revenues are sufficient to fund the new projects.
- 6 Bonds.** Allows Mankato to issue an additional \$47 million in bonds based on the voter approval at the 2016 general election.
- 7 Hermantown.** Allows the city of Hermantown to use its existing local sales tax revenue to make debt service payments on the Hermantown Wellness center. Voters approved this use at the 2016 general election.
- 8 Hermantown.** Extends the city of Hermantown local sales tax through the earlier of December 31, 2036, or when the city council determines that enough funds have been raised to pay the bonds issued for authorized projects.
- 9 New Ulm; use of revenues.** As approved by the voters at the 2016 general election, allows the city to use revenues from its existing sales tax to fund costs, including associated bond costs for the following additional projects:
- constructing an indoor waterpark and improving the existing pool;
 - constructing an indoor playground, wellness center, and gymnastics facility;
 - constructing a multipurpose winter dome;
 - improving Johnson Park Grandstand; and
 - improving the entrance road and parking at Herman Heights Park.
- 10 New Ulm; bonding authority; additional use and extension of the tax.** The city is authorized to bond for up to an additional \$14.8 million for the new projects without an additional vote. The bonds are not included in calculating any debt or levy limits for the city.
- 11 New Ulm; termination of taxes.** Extends the termination of the tax until revenues are sufficient to pay off both the existing and newly authorized bonds. The city may terminate the tax earlier if desired.

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- 12 Proctor; sales and use tax.** Allows Proctor to increase the rate of its existing local sales tax from one-half percent to one percent, as approved by voters at the November 2014 general election. The revenue from the increased tax would pay for the \$10 million in improvements to public utilities, sidewalks, bike paths and trails, and park and recreation facilities authorized in the 2008 and 2010 special laws. No additional spending is authorized.
- 13 Albert Lea.** Allows the Shell Rock River Watershed Board to use Albert Lea's existing local sales tax revenue for general water quality projects. Currently the revenues may only be used for lake improvement projects. Also requires the board to report to the Albert Lea City Council on a biannual basis on its expenditures. Currently there is no reporting requirement.
- 14 Albert Lea; termination of taxes.** Extends the city of Albert Lea local sales tax for an additional 15 years, or when the city council determines that the tax has raised \$30 million to pay for authorized projects. The tax was previously authorized for 15 years or until \$15 million was raised.
- 15 Worthington, use of revenues.** Expands the allowed uses of Worthington's local sales tax revenues to include public athletic facilities; subject to the restrictions in section 16.
- 16 Worthington, bonding.** Allows the city to increase the bonds issued for allowed purposes by \$1.3 million—from \$6 million to \$7.3 million. Before issuing the extra bonds the city must:
- pass a resolution stating the intent to issue debt and propose a public hearing;
 - publish a notice of the resolution for two consecutive weeks, with a notice of the public hearing date, in the city's official newspaper. The hearing must be held at least two weeks but not more than four weeks after the first publication; and
 - allow the citizens, consisting of at least 10% of the votes cast at the last general election thirty days to petition for a reverse referendum on the issue.
- If the petition requirement is met, the resolution must be approved by the voters in a general or special election.
- 17 Worthington, termination of the tax.** Provides that the tax terminates when revenues are sufficient to pay off the \$7.3 million in bonds plus associated costs.
- 18 City of North Mankato; taxes authorized.** Allows the city to extend its existing sales tax to raise up to an additional \$9 million based on the expansion approved by the voters at the 2016 general election. In addition to the currently authorized projects the city may use the additional money to fund construction of indoor athletic facilities. The existing projects include an interchange, trails, a library, riverfront development, and lake improvement projects. The city may issue an additional \$9 million in bonds to fund the authorized projects without an additional vote.
- The tax is extended to the earlier of December 31, 2038, or when revenues are sufficient to fund the total \$15 million (additional \$9 million) of projects plus associated bond costs. Currently the tax expires when revenues are sufficient to fund the current \$6 million and associated bond costs.
- 19 East Grand Forks; sales tax authorized.** Allows the city of East Grand Forks to impose a local sales tax of up to 1 percent to fund improvements to the city swimming pool. The voters approved this at a special election held March 7, 2016. The city would be authorized

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to issue bonds for up to \$2.82 million for the project without an additional vote. The tax would expire at the earlier of five years or when revenues are sufficient to pay off the bonds.

- 20 Fairmont; sales tax authorized.** Allows the city of Fairmont to impose a local sales tax of up to one-half of one percent to fund up to \$15 million capital and administrative costs for recreational amenities, trails, and a community center. The voters approved this at the 2016 general election. The city would be authorized to issue bonds for these projects without an additional vote. The tax would expire at the earlier of 25 years or when revenues are sufficient to cover the \$15 million plus any associated bond costs.
- 21 Fergus Falls; sales tax authorized.** Allows the city of Fergus Falls to impose a local sales tax of up to one-half of one percent to fund expansion and betterment of the Fergus Fall Public Library. The voters approved this at the 2016 general election. The city would be authorized to bond for up to \$9.8 million for the project without an additional vote. The tax would expire at the earlier of 12 years or when revenues are sufficient to pay off the bonds.
- 22 Moose Lake; sales tax authorized.** Allows the city of Moose Lake to impose a local sales tax of up to one-half of one percent to fund: (1) city park improvements; (2) street and related infrastructure improvements; and (3) improvements to its municipal arena. The voters approved this at the 2012 general election. The city would be authorized to bond for up to \$3 million for the projects without an additional vote. The tax would expire at the earlier of 20 years or when revenues are sufficient to pay off the bonds.
- 23 New London; sales tax authorized.** Allows the city of New London to impose a local sales tax of up to one-half of one percent to fund: (1) construction and equipping of a new library and community room; (2) construction of an ambulance bay; and (3) improvements to its Senior Citizen Center. The voters approved this at the 2016 general election. The city would be authorized to issue bonds for up to \$872,000 for the projects without an additional vote. The tax would expire at the earlier of 20 years or when revenues are sufficient to pay off the bonds.
- 24 Sleepy Eye; lodging tax authorized.** Allows the city of Sleepy Eye to impose a local lodging tax of up to 2 percent in addition to the general local lodging tax of 3 percent allowed under general statute. Limits the combined lodging tax under this special law plus the general authority to five percent. Ninety-five percent of the revenues from this additional lodging tax must be used for tourism promotion—the same purposes listed in the general law.
- 25 Spicer; sales tax authorized.** Allows the city of Spicer to impose a local sales tax of up to one-half of one percent to fund: (1) pedestrian public safety improvements on Trunk Highway 23; (2) park and trail capital improvements; and (3) capital improvements to regional community facilities. The city would be authorized to issue bonds for up to \$800,000 for the projects without an additional vote. The voters approved this at the 2016 general election. The tax would expire at the earlier of (1) ten years after first imposed, (2) December 31, 2027; or (3) when revenues are sufficient to pay off the bonds and associated bond costs.
- 26 Walker; sales tax authorized.** Allows the city of Walker to impose a local sales tax of up to 1.5 percent to fund a number of projects outlined in its 2012 capital improvement plan. The voters approved this at the 2012 general election. The city would be authorized to bond for

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up to \$20 million for the projects without an additional vote. The tax would expire at the earlier of 20 years or when revenues are sufficient to pay off the bonds.

- 27** **Clay County; sales tax authorized.** Authorizes Clay County to issue local bonds secured by a local sales and use tax on one-half of one percent to finance new county correctional and law enforcement facilities. The voters approved the tax at the November 8, 2016, general election. The county is allowed to issue up to \$52 million in bonds for the project without another vote. The tax expires at the earlier of: (1) 20 years after the tax is first imposed; or (2) when funds are sufficient to repay the bonds.
- 28** **Garrison, Kathio, West Mille Lacs Lake Sanitary District; sales tax authorized.** Allows the Garrison, Kathio, West Mille Lacs Lake Sanitary District to impose a local sales tax of up to 1 percent to raise up to \$10 million to repay bonds and pay for maintenance and improvements of the waste water system. The tax was approved by local voters at the 2016 general election. Allows the district to issue bonds up to \$10 million minus the amount of bonds that the sales tax revenue is already committed to pay. If imposed, the tax expires at the earlier of 20 years or when \$10 million has been raised.
- 29** **Proctor; effective date; validation of prior act.** Retroactively approves the extension of the existing sales tax and new uses for the sales tax revenue authorized in the 2008 and 2010 special laws, based on the voter approval at the 2010 general election and the filing of local approval with the secretary of state by January 1, 2015.

Section**Article 6: Tax Increment Financing****Overview**

This article authorizes the use of economic development tax increment financing (TIF) districts for workforce housing projects outside of the Twin Cities metropolitan area. It also makes a series of changes that increase city powers and flexibility in handling TIF that were requested by the League of Minnesota Cities.

Special law exceptions to various general TIF requirements are provided for the following cities:

- Burnsville
- Seaway Port Authority (located in Duluth)
- Edina
- Maple Grove
- Anoka
- Coon Rapids
- Cottage Grove
- Moorhead
- Richfield
- St. Louis Park
- St. Paul
- Newport (Washington County Community Development Agency)
- Wayzata

- 1 Economic development districts.** Modifies the definition of economic development TIF districts to authorize the alternative findings for workforce housing projects authorized by section 2.

Effective date: Districts for which the request for certification is made after June 30, 2017.

- 2 TIF plan approval; workforce housing projects.** Requires a city to make the following findings before approving an economic development TIF district for workforce housing:
- the city is located outside the seven-county, Twin Cities metropolitan area (defined by reference to the Metropolitan Council's jurisdictional area);
 - the average vacancy rate for rental housing in the city or any other city within 15 miles was 3 percent or less for at least the last two years;
 - a business in the city or within 15 miles of the city that employs 20 or more full-time equivalent employees has provided a written statement that the lack of available rental housing has made it difficult to hire employees; and
 - the city intends to use increments to develop workforce housing.

The authority to certify workforce housing TIF districts expires on June 30, 2027.

Effective date: Districts for which the request for certification is made after June 30, 2017.

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- 3 Economic development district.** Allows increments from an economic development district to be spent for workforce housing projects, if the county and school districts approve the TIF plan for the district.

Under present law, economic development districts increment may only be used for:

- manufacturing;
- research and development;
- warehousing;
- telemarketing; or
- tourism projects in qualifying counties.

Effective date: Districts for which the request for certification is made after June 30, 2017.

- 4 Housing districts; income limits.** Allows the higher income limits under the Minnesota Housing Finance Agency (MHFA) challenge program to be used for housing TIF districts, if the project receives an MHFA grant from the program.

Background information. Housing TIF districts are allowed to collect 26 years of increment (as contrasted with nine years for economic development districts).

The income limits under present TIF law for rental housing require projects to meet the limits under federal law for tax credit and tax exempt bond financed projects. These limits require projects to meet either a 20-50 or 40-60 test. The 20-50 test requires that 20 percent of the units be occupied by tenants whose incomes (when they begin occupying the unit) are less than 50 percent of the greater of the area or the state median income. The 40-60 test substitutes 40 percent and 60 percent benchmarks in the same test. For 41 rural counties in 2016, the 50 percent income limit is \$31,900 for a family of four and the 60 percent limit is \$38,280. These limits are set based on the state median income, since it is higher than the county amount in those counties. By contrast, the MHFA challenge program uses an 80 percent benchmark and that program does not require adjusting the income limits for family size, providing additional flexibility for smaller units.

Effective date: Districts for which the request for certification is made after June 30, 2017.

- 5 Definition of increment under five-year and pooling rules.** Modifies the definition of increment under the five-year rule (imposing time limits on spending increments) and the pooling rule (imposing percentage limits on increments that may be spent outside of the TIF district) to exclude increments that are repaid by developers.

Effective date: Districts for which the request for certification was made after the day following final enactment.

- 6 Pooling limits; application to increments.** Modifies reference to increments in the percentage pooling rule to be consistent with the change made in section 5.

Effective date: Districts for which the request for certification was made after the day following final enactment.

- 7 Five-year rule; application to increments.** Modifies five-year rule reference to increments to be consistent with the change made in section 5.

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Effective date: Districts for which the request for certification was made after the day following final enactment.

- 8 Interfund loans.** Modifies the interfund loan provisions to make it easier for cities and development authorities to make and document interfund loans. The changes:
- Allow loans to be made up to 60 days after the money has already been transferred or spent. (Under present law, the loan terms must be set before the loan is made.)
 - Authorize passage of the interfund loan resolution before the TIF plan is approved. Present law is unclear as to whether the resolution can authorize interfund loans for future TIF districts.
 - Authorize rewriting loan terms after the loan has been made if it is done before the TIF district is decertified.
 - Require an annual report of the amount of interfund loans made and any amendments of loan terms made in prior years.

Effective date: Day following final enactment for all TIF districts.

- 9 Burnsville; TIF.** Modifies a 2008 special law that grants the city of Burnsville special TIF authority to develop the Northwest Quadrant, an area of the city that contains a quarry and closed landfill, bordering on the Minnesota River.

It allows two more years (from December 31, 2018, to December 31, 2020) to create TIF districts in the area and changes the special rules to provide more exceptions to general law:

- **Economic development district authority.** The city can create economic development districts in the area. Under the 2008 special law, only redevelopment, renewal and renovation, and soils districts could be created.
- **Knock-down rule.** The four-year knockdown rule is extended to nine years. That rule drops a parcel from a TIF district if no development or improvements are made within four years after certification of the district.

- 10 Seaway Port Authority; TIF.** Modifies a 2009 special TIF law for the Seaway Port Authority of Duluth by adding four parcels to the area in which the district may be created and authorizing the use of interfund loans prior to approval of the TIF plan for any purpose that tax increments may be spent for. This authority applies to a resolution of the port authority adopted on or after March 25, 2010, and preempts application of the rules adopted by section 8.

- 11 Edina; TIF.** Modifies a 2014 special law for the city of Edina, granting the city an additional two and one-half years (through December 31, 2019) to approve districts.

The 2014 special legislation allowed the city to create housing districts in the Southeast Edina Redevelopment Project Area through June 30, 2017, with a 20-year duration (as compared with 25 years under general law) and only 20 percent of the units were required to be low-income housing, as opposed to 40 percent under general law. The city is authorized to use up to 35 percent of the revenues from its Southdale 2 economic development district to assist these housing developments.

Effective date: Day following final enactment without local approval.

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- 12 Maple Grove; TIF.** Modifies a 2014 special law for the city of Maple Grove. The special law allowed the city to establish TIF districts subject to various special rules to develop the site. The law defined an area of the city as the project area (i.e., the area in which the city could both expend tax increments and establish the TIF districts). Before proceeding under the law, the city was required to find that specific conditions existed in the defined area—specifically that certain percentage tests were met. This section amends the special law to allow the city to designate only part of the defined area. This will give the city more flexibility in determining whether the percentage tests are met, but will also limit where moneys may be spent and TIF districts created. The city is allowed to include area outside of the defined area, if part of the parcel is in the defined area.

The section allows the city to use money from soils deficiency districts for land acquisition and infrastructure outside of the TIF district that generated the increment, if it is for a development that does not include retail or housing developments. The original 2014 special law only allowed these increments to be used to pay for soils corrections or the additional costs of infrastructure that result from the soils deficiencies.

- 13 City of Anoka; TIF.** Extends the five-year rule to eight years for the Greens of Anoka redevelopment TIF district in Anoka. It does this by deeming the district to be certified on June 29, 2012, rather than its actual certification date three days later on July 2, 2012.

Background information. The five-year rule requires TIF development authorities to complete funding of in-district development activities within a five-year period starting with certification of the district. After the period has run, the in-district share of the increments (75 percent of increments for a redevelopment district) may only be used to pay off outstanding bonds and contracts, incurred during the five-year period. During the Great Recession, the legislature extended the five-year period because of the greater difficulty of completing developments. This was done in two laws that applied to districts certified during the period of time shown in the table.

Year Enacted	District Certified During Period Covered	Five-year Rule Extended to
2009	June 30, 2003 to April 20, 2009	10 years
2014	April 20, 2009 to June 30, 2012	8 years

The section allows the Greens of Anoka district to qualify under the second set of these extensions, even though its certification occurred three days outside of the required window.

- 14 Coon Rapids; TIF.** Allows the city of Coon Rapids to extend the duration of its TIF District 6-1 (Port Riverwalk) through 2038. This is a five-year extension.

Effective date: Local approval by the city, county, and school district.

- 15 Cottage Grove; TIF.** Extends the five-year rule for TIF District No. 1-12 (Gateway North) in the city of Cottage Grove to allow expenditures until January 1, 2017. This district was

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certified in 2002, so that the extension is a five-year extension of the five-year period (allowing a ten-year period).

- 16 Edina; special law approval.** Gives the city of Edina until December 31, 2016, to file its certificate of local approval of a 2014 special TIF law for the city. The city needed to file the certificate with the secretary of state before January 6, 2015, for the law to take effect. Although the city council approved the special law, the required filing was not done.
- In addition, the section validates any actions that the city has taken under the special law prior to the effective date of the section. See the summary of section 11 for a description of the provisions of the special law.
- Effective date:** Day following final enactment.
- 17 Moorhead.** Provides an extension of the five-year rule for the 1st Avenue North Redevelopment District in the city of Moorhead that parallels the Anoka provision in section 13.
- Effective date:** Local approval by the city.
- 18 Richfield; TIF.** Authorizes the city of Richfield and its Housing and Redevelopment Authority (HRA) to extend the duration of the Cedar Avenue TIF district by ten years. This district was established under a 2005 special law as a redevelopment district and has a duration limit of 25 years after receipt of the first increment. As a result, the bill would authorize a 35-year duration.
- The 2005 special law exempted the district from the five-year rule and the requirement that 95 percent of redevelopment district increments must be used to correct the conditions that allowed designation of a redevelopment district (e.g., substandard buildings).
- Effective date:** Local approval by the city, Hennepin County, and School District No. 280.
- 19 Richfield; TIF.** Extends the five-year rule for the Lyndale Gardens TIF district in the city of Richfield by three years.
- Effective date:** Local approval by the city.
- 20 St. Louis Park; TIF.** Increases the permitted pooling percentage for the Elmwood Village TIF district in the city of St. Louis Park from 25 percent to 30 percent. This district was granted a seven-year extension under a 2009 special law.
- 21 St. Paul; TIF.** Allows the City of St. Paul to waive increments for up to four years (but not beyond taxes payable in 2023) for the TIF district that it created for the Ford Motor Company plant site. This will allow the city flexibility to increase the increment collected for the district by delaying the start of the 25-year duration limit until development of the site has begun. In addition, if the city elects to waive increments under this authority, the district's certification date will be deemed to be January 2 of the assessment for the first year increment is received under the waiver for purposes of calculating the five-year and four-year (knock-down) rules.
- 22 Washington County; TIF in Newport.** Authorizes the Washington County Community Development Agency (CDA) to establish TIF districts under special law rules in a defined area of the city of Newport. This authority ends on December 31, 2027.

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These special law rules provide that:

- The listed parcels are deemed to meet the statutory “blight” test to establish a redevelopment district (i.e., they are treated as containing substandard buildings). This will give the CDA flexibility to establish redevelopment or renewal districts in the defined area of the city, because these parcel will count toward the percentage tests.
- Increments spent outside the area of the district from which they were collected must be spent on blight correction in the specified geographic area.
- The pooling percentage is increased to 30 percent (compared with 25 percent under general law) but spending of these pooled increments is limited the defined area.
- The five-year rule is extended to nine years.

Effective date: Local approval by both Newport and Washington County; also applies to an existing district created in 2016.

23

Wayzata TIF. Exempts TIF #3 (Widsten) in the city of Wayzata from the five-year rule to allow the city to use increment from district for a municipal parking ramp. This district is a redevelopment district was certified in 1996, so the five-year ended in 2001.

Section**Article 7: Public Finance****Overview**

This article makes changes in the procedures and authority to issue local government debt obligations. The principal substantive changes:

- Allow use of capital notes or certificates of indebtedness with 20-year terms to finance replacing Freon (typically in indoor ice rinks). These instruments can be issued subject to a reverse referendum rather than automatically requiring voter approval. The maximum term under present law is ten years.
- Subject lease-revenue bonds to reverse referendum requirements.
- Allow Economic Development Authorities (EDAs) to publish hearing notices in weekly publications.
- Increases the maximum amount of general obligation bonds that a housing and redevelopment authority (HRA) may issue from \$3 million to \$5 million.
- Authorizes \$126 million in additional transit bonding for the metropolitan council, but prohibits the council from using bond proceeds for expansion of light rail transit (LRT).
- Allows cities to issue street reconstruction bonds with a two-thirds majority (rather than unanimous) approval of the city council.

- 1 **Town certificates of indebtedness for Freon replacement.** Allows towns to issue 20-year certificates of indebtedness for projects to eliminate R-22 (Freon-based refrigerant).
- 2 **Hennepin County capital notes for Freon replacement.** Allows Hennepin County to issue 20-year capital notes for projects to eliminate R-22 (Freon-based refrigerant).
- 3 **Home rule charter city capital notes for Freon replacement.** Allows home rule charter cities to issue 20-year capital notes for projects to eliminate R-22 (Freon-based refrigerant).
- 4 **Statutory city capital notes for Freon replacement.** Allows statutory cities to issue 20-year capital notes for projects to eliminate R-22 (Freon-based refrigerant).
- 5 **Lease-backed bonds; reverse referendums.** Provides for a reverse referendum on whether a city (excluding first class cities), county, or urban town may enter into a lease of three or more years for real property with a housing and redevelopment authority (HRA), port authority, EDA, or other entity established by special law with powers similar to those authorities, if the authority issued bonds or other debt instruments to finance the property.

Background. Generally, when a local government acquires or improves real property financed by general obligation bonds of the local government, the debt must be approved by the voters. A local government may enter into lease agreements without a referendum. When the local government's lease payments are the source of money to pay off the HRA, port authority, or EDA debt, the bonds can be sold as revenue bonds, which are not subject to an election.

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- 6** **Maximum limit on HRA GO bonds.** Increases the maximum dollar limit on HRA general obligation bonds from \$3 million to \$5 million.
- 7** **Publication requirement; districts created by EDAs.** Allows an EDA to publish hearing notices for creating economic development districts in any general circulation newspaper, not just “daily” newspapers.
- 8** **Metropolitan council transit bonding.** Authorizes the metropolitan council to issue up to \$126 million in additional bonds to finance its transit capital improvement plan. An \$82.1 million limit applies to the amount that may be issued in state fiscal year 2018 and the balance may be issued after July 1, 2018.
- 9** **Metropolitan council spending of bond proceeds for LRT.** Prohibits the metropolitan council transit from spending proceeds of its general obligation bonds (e.g., the authorization under section 8) to finance a new LRT line, an extension of an existing LRT line, or provision of additional stops on an LRT line.
- Effective the day final enactment, but spending under binding contracts entered before March 25, 2017, is permitted
- 10** **Street reconstruction bonds.** Replaces the requirement that street reconstruction bonds be approved by unanimous vote of the governing body with a two-thirds majority requirement. These bonds are used to rebuild and replace streets and are exempt from the referendum approval requirement that otherwise would apply.
- 11** **Waiver of public sale requirement.** Modifies the conditions to qualify for an exemption from public sale (i.e., competitive bidding) of bonds so that the municipality is required to retain an independent “municipal” advisor, rather than a “financial” advisor. This change is consistent with the terminology used by the Securities and Exchange Commission. A municipal advisor is a person that provides a variety of types of financial advice to municipalities, including that provided by traditional fiscal consultant on how to structure bond issues (e.g., entities like Springsted and Ehlers).

Article 8: Tax Administration**Overview**

This article makes a number of changes in tax court and Department of Revenue (DOR) procedures and powers, including requiring DOR to establish a private letter ruling program. It imposes limits on DOR’s assessment powers and extends the statute of limitations that applies to refunds to be consistent with the comparable limit under federal law.

- 1** **Private letter ruling (PLR) program.** Directs the commissioner of revenue to establish a PLR program by January 1, 2018. This program would be similar to the Internal Revenue Service’s PLR program and would provide guidance and an explanation of the reasoning behind the ruling to applying taxpayers as to the state tax treatment of specific transactions or situations. DOR could exclude categories of transactions or provisions of law from the program.

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Taxpayers or their representatives would need to apply for a PLR and provide the supporting facts that DOR requires. DOR could charge taxpayers a fee to recover its actual costs in preparing PLRs, but not to exceed \$1,000. The fee would be deposited in the DOR special account and appropriated to pay for the administrative costs of the program. The commissioner may require the fee to be paid in advance of considering an application, and the fee structure must vary based on the complexity of the request. The fee would be refundable if DOR does not issue a PLR within 90 days, but that would not absolve DOR of the requirement to issue a ruling.

Only the applying taxpayer could legally rely on the PLR, but DOR would be required to make the rulings available to the public on its website, grouped by tax type, with any identifying information redacted. DOR would be required to file a biennial report to the legislature on usage of the program by January 31st of odd-numbered years. The first report would be made to the 2020 legislature.

Requires the commissioner to use the administrative rulemaking process to adopt rules governing the PLR program.

Effective date: Day following final enactment.

- 2 Authority to request dual audits.** Authorizes certain taxpayers who are audited under either chapter 290 (individual income and corporate franchise tax) or chapter 297A (sales and use tax) to request in writing that the commissioner audit the tax due under both chapters at the same time. If the commissioner declines to do so, then the commissioner may not subsequently audit the tax due under the chapter not subject to audit for the time period covered by the audit. Taxpayers qualify to request dual audits if the taxpayer:

- has a sales tax collection permit;
- reported gross receipts in the most recent year less than \$150,000; and
- was subject to a sales or income/corporate franchise tax audit for a period within the last five years, and the audit found additional liability less than \$1,000 or 5 percent of liability.

- 3 Limits on assessments; sales tax.** Prohibits the commissioner from assessing tax under the sales tax that is inconsistent with the taxpayer's past practices, if they were fully disclosed to and specifically reviewed by DOR in an audit and DOR did not assess additional tax for that item. This limit would not apply if the commissioner has notified the taxpayer in writing, issued a contrary revenue notice, or the law has been materially changed (e.g., by Congress, the legislature, or by administrative rule).

Effective date: Assessments made after June 30, 2017.

- 4 Limits on assessments; reasonable cause.** Establishes a reasonable cause ground for reducing or eliminating an assessment of tax that the taxpayer is required to collect or withhold from another individual or entity (e.g., sales or withholding taxes). A taxpayer may assert this defense on audit, in an administrative appeal, or in a refund claim. Lack of clarity in the law may be a reasonable cause; reliance on prior written advice from DOR that has not been superseded or preempted is reasonable cause.

Effective date: Assessments made after June 30, 2017.

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- 5 Authority to abate penalties.** Gives the commissioner of revenue discretion to decline to impose or to abate tax penalties.
- Under current law, the commissioner's authority is limited to:
- instances of "reasonable cause";
 - late payments due to presidentially declared disasters; and
 - erroneous advice provided by a DOR employee.
- Effective date:** Day following final enactment.
- 6 Administrative appeals.** Specifies the content required in an administrative appeal based on the reasonable cause exception under section 8.
- Effective date:** Assessments made after June 30, 2017.
- 7 Timely mailing of tax court filing; no postmark.** Allows proof of timely mailing by affidavit of the taxpayer or counsel that the notice of appeal, proof of service, and filing fee were timely mailed when the materials are delivered by U.S. Postal Service (USPS) but no postmark is applied.
- Effective date:** Notices mailed after June 30, 2017.
- 8 Tax court filings.** Authorizes the tax court to provide for the manner of filing of notices, documents, and so forth. This will allow the court to require electronic filing.
- Effective date:** Notices mailed after June 30, 2017.
- 9 Post-trial motions; time to file.** Extends the time to file motions for rehearing, amended filings, and similar from 15 days to 30 days.
- Effective date:** Petitions and appeals filed after June 30, 2017.
- 10 Tax court; conflict of interest.** Drops employees of the tax court from the one-year ban on representing clients before the court after they leave the court's employment and eliminate representing clients before DOR altogether (i.e., a judge who leaves the court would not be banned from representing a client before DOR for the one-year period).
- Effective date:** Day following final enactment.
- 11 Statute of limitations; refund claims.** Modifies the statute of limitation that applies to claims for refund to two years after payment of the tax. Under present law, the limit is one year following an assessment order or one year after payment of the tax on a commissioner-filed return. The limit for refunds resulting from federal (IRS) orders is extended to 180 days after the final federal determination.
- Effective date:** Claims for refunds after the day following final enactment.
- 12 De minimis penalties.** Provides no penalty for failure to pay tax applies if the calculated amount is less than \$150, or if the underpayment resulting in the penalty is less than \$1,000 and the taxpayer filed timely returns in the previous three years and was not subject to a penalty for any of those years (regardless of whether it was excused by the \$150 de minimis).
- Effective date:** Penalties imposed after January 1, 2018.

Section**Article 9: Miscellaneous****Overview**

This article:

- Prohibits the use of public money for the passenger rail project between Rochester and the Twin Cities (often referred to as “Zip Rail”), as well as prohibiting using eminent domain, imposing certain security and environment insurance requirements on the project, and other large passenger rail projects (capital costs greater than \$1 billion). These restrictions will not apply if the legislature adds the project to the state’s rail plan.
- Subjects municipal use of franchise fees to raise revenue to reverse referendum approval.
- Guarantees the amount in the taconite municipal aid account at 100 percent of the 1983 level and indexes the amount allocated to this account to inflation.
- Eliminates the annual inflation adjustment on the cigarette excise tax.
- Exempts dealers of gasoline used as a substitute for aviation gasoline from paying the motor fuels excise tax and imposes the aviation gasoline tax on those fuels.

- 1 **No state spending for certain rail projects.** Prohibits using state money for the Zip Rail project. This limit applies to any purposes related to the project (e.g., planning, design, engineering, land acquisition, construction, and operation). These restrictions do not apply to private contributions or if the legislature adds the Zip Rail project to the state freight and passenger rail plan.
Effective date: Day following final enactment.
- 2 **Restrictions on leasing state property for Zip Rail.** Requires the commissioners of administration and transportation to include security bonds or similar guarantees against state loss in leases for the Zip Rail project (e.g., leasing the highway right-of-way).
Effective date: Day following final enactment.
- 3 **Eminent domain.** Prohibits use of eminent domain law by the state, a local government, or a private railroad for the Zip Rail project.
Effective date: Day following final enactment.
- 4 **State rail plan.** Prohibits inclusion of the Zip Rail project in the statewide freight and passenger rail plan and directs the commissioner of transportation to remove the project from the plan by February 1, 2018.
Effective date: day following final enactment
- 5 **Environmental insurance required for passenger rail projects.** Requires a private entity seeking a federal or state permit to construct or operate a passenger rail project with a capital cost of \$1 billion or more to obtain environmental insurance. (The definitions exclude projects operated by a governmental unit, e.g., LRT or commuter rail projects operated by

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the Metropolitan Council.) The requirements would only apply to the developer of the project, not a contractor who applied for a building permit.

The insurance must cover environmental remediation and impairment damages. The commissioner of the Pollution Control Agency must approve the adequacy of the insurance, including dollar limits on the coverage.

Effective date: Projects for which application is made after the day following final enactment.

- 6 Tax incidence study.** Requires the biennial tax incidence study, prepared by the Department of Revenue (DOR), to include information on the distribution of federal taxes paid by Minnesota residents.
- Effective date:** Would first apply to the 2019 tax incidence study.
- 7 Tax, how payable, receipts.** Eliminates the requirement that the county calculate and distribute the proceeds for multi-county mortgages exceeding \$10,000,000, and shifts the burden for calculating and distributing each county's share to the commissioner of revenue.
- Effective for tax collected after June 30, 2017.
- 8 Aviation gasoline.** Makes clarifying changes to the definition of aviation gasoline and modifies the definition of aviation gasoline to include gasoline sold to a dealer of aviation gasoline for dispensing into an aircraft.
- The clarifying changes are effective the day following final enactment; the provision including gasoline sold to a dealer of aviation gasoline is effective for sales and purchases made after June 30, 2017.
- 9 Compressed natural gas definition.** Changes the energy content of compressed natural gas (CNG) in the definition of CNG, from 1000 BTUs to 900 BTUs.
- Effective for sales and purchases made after June 30, 2017.
- 10 Dealer of aviation gasoline.** Adds a definition to the fuel tax chapter defining "dealer of gasoline used as a substitute for aviation gasoline" as a person who sells gasoline on the premises of an airport to be dispensed directly into the fuel tank of an aircraft.
- Effective for sales and purchases made after June 30, 2017.
- 11 Exemptions.** Exempts gasoline purchased by a dealer of gasoline used as a substitute for aviation gasoline from the fuel excise tax.
- Effective for sales and purchases made after June 30, 2017.
- 12 Compressed natural gas tax rate.** Reduces the motor fuels tax rate for compressed natural gas (CNG) in the per thousand feet calculation of the rate from \$2.174 to \$1.974, and sets a gasoline equivalent (i.e., for comparing energy content of CNG to gasoline) in cubic feet.
- Effective for sales and purchases made after June 30, 2017.
- 13 Monthly gasoline report; shrinkage allowance.** Requires gasoline taxpayers to include in their monthly reports to the Department of Revenue (DOR) a statement of the number of gallons sold to a dealer of gasoline used as a substitute for aviation gasoline and the amount of aviation tax on gasoline used as a substitute for aviation gasoline.

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Effective for sales and purchases made after June 30, 2017.

- 14 Failure to use or sell for intended purpose; report required.** Requires a person who buys gasoline from a dealer of gasoline used as a substitute for aviation gasoline and pays the aviation tax on it, then uses it in motor vehicles or sells it knowingly to a person for use in motor vehicles, to report this to DOR.
- Effective for sales and purchases made after June 30, 2017.
- 15 Refund on a graduated basis.** Adds taxpayers who have paid aviation tax on gasoline used as a substitute for aviation gasoline, and who are licensed aerial applicators (crop dusters), to the eligible claimants for refunds on a graduated basis.
- Effective for sales and purchases made after June 30, 2017.
- 16 Retention.** Establishes recordkeeping and retention requirements for dealers of gasoline used as a substitute for aviation gasoline.
- Effective for sales and purchases made after June 30, 2017.
- 17 Premium cigar definition.** Eliminates the hand-rolled requirement in the definition of premium cigar.
- Effective date: July 1, 2017.
- 18 Rates; cigarettes.** Freezes the excise tax on cigarettes at the current rate of \$3.04 per pack.
- Effective July 1, 2017.
- 19 Premium cigars; excise tax rate.** Reduces the maximum excise tax rate on premium cigars from \$3.50 per cigar to 50 cents.
- Effective date: July 1, 2017.
- 20 Premium cigars; use tax rate.** Reduces the maximum tax rate on premium cigars from \$3.50 per cigar to 50 cents.
- Effective date: July 1, 2017.
- 21 Small winery credit.** Authorizes a credit for the alcohol excise tax for small wineries, which are defined as in or out of state wineries making less than 75,000 gallons of wine or cider per year. The credit must not exceed the lesser of the liability for tax or \$136,275. Also requires the commissioner to provide a report on the number of claims from in and out of state small wineries.
- Effective January 1, 2018.
- 22 Guaranteed distribution.** Guarantees the amount in the taconite municipal aid account under the production tax on taconite at 100 percent of the amount allocated in 1983. Under current law, the percent guaranteed decreases with production.
- Effective date:** Beginning with 2018 distributions.
- 23 Taconite economic development fund (TEDF).** Allows TEDF funds to be spent on concurrent reclamation.
- Effective date: Day following final enactment.

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- 24** **Cities; towns.** Indexes the amount of the production tax allocated to the taconite municipal aid account to inflation.
Effective date: Beginning with 2018 distributions.
- 25** **No local spending for Zip Rail.** Prohibits any city, county, or special taxing district in Development Regions 10 or 11 and the DMC entities from spending public money on the Zip Rail project, parallel to the limits on state spending in section 1. These restrictions do not apply to private contributions or if the legislature adds the Zip Rail project to the state freight and passenger rail plan.
Regions 10 and 11 include the following counties: Anoka, Carver, Dakota, Dodge, Fillmore, Freeborn, Goodhue, Hennepin, Houston, Mower, Olmsted, Rice, Scott, Steele, Wabasha, Washington, and Winona.
Effective date: Day following final enactment.
- 26** **No Metropolitan Council spending for Zip Rail.** Prohibits the Metropolitan Council from spending public money on the Zip Rail project, parallel to the limits on state spending in section 1. These restrictions do not apply to private contributions or if the legislature adds the Zip Rail project to the state freight and passenger rail plan.
Effective date: Day following final enactment.
- 27** **2010 production tax distribution; city of Cook.** Modifies the repayment provision in a 2010 law providing a one-time distribution of the production tax for road and bridge improvements in the city of Cook so that the city may sell acquired property after five years of purchase without triggering repayment. Under current law, the city must make the repayment if it sells the property within ten years.
Effective date: Day following final enactment.
- 28** **Clarification.** Clarifies that current funds in an account funded by a repealed 2007 distribution of the production tax on taconite may be spent as previously authorized and that the funds in the account do not lapse or cancel.
Effective date: retroactively to May 22, 2016.
- 29** **2017 Taconite economic development fund (TEDF) allocation.** Requires a transfer of 25.1 cents per ton from the Douglas J. Johnson economic protection fund and the taconite environmental protection fund to the TEDF for distributions in 2017.
Effective the day following final enactment.
- 30** **Supplement to 2017 report.** Requires the commissioner to supplement the 2017 tax incidence report with information regarding the distribution of federal tax required under section 5.
Effective the day following final enactment.
- 31** **Appropriation cancellation.** Cancels a 2014 appropriation from the Minnesota 21st century fund to the City of Hoyt Lakes.
- 32** **Appropriations.** Appropriates \$5 million in each of fiscal years 2018 and 2019 to the commissioner of revenue to administer provisions of this bill.

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- 33 Repealer.** Repeals the annual inflation adjustment on the cigarette excise tax and a subpart of Minnesota Rules that describes who may claim refunds for gasoline used as a substitute for aviation gasoline.

Article 10: Department of Revenue 2015-2016 Sales Suppression Provisions

- 1 Automated sales suppression devices; definitions.** Defines “automated sales suppression device,” “zapper,” and “phantom-ware” as software programs that falsify the electronic records of cash registers or create a second set of transaction records. These falsified or duplicate records are used to support underpayment of sales taxes on the actual transactions. Also defines “transaction data” and “transaction report.”
Effective August 1, 2017.
- 2 Automated sales suppression devices; penalties.** Authorizes the commissioner of revenue to assess civil penalties on persons who sell, transfer, develop, manufacture, or possess with the intent to sell or transfer automated sales suppression devices. The penalty is the greater of: (1) \$2,000; or (2) the amount of tax, penalty, and interest avoidance caused by using the device. Provides an exemption from the penalty for possession of a device to study how to combat tax evasion by the commissioner or person acting on behalf of the commissioner, law enforcement agencies, and post-secondary education institutions.
Effective August 1, 2017.
- 3 Use of automated sales suppression devices; felony.** Establishes a felony criminal penalty (maximum term of five years or \$10,000 fine or both) for the sale, purchase, installation, transfer, development, manufacture, or use of a sales suppression device knowing that the device may be used to commit tax fraud. Provides that possession of a device to study how to combat tax evasion by the commissioner or person acting on behalf of the commissioner, law enforcement agencies, and post-secondary education institutions is not a felony.
Effective August 1, 2017.
- 4 Automated sales suppression devices; contraband.** Classifies automated sales suppression devices as contraband subject to forfeiture.
Effective August 1, 2017.

**Article 11: Department of Revenue 2015-2016 Policy and Technical Provisions;
Income, Corporate Franchise, and Estate Taxes**

- 5 Information included on income tax returns.** Strikes obsolete references to telefiling of individual income tax returns.
Effective the day following final enactment.
- 6 Electronic filing requirement.** Extends the requirement that professional tax preparers submit individual income tax returns electronically to corporate, partnership, and fiduciary returns. It would also extend the \$5.00 fee for each individual income tax return submitted by a professional preparer in paper form, including returns which the taxpayer has requested the preparer to submit in paper form, to corporate, partnership, and fiduciary returns.
Effective for tax year 2017.

Section

- 7 Withholding statement.** Changes the required date for employer filing of W-2 forms with DOR from February 28 to January 31, effective for wages paid after December 31, 2016.
- Authorizes the commissioner to determine the content, format, and manner in which employers submit W-2 wage and withholding statements, and eliminates the requirement that employers submit an annual reconciliation of their quarterly withholding returns. The requirement has been rendered obsolete by the department's ability to electronically identify discrepancies in withholding accounts without the need for a separate return.
- Effective for W-2 statements and reconciliations required to be submitted to the commissioner after December 31, 2017.
- 8 Reporting of exempt interest and dividends.** Extends the requirement that regulated investment companies paying \$10 or more in exempt-interest dividends to a Minnesota resident report the amount paid to the recipient by February 15 of the year following the year of payment and by June 1 of the year following the year of payment to the commissioner to also apply to any person receiving \$10 or more of exempt non-Minnesota municipal bond interest or dividends and paying those amounts as nominee to an individual who is a resident of Minnesota.
- Effective for reports required to be filed after December 31, 2017.
- 9 Annual withholding returns.** Sets the threshold to file an annual withholding returns at \$500, eliminates the indexing of the threshold, and authorizes the commissioner to allow newly eligible employers to file an annual return. Changes the date when employers must file an annual return from February 28 to January 31.
- Effective for wages paid after December 31, 2016.
- 10 Annual withholding returns.** Makes a conforming change to be consistent with the provisions of section 9.
- Effective for taxable years beginning after December 31, 2016.
- 11 Partnership assessments.** Provides that assessments made on partnerships under the provisions of section 12 are joint and several liabilities of the partnership and the general partner.
- Effective the day following final enactment.
- 12 Assessments for pass-through entities.** Allows S corporation shareholders and partners to request that DOR assessments be issued to and paid by the entity after initiation of an audit. The commissioner must decide whether to grant the request based on the "best interest of the state" and the decision is not appealable to either the tax or district court.
- Effective the day following final enactment.
- 13 Long term care insurance premiums credit.** Changes a reference to the "7.5 percent income test" for deduction of medical expenses at the federal level to "adjusted gross income test," to reflect the 2013 change to the federal deduction providing that medical expenses are subject to a 10 percent of adjusted gross income test, except that the percentage remains at 7.5 percent for taxpayers age 65 and older through tax year 2016.
- Effective retroactively for taxable years beginning after December 31, 2012.

Section

- 14 Research credit base period.** Clarifies that Minnesota gross receipts must be used in all calculations of the base period for the research credit.
Effective the day following final enactment.
- 15 Allocation language; corporate franchise tax.** Replaces the term “assignable” with “allocable” in the statute that determines the amount of gain from the sale of goodwill or income from a covenant not to compete that is subject to Minnesota income or corporate franchise tax.
Effective the day following final enactment.
- 16 Partnership assessments.** Makes a conforming change to be consistent with changes in section 12.
- 17 Landlord submission of certificates of rent paid to commissioner.** Authorizes the commissioner to require owners or managing agents of residential rental property to submit certificates of rent paid (CRP) to renters, in the content, format, and manner prescribed by the commissioner. The CRP would be due by February 1 of the year following the year the rent was paid, which is the same date by which the owner or managing agent must provide CRPs to renters under current law.
Effective for CRPs relating to rent paid after December 31, 2016, but requires the commissioner to first consult with representatives of owners or managing agents to develop an implementation and administration plan that attempts to minimize financial burdens and costs of compliance.
- 18 Additions to taxable estate.** Clarifies that taxable gifts made within three years of death are subject to estate tax. Present law could be read to imply they are taxable only if they are deducted in computing the federal taxable estate, but under federal law they are never included in the federal estate because they were subject to the federal gift tax instead.
Effective retroactive to the original date for the requirement to include these gifts in the Minnesota taxable estate (gifts after June 30, 2013).
- 19 Repealer.** Repeals:
- Minnesota Rules, part 8092.1400, (annual withholding returns) to eliminate any inconsistencies with the provisions of sections 2 and 9. Effective for tax year 2017, except that notifications from DOR to employers regarding eligibility to file an annual return for taxes withheld in calendar year 2017 remain in force.
 - Minnesota Rules, part 8092.2000, which unnecessarily duplicates statutory law and contains obsolete references to DOR forms. This rule sets procedures that construction contractors must follow to demonstrate compliance with income tax withholding obligations before receiving final payment under contracts with state or local government agencies.
- Effective the day following final enactment.

Section**Article 12: Department of Revenue 2015-2016 Policy and Technical Provisions; Special Taxes and Sales and Use Taxes**

- 1** **Fire state aid.** Replaces the term “town and farmers’ mutual insurance companies” with “township mutual insurance companies,” consistent of the use of the term elsewhere in statute.
Effective the day following final enactment.
- 2** **MinnesotaCare tax; omission in excess of 25 percent.** Extends the longer statute of limitations (6.5 years versus 3.5 years) for DOR to assess tax for omissions of 25 percent or more to MinnesotaCare taxes. Present law applies this similar authority to sales and use, withholding, income, and estate taxes.
Effective the day following final enactment.
- 3** **Exemptions.** Replaces the term “town and farmers’ mutual insurance companies” with “township mutual insurance companies.”
Effective the day following final enactment.
- 4** **MinnesotaCare tax; pharmacy refund.** Provides that a request for refund of MinnesotaCare taxes for legend drugs delivered outside Minnesota must be filed on the annual return by March 15 of the year following the year in which the drugs were delivered, and that a refund will not be allowed if the initial claim for refund is filed later than one year from that date. Current law requires the refund to be claimed within 18 months of the date of delivery outside of Minnesota.
Effective for qualifying legend drugs delivered outside Minnesota after December 31, 2017.
- 5** **Petroleum tax; bulk storage or bulk storage facility definition.** Defines bulk storage or bulk storage facility for purposes of the petroleum tax chapter.
Effective the day following final enactment.
- 6** **Petroleum tax; motor fuel definition.** Modifies the definition of “motor fuel” to include gaseous forms of fuel; current law is limited to liquid fuel.
Effective the day following final enactment.
- 7** **Petroleum products definition; biobutanol.** Updates the definition of “petroleum products” to include biobutanol.
Effective the day following final enactment.
- 8** **Gasoline tax; biobutanol.** Clarifies that biobutanol blends are taxable as gasoline by adding a reference to biobutanol.
Effective day following final enactment.
- 9** **Exemptions.** Clarifies that the tax exemption applicable to air flight equipment does not include aircraft with a maximum takeoff weight of less than 30,000 pounds.
Effective for sales and purchases made after December 31, 2017.

Section

- 10** **Deposit in state airport fund.** Clarifies that the tax revenue collected from the sale or purchase of an aircraft dedicated to the state airports fund includes interest and penalties, but does not include that portion of the sales tax that is constitutionally dedicated.
Effective the day following final enactment.
- 11** **Untaxed gambling product.** Provides authority to tax all forms of gambling that are illegal under the criminal code under chapter 609. Adds a tax return filing requirement for persons or entities conducting untaxed gambling. Prohibits the commissioner from disclosing information in returns related to untaxed gambling, and provides that the information in the returns may not be used in criminal proceedings unless independently obtained.
Effective for games played or purchased after June 30, 2017.
- 12** **Solid waste management tax; recyclable materials and source-separated compostable materials.** Clarifies that the exemption from the solid waste management tax for recycling materials only applies if the price for handling the materials is separately itemized on a bill to the generator of the waste. Also updates terminology regarding the exemption for source-separated compostable materials, consistent with terms used in chapter 115A and related rules.
Effective the day following final enactment.
- 13** **Insurance premiums tax; township mutual insurance companies.** Replaces the term “town and farmers’ mutual insurance companies” with “township mutual insurance companies.”
Effective the day following final enactment.
- 14** **Firefighter relief surcharge payments.** Modifies the definition of “commissioner” to reflect that the commissioner of revenue, not the commissioner of management and budget, determines payments under the firefighter relief surcharge for cities of the first class.
Effective the day following final enactment.
- 15** **Firefighter relief surcharge payments appropriation.** Changes the appropriation for firefighter relief surcharge payments to the commissioner of revenue, not the commissioner of management and budget, since the commissioner of revenue makes the payments.
Effective the day following final enactment.
- 16** **Occupation tax net operating loss.** Strikes an obsolete net operating loss provision, which applied to tax periods for which net operating loss carryover is no longer available.
Effective the day following final enactment.

Article 13: Department of Revenue 2015-2016 Policy and Technical Provisions; Property Tax

- 1** **Income-producing property assessment data classification.** Makes property tax data related to income-producing property that is collected by the state of Minnesota for assessment purposes private or nonpublic data. Present law provides that property tax data on income-producing properties collected by political subdivisions is nonpublic.

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Effective the day following final enactment.

- 2** **Definition of air commerce.** Modifies the definition of air commerce to:
- include airline companies making three or more flights within Minnesota during a calendar year;
 - strike language related to intermittent or irregularly timed flights, for which a new definition is proposed in section 5; and
 - strike a specific exclusion from air commerce of casual transportation for hire.

Effective for assessment year 2017 and thereafter.

- 3** **Definition of flight property.** Provides that flight property does not include aircraft with a maximum takeoff weight of less than 30,000 pounds. The current law exclusion of aircraft with a gross weight of less than 30,000 pounds is stricken in section 6. Maximum takeoff weight is a standard aviation term that refers to the maximum weight at which the pilot of an aircraft is allowed to take off.

Effective for assessment year 2018 and thereafter.

- 4** **Definition of person.** Modifies the definition of “person” used for the airline flight property tax to make it consistent with the definition used for other taxes administered by the commissioner.

Effective for assessment year 2018 and thereafter.

- 5** **Definition of intermittent or irregularly timed flights.** Defines “intermittent or irregularly timed flights” as flights in which departures and arrivals are negotiated with the customer. The term also includes charter flights. Under present law the definition of this term is embedded in the definition of “air commerce,” which is modified in section 2.

Effective for assessment year 2018 and thereafter.

- 6** **Assessment of flight property.** Deletes language that excludes aircraft with a gross weight of less than 30,000 pounds and used on intermittent and irregularly timed flights from the provisions of the airline flight property tax. Section 3 excluded aircraft with “maximum takeoff weight” from the definition of “flight property,” so such aircraft will not be valued for purposes of the tax. Companies engaged in air commerce and using aircraft with maximum takeoff weights of less than 30,000 pounds and flown on intermittent and irregularly timed flights will still need to file reports.

Effective for assessment year 2018 and thereafter.

- 7** **Airline flight property tax reports.** Provides that airline companies must file reports unless the commissioner determines that the company is exempt. Also clarifies that the commissioner may prescribe the content, format, and manner of air flight property tax reports, and adds a cross-reference to the definition of “electronic signature.” The provision requiring airline companies to file reports unless determined to be exempt is effective for reports filed in 2017 and thereafter.

The provisions regarding the content, format, and manner of reports are effective the day following final enactment.

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- 8 Commissioner may file reports for airlines.** Provides that if an airline company does not file a report, the commissioner may file a report for it based on information that the commissioner has or can obtain and also may issue a notice of net tax capacity.
Effective for assessment year 2018 and thereafter.
- 9 State Board of Equalization (board) reassessment orders.** Authorizes the State Board of Equalization to issue orders to county assessors to reassess all or part of a parcel if the board determines that property has been under or over-valued and the board determines that the assessment is grossly unfair or inequitable.
Effective for assessment year 2018 and thereafter.
- 10 County Board of Appeal and Equalization proceedings minutes.** Eliminates the requirement that county boards of appeal and equalization file a printed or typewritten copy of meeting minutes with the commissioner of revenue.
Effective for county boards of appeal and equalization meetings held in 2018 and thereafter.
- 11 Personal property; pipeline companies.** Clarifies that all transportation pipelines are subject to tax as personal property without regard to the material transported through the pipeline.
Effective the day following final enactment.
- 12 Wind energy conversion systems.** Provides that in determining if the nameplate capacities of wind energy conversion systems may be combined in order to determine the total size of the system for purposes of the wind energy production tax rate, the systems must have been built within the same 12 month period, rather than within the same calendar year. This change would make the criteria consistent with that used for the solar energy production tax.
Effective for reports filed in 2018 and thereafter.
- 13 Wind energy production tax reports.** Allows the commissioner to grant an extension of time to file wind energy production tax reports for up to 15 days upon a showing of good cause.
Effective for reports filed in 2018 and thereafter.
- 14 Division of duties between local and county auditor.** Requires local assessors to enter construction and valuation data into the records as directed by the county auditor.
Effective for assessment year 2018 and thereafter.
- 15 Division of duties between local and county assessor.** Requires local assessors to enter construction and valuation data into the records as directed by the county auditor.
- 16 Valuation notice compliance.** Provides that if an assessor fails to timely mail valuation notices to taxpayers, the assessor must mail an additional valuation notice and convene a supplemental local board of appeal and equalization meeting or local review session.
Effective for valuation notices sent in 2018 and thereafter.
- 17 Blind/disabled homestead classification.** Clarifies that the market value of class 1b blind or disabled homestead property over \$50,000 is classified as either class 1a or 2a property depending upon the use of the property.

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Effective for assessment year 2018 and thereafter.

- 18 Personal property; listing and assessment in county.** Clarifies that the personal property of pipeline companies is subject to listing and assessment in the local jurisdiction without regard to the material transported through the pipeline.
Effective the day following final enactment.
- 19 Personal property; listing and assessment in county.** Clarifies that the personal property of pipeline companies is subject to listing and assessment in the local jurisdiction without regard to the material transported through the pipeline.
Effective the day following final enactment.
- 20 State assessed property tax appeals.** Provides that utility and railroad company tax court appeals of commissioner orders must be filed within 60 days from the date of the order or 90 days if an extension is granted. Also provides that in the case of a conflict between the provisions of this section and chapter 278 (district or tax court), this section prevails.
Effective for assessment year 2018.
- 21 Railroad and utility company appeals.** Makes several changes in how utilities and railroads may appeal their valuations. Companies must request an administrative appeal in writing within 30 days of the valuation. The commissioner may grant a 15 day extension to file. The appeal must include identifying information about the company, include the assessment periods, identify findings that the company disputes and identify reasons for the dispute. An appeal conference must be held within 20 days, and the commissioner must notify the company of the final determination within 30 days after the conference. Taxpayers may appeal the commissioner's determination to either tax or district court.
Effective for assessment year 2018.
- 22 Settlement of appeals.** Authorizes the commissioner to settle utility and railroad valuation appeals when it is in the best interest of the state to do so.
Effective beginning with assessment year 2018.
- 23 Administrative appeal and appeal to tax court.** Clarifies that if a taxpayer files an administrative appeal of a commissioner order and also files an appeal to tax court for that order, the administrative appeal is dismissed.
Effective beginning with assessment year 2017.
- 24 Equalization of public utility structures.** Requires the value of state-assessed public utility structures to be equalized to the level accepted by the State Board of Equalization.
Effective beginning with assessment year 2017.
- 25 Local boards of appeal and equalization.** Clarifies that the boards to which provisions related to meeting dates and times apply are the local boards of appeal and equalization.
Effective the day following final enactment.
- 26 County board of appeal and equalization valuation.** Prohibits county boards of appeal and equalization from making a change in value to benefit a property if the owner has denied the assessor access to the property. This makes the authority of county boards of appeal and

Section

equalization consistent with local boards, which are prohibited from making valuation changes if the owner has denied the assessor access.

Effective for county board of appeal and equalization meetings in 2018 and thereafter.

- 27 Public meeting announcement.** Clarifies that taxing authorities only need to announce the time and place of the regularly scheduled meetings at which the budget and levy will be discussed if they have such a meeting.
- Effective the day following final enactment.
- 28 Property tax levy reports.** Eliminates the requirement that towns with populations greater than 5,000 and communities receiving taconite aid file a property tax levy report.
- Effective the day following final enactment.
- 29 State assessed property tax appeals.** Provides that appeals of valuation notices provided by a county assessor may be filed in tax court prior to May 1 of the year in which taxes are payable, in order to clarify that the additional time to appeal valuation notices does not apply to state assessed property.
- Effective the day following final enactment.
- 30 Conveyances to public entities.** Makes technical and minor changes in the language describing the procedures for taxing districts to sell tax-forfeited land.
- Effective the day following final enactment.
- 31 Conditional use deed.** Clarifies that when a governmental subdivision wishes to purchase tax-forfeited property that it owns, but that is subject to a conditional use deed, the governmental subdivision must first re-convey the land subject to the conditional use deed to the commissioner of revenue before the commissioner may convey the property free of the use restriction back to the governmental subdivision.
- Effective the day following final enactment.
- 32 City email address.** Requires cities receiving aid to register an official email address with the commissioner.
- Effective for aids payable in 2018 and thereafter.
- 33 Aquatic invasive species prevention aid.** Requires the commissioner of natural resources to annually certify the number of watercraft launches and watercraft trailer parking spaces in each county for purposes of administering aquatic invasive species prevention aid.
- Effective for aids payable in 2018 and thereafter.
- 34 Aquatic invasive species prevention guidelines.** Requires the commissioner of natural resources to annually certify to the commissioner of revenue the counties that have complied with the requirement to establish guidelines for addressing aquatic invasive species.
- Effective for aids payable in 2018 and thereafter.
- 35 Tax-forfeited property contracts for deed.** Provides that the five-day rescission period for sales made by contracts for deed does not apply to sales of tax-forfeited property.
- Effective for sales of tax-forfeited land occurring after the day following final enactment.

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- 36 Repealer; property tax exemption for public utility project.** Restores an exemption for personal property of an electric generating facility that was inadvertently repealed in 2014. Effective retroactively from May 20, 2014.
- 37 Repealer.** (a) Repeals Minnesota Statutes, section 281.22, which is an obsolete provision that provided a one-year notice period for the expiration of redemption for properties bid in for the state prior to 1935.
- (b) Repeals the current rule regarding the equalization of public utility structures.
- Paragraph (a) is effective the day following final enactment. Paragraph (b) is effective beginning with assessment year 2017.

Article 14: Department of Revenue 2015-2016 Policy and Technical Provisions; Miscellaneous

- 1 Annual railroad returns.** Authorizes the commissioner to prescribe the content, format, and manner of annual railroad property tax returns, and defines “electronic signature” for railroad property tax returns by reference to the definition used for state tax purposes.
- Effective the day following final enactment.
- 2 Revenue recapture; income floors on medical debts; definition of debtor.** Updates the income amounts used to determine if a medical care debt may be submitted to the department’s revenue recapture system to have tax refunds applied to the debt to be the income amounts in effect for 2015, and provides for the updated amounts to be adjusted annually for inflation beginning in 2016. Also clarifies that the income of the debtor’s spouse is included in the calculation and that the spouse is considered a dependent.
- Effective retroactively to debts incurred in tax year 2015 and following years.
- 3 Data disclosure to commissioner of human services.** Authorizes the commissioner to provide information to the commissioner of human services to verify income for eligibility and premium payment under the medical assistance program.
- Effective the day following final enactment.
- 4 Commissioner’s authority; manner of returns.** Authorizes the commissioner to prescribe the manner for filing all returns required to be filed under state tax laws. Current law authorizes the commissioner to prescribe the content and format of returns.
- Effective the day following final enactment.
- 5 Prohibition against collection.** Provides that the 60 day time period used as one criterion in determining when a collection action on an order of assessment is prohibited ends 60 days after the notice date designated on the order; current law provides that the prohibition ends 60 days after the date the order is mailed.
- Effective for orders dated after December 31, 2017.
- 6 Sufficiency of notice.** Provides that a notice of an assessment of tax is sufficient if sent on or before the date designated by the commissioner in the notice.
- Effective for orders dated after December 31, 2017.

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- 7** **Time for filing; request for abatement of penalty or additional tax.** Provides that the 60 day time period for requesting abatement of a penalty or additional tax assessment begins on the notice date designated on the order notifying the taxpayer of the penalty or additional tax; current law provides that the 60 days begins on the date the order is mailed.
Effective for orders dated after December 31, 2017.
- 8** **Notice date; definition.** Modifies the definition of “notice date” to mean the date designated by the commissioner on an order adjusting tax or denying a request for abatement. Current law defines “notice date” as the date of an order or notice.
Effective for orders and notices dated after December 31, 2017.
- 9** **Administrative appeal.** Provides that if a taxpayer files an administrative appeal of an order of the commissioner and also files an appeal to Tax Court for that same order, the administrative appeal is dismissed and the commissioner is no longer required to make a determination.
Effective for administrative appeals filed after June 30, 2017.
- 10** **Sufficient notice.** Provides that a notice of an action or determination of the commissioner is sufficient if sent on or before the date designated by the commissioner in the notice.
Effective for orders dated after December 31, 2017.
- 11** **Tax preparer administrative penalty; statute of limitation.** Establishes that the statute of limitations to assess an administrative penalty against a tax return preparer for an improper return equals the amount of time allowed to assess tax. Establishes a five year statute of limitations for imposing a penalty arising from violations not related to a specific tax return.
Effective for tax preparation services provided after the day following final enactment.
- 12** **Individual tax identification number.** Clarifies that for purposes of the license clearance program, a licensing authority may accept an individual tax identification number in addition to Social Security and Minnesota business identification numbers.
Effective the day following final enactment.
- 13** **Tax court appeals; period of time to appeal.** Provides that the 60 day time period for appealing an order of the commissioner to the tax court begins on the notice date designated on the order; current law provides that the 60 days begins on the date the order is filed.
Effective for orders dated after December 31, 2017.
- 14** **Period of time to appeal orders of assessment.** Provides that the 60 day time period for appealing an order of assessment begins on the notice date designated on the order; current law provides that the 60 days begins on the date the order is filed.
Effective for orders dated after December 31, 2017.
- 15** **Application for exemption for personal property used for pollution control.** Authorizes the commissioner to prescribe the content, format, and manner of applications for exemption from the property tax on personal property for property used for pollution control, and defines “electronic signature” for pollution control personal property exemption applications.

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Effective the day following final enactment.

- 16 Application for market value exclusion for electric power generation efficiency.** Authorizes the commissioner to prescribe the content, format, and manner of applications for the market value exclusion for electric power generation efficiency, and defines “electronic signature” for market value exclusion applications.
Effective the day following final enactment.
- 17 Statement of exemption for personal property.** Authorizes the commissioner to prescribe the content, format, and manner of annual statements required taxpayers claiming exemptions for personal property, and defines “electronic signature” for annual statements related to personal property exemptions. Current law authorizes the commissioner to prescribe the “form and contents” of the statements.
Effective the day following final enactment.
- 18 Annual wind energy reports.** Changes the date when annual wind energy reports are due from February 1 to January 15, effective for reports required to be filed in 2018.
Also authorizes the commissioner to prescribe the content, format, and manner of annual reports from owners of wind energy conversion systems, and defines “electronic signature” for wind energy report. Current law authorizes the commissioner to prescribe the “form” of the reports.
Effective the day following final enactment.
- 19 Annual solar energy reports.** Authorizes the commissioner to prescribe the content, format, and manner of annual reports from owners of solar energy generating systems. Current law authorizes the commissioner to prescribe the “form” of the reports.
Effective the day following final enactment.
- 20 Certificate of value.** Authorizes the commissioner to prescribe the content, format, and manner of the certificate of value required to be filed with the county of auditor on the sale of real property. Current law authorizes the commissioner to prescribe the “form” of the reports.
Effective the day following final enactment.
- 21 Homestead application.** Authorizes the commissioner to prescribe the content, format, and manner of homestead applications. Current law authorizes the commissioner to prescribe the “format and contents” of the application.
Effective the day following final enactment.
- 22 Annual utility company reports.** Authorizes the commissioner to prescribe the content, format, and manner of annual reports from utility companies. Also authorizes the commissioner to file a report for a company if the company fails to do so.
Effective the day following final enactment.
- 23 Deed tax on school forest.** Clarifies that the deed tax for a conveyance of tax-forfeited land to a governmental subdivision for a school forest is \$1.65.
Effective the day following final enactment.

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- 24** **Income tax returns.** Authorizes the commissioner to prescribe the content, format, and manner of returns and other documents required to be filed under the individual income, fiduciary income, corporate franchise, mining, and entertainment taxes, but provides that the authorization provided does not allow the commissioner to require individuals to file income tax returns electronically.
Effective the day following final enactment.
- 25** **Withholding tax returns.** Authorizes the commissioner to prescribe the content, format, and manner of returns and other documents required to be filed under the various withholding taxes. Current law authorizes the commissioner to prescribe the “form and manner” of the returns.
Effective the day following final enactment.
- 26** **Sales and use tax returns.** Authorizes the commissioner to prescribe the content, format, and manner of sales and use tax returns. Current law authorizes the commissioner to prescribe the “form and manner” of the returns.
Effective the day following final enactment.
- 27** **Partnership return due date.** Requires partnerships to file their returns on the day the equivalent federal return is due.
Effective the day following final enactment.
- 28** **Erroneous refund statute of limitations.** Define an “erroneous refund” and clarifies that DOR has 3.5 years from the due date of the return to assess tax under a claim filed by a taxpayer, not two years after issuing a refund. This effectively reverses the Minnesota Supreme Court decision in *Connexus Energy v. Commissioner of Revenue*, 868 N.W.2d 234 (Minn. 2015).
Effective July 1, 2017
- 29** **Denial of refund claims; period of time to appeal.** Provides that the 60 day time period for appealing the denial of a refund claim begins on the notice date designated on the notice of denial; current law provides that the 60 days begins on the date the notice is issued. Also provides that actions in district court must be brought with 18 months of the notice date. Current law references the “date of denial of the claim.”
Effective for denials of claims for refunds after December 31, 2017.
- 30** **Senior citizens’ property tax deferral; forms.** Authorizes the commissioner to prescribe the content, format, and manner of all forms and documents required for the senior citizens’ deferral.
Effective the day following final enactment.
- 31** **Exempt property of educational institutions; forms.** Authorizes the commissioner to prescribe the content, format, and manner of all forms and documents related to taxation of income related to exempt property of educational institutions.
Effective the day following final enactment.

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- 32** **Gross receipts taxes; forms.** Authorizes the commissioner to prescribe the content, format, and manner of all forms and the annual returns required under gross receipts taxes.
Effective the day following final enactment.
- 33** **Petroleum and other fuels taxes; forms.** Authorizes the commissioner to prescribe the content, format, and manner of all forms and other documents required under the petroleum and other fuels taxes.
Effective the day following final enactment.
- 34** **Time for filing; request for abatement of penalty under petroleum tax.** Provides that the 60 day time period for requesting abatement of a penalty begins on the notice date designated on the order notifying the taxpayer of the penalty; current law provides that the 60 days begins on the date the notice is mailed.
Effective for orders dated after December 31, 2017.
- 35** **Tax court appeals; petroleum tax.** Provides that the 60 day time period for appealing to the Tax Court an order of the commissioner related to a tax, penalty, or interest under the petroleum tax begins on the notice date designated on the order; current law provides that the 60 days begins on the “date of the notice of the order.”
Effective for orders dated after December 31, 2017.
- 36** **Controlled substance tax; forms.** Authorizes the commissioner to prescribe the content, format, and manner of all forms and other documents required under the controlled substance tax.
Effective the day following final enactment.
- 37** **Gambling taxes; forms.** Authorizes the commissioner to prescribe the content, format, and manner of returns required under the gambling taxes.
Effective the day following final enactment.
- 38** **Gambling taxes; manufacturers’ reports.** Authorizes the commissioner to prescribe the content, format, and manner of the manufacturers’ sales reports required under the gambling taxes.
Effective the day following final enactment.
- 39** **Gambling taxes; distributors’ reports.** Authorizes the commissioner to prescribe the content, format, and manner of the distributors’ sales reports required under the gambling taxes.
Effective the day following final enactment.
- 40** **Gambling taxes; organization reports.** Authorizes the commissioner to prescribe the content, format, and manner of the reports required of organizations conducting gambling activities.
Effective the day following final enactment.
- 41** **Cigarette and tobacco taxes; monthly returns.** Authorizes the commissioner to prescribe the content, format, and manner of monthly cigarette and tobacco tax returns.

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Effective the day following final enactment.

- 42 Tax court appeals; cigarette and tobacco tax.** Provides that the 60 day time period for appealing to the tax court an order of the commissioner related to a tax, penalty, or interest under the cigarette and tobacco tax begins on the notice date designated on the order; current law provides that the 60 days begins on the “date of the notice of the order.”
Effective for orders dated after December 31, 2017.
- 43 Liquor taxes; monthly returns.** Authorizes the commissioner to prescribe the content, format, and manner of the liquor tax monthly returns.
Effective the day following final enactment.
- 44 Tax court appeals; liquor tax.** Provides that the 60 day time period for appealing to the tax court an order of the commissioner related to a tax, penalty, or interest under the liquor tax begins on the notice date designated on the order; current law provides that the 60 days begins on the “date of the notice of the order.”
Effective for orders dated after December 31, 2017.
- 45 Insurance taxes; forms.** Authorizes the commissioner to prescribe the content, format, and manner of all forms and other documents required under the insurance premiums tax.
Effective the day following final enactment.
- 46 Denial of refund claims; insurance taxes; period of time to appeal.** Provides that the 60 day time period for appealing the denial of a refund claim begins on the notice date designated on the notice of denial; current law provides that the 60 days begins on the date of the denial. Also provides that actions in district court must be brought within 180 days of the notice date. Current law references the “date of the notice of denial.”
Effective for denials of claims for refunds after December 31, 2017.
- 47 JOBZ repayment waiver; time for requesting.** Provides that the 60 day time period for requesting waiver of a repayment of JOBZ benefits begins on the notice date designated on the notice of repayment order.
Effective for orders dated after December 31, 2017.
- 48 Effective date.** Modifies the effective date for 2016 corrections bill provision relating to sustainable forest incentive act program.

Article 15: Department of Revenue 2015-2016 Sustainable Forest Incentive Act Provisions**1 Eligibility requirements.**

- Requires that forest management plans must be registered with the Department of Natural Resources. Effective for certifications filed after July 1, 2018.
- Provides that the entire parcel containing land enrolled in Reinvest in Minnesota, certain federal or state easement programs, agricultural preserves, or green acres may not be enrolled in SFIA. Effective the day following final enactment.

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- Clarifies that 2c managed forest land may not be enrolled. Effective for certifications and applications due in 2017 and thereafter.
 - Requires that a minimum of three acres be excluded from enrolled land when land is improved with a structure. Effective the day following final enactment.
- 2** **Verification of forest management plan.** Requires the commissioner of natural resources to annually verify to the commissioner of revenue that a SFIA claimant has a forest management plan on file with the Department of Natural Resources.
Effective for certifications filed after July 1, 2018.
- 3** **Repealer.** Repeals obsolete definitions and provisions related to calculating the current use value and estimated market value. The current payment is \$7 per acre.
Effective the day following final enactment.

**Article 16: Department of Revenue Individual Income, Corporate Franchise, and Estate Tax
Technical Provisions**

- 1** **Subtraction for military retirement pay.** Clarifies that a taxpayer may not claim both the credit for past military service and the subtraction for military retirement pay.
Effective retroactively for tax years beginning after December 31, 2015.
- 2** **Household income; homestead credit refund and renter property tax refund.** Corrects a reference to the Internal Reference Code relating to inflation adjustment of individual retirement account limits.
Effective the day following final enactment.
- 3** **Property tax refunds; proof of taxes paid.** Provides that a taxpayer is only required to provide a property tax statement upon request by the commissioner.
Effective for refunds based on rent paid after December 31, 2015, and property taxes payable after December 31, 2016.
- 4** **Federal estate tax credit.** Strikes an obsolete reference to the federal credit for state death taxes.
Effective the day following final enactment.
- 5** **Repealer.** Repeals Minnesota Statutes, sections 290.9743, and 290.9744, which became obsolete following the repeal of federal Financial Asset Securitization Investment Trust (FASIT) legislation in 2005.
Effective the day following final enactment.

**Article 17: Department of Revenue Property Tax and
Local Government Aid Technical Provisions**

- 1** **Flight property.** Corrects a cross-reference to the net tax capacity of the airline flight property.

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Effective the day following final enactment.

- 2 Taconite homestead credit.** Clarifies that the taconite homestead credit applies to both the homestead and nonhomestead portions of qualifying property.

Effective the day following final enactment.

- 3 Annexation requirements.** Removes the requirement that the Office of Administrative Hearings send copies of municipal boundary adjustment orders to DOR.

Effective the day following final enactment.

- 4 Population data; county program aid.** Changes references from “over age 65” to “age 65 and over” to match the age category in U.S. Census Bureau data that is used in calculating county program aid.

Effective the day following final enactment.

- 5 Town Aid.** Modifies language to correctly use the term “ratio” and by clarifying that the data to be used is the most recently available data as of January 1 of the year in which the aid is calculated.

Effective the day following final enactment.

Article 18: Department 2017 Technical Provisions: Sales and Use and Special Taxes

- 1 Local taxes.** Clarifies that when a special law grants a local government the authority to impose a local tax other than the sales tax (for example, lodging, entertainment, admissions, or food and beverage taxes), and DOR administers the local tax, then terms in the special law have the meanings given in chapter 297A or Minnesota Rules, chapter 8130, unless the special law defines them differently. Undefined terms are considered to be consistent with the department’s position as to the extent of the tax base. Provides that terms are defined in this matter regardless of whether the local government specifically or formally adopts the definitions into its local law.

Effective the day following final enactment.

- 2 Occupation tax apportionment; other ores.** Strikes obsolete language.

- 3 Occupation tax; iron ore and taconite.** Strikes obsolete language.

- 4 Production tax.** Reorganizes the subdivision and changes the term "direct reduced iron" to "direct reduced ore" consistent with the rest of the minerals chapter.

Effective the day following final enactment.

- 5 Production tax distribution.** Clarifies the distributions of production tax revenue to cities and towns affected by mining to include cities and towns within three miles of a mine pit that was actively mined by LTV in 1999.

Effective the day following final enactment.

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- 6** **Production tax distribution.** Clarifies distributions of production tax revenue to counties with an electric power plant that provides power to mining and concentrating activities in another county.

Effective the day following final enactment.

Article 19: Department 2017 Policy Provisions: Property tax and Local Government Aids

- 1** **Flight property apportionment.** Changes apportionment of the value of flight property from one-third each on total tonnage first received within the state, total flight time in the state, and revenue ton miles in the state to be based on one-half each on the percentage of revenue ton miles flown within the state and total departures within the state.
- Effective in assessment year 2018.
- 2** **Statement of exemption.** Authorizes the commissioner to determine for which types of exempt property statements of exemption must be annually filed and to publish the list on the DOR website. The commissioner's determinations are not a rule subject to the Administrative Procedures Act.
- Effective for applications for exemption submitted in 2018 and thereafter.
- 3** **Solar energy production tax reports.** Allows the commissioner to grant an extension of time to file solar energy production tax reports for up to 15 days on a showing of good cause.
- Effective for reports filed in 2018 and thereafter.
- 4** **Certificate of real estate value threshold.** Increases the threshold amount of consideration paid for real estate that triggers the need for filing a certificate of real estate value from \$1,000 to \$1,500.
- Effective for certificates of value filed after December 31, 2017.
- 5** **Certificate of real estate value; paper copies.** Removes the requirement that DOR provide paper certificate of value forms to counties; these certificates are now submitted electronically.
- Effective the day following final enactment.
- 6** **Certificate of real estate value; paper copies.** Removes the requirement that county auditors provide copies of certificates of real estate value to the assessor and DOR.
- Effective for certificates of value filed after December 31, 2017
- 7** **Property tax administrator certifications.** Provides that DOR certifications of assessors expire after four years and authorizes the commissioner to require one employee of each county performing property tax administration functions to take property tax training.
- Effective the day following final enactment.
- 8** **Homestead application.** Requires the homestead application to include the name and Social Security number of the applicant's spouse, without regard to whether the spouse lives at the homestead. Extends this requirement to the spouses of relatives who occupy relative homesteads.

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Effective beginning with homestead applications filed in 2018.

- 9 Homestead data.** Requires the annual electronic sharing of homestead data by counties with the commissioner to include the name and Social Security number of the property owner's spouse, or, for relative homesteads, the name and Social Security number of the qualifying relative's spouse.
- Effective beginning with homestead applications filed in 2018.
- 10 Proof of compliance; local boards.** Requires local boards of appeal and equalization to have at least one member attend training every four years; the powers of boards that fail to meet the requirement are transferred to the county for at least two years.
- Effective for board meetings in 2018 and following years.
- 11 Proof of compliance; county boards.** Requires county boards of appeal and equalization to have at least one member attend training every four years; the powers of boards that fail to meet the requirement are transferred to the special board of appeal and equalization for at least two years.
- Effective for board meetings in 2018 and following years.
- 12 Repealer.** Repeals section 270.074, subd. 2, which provides for alternative apportionment of air flight property on petition to the commissioner.

Article 20: Department of Revenue Sales and Use, and Special Taxes Policy Provisions

- 1 Use tax on snowmobiles.** Requires the commissioner of revenue or authorized deputy registrars acting as agents of the commissioner to collect use tax when a snowmobile is registered by an individual who does not document payment of the tax and to pay refunds of use tax paid in error.
- Effective for registrations after June 30, 2017.
- 2 Use tax on all-terrain vehicles (ATVs).** Requires the commissioner of revenue or authorized deputy registrars acting as agents of the commissioner to collect use tax when an ATV is registered by an individual who does not document payment of the tax and to pay refunds of use tax paid in error.
- Effective for registrations after June 30, 2017.
- 3 Use tax on watercraft.** Requires the commissioner of revenue or authorized deputy registrars acting as agents of the commissioner to collect use tax when a watercraft is registered by an individual who does not document payment of the tax and to pay refunds of use tax paid in error.
- Effective for registrations after June 30, 2017.
- 4 Disclosure to Department of Natural Resources (DNR).** Authorizes the commissioner of revenue to disclose return information related to sales and use taxes on snowmobiles, ATVs, and watercraft to the DNR and authorized deputy registrars of motor vehicles for use in administering use tax under sections 1 to 3.

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Effective the day following final enactment.

- 5 Disclosure to Department of Transportation.** Authorizes the commissioner of revenue to disclose return information related to sales and use taxes on aircraft to the Department of Transportation for use in administering sales and use tax on the lease, purchase, or sale of aircraft.

Effective the day following final enactment.

- 6 Purchaser refunds.** Provides that refunds for sales for resale will not be paid to purchasers if the vendor has a published no resale policy.

Effective the day following final enactment.

- 7 Agreements related to sales and use tax on snowmobiles, ATVs and watercraft.** Authorizes the commissioner of revenue to enter an agreement with the DNR commissioner, in consultation with the commissioner of public safety, so that the DNR and authorized deputy registrars of motor vehicles are agents of the commissioner of revenue to collect use tax on snowmobiles, ATVs, and watercraft from a person applying for a registration or license if the applicant cannot prove that sales or use tax was paid, that the purchase was exempt, or that the purchase was from a Minnesota dealer as provided in sections 1 to 3. The DNR and deputy registrars may issue refunds of use tax paid in error.

Effective the day following final enactment.

- 8 Motor vehicle sales tax presumption.** Provides that when a foreign business entity purchases a motor vehicle that is under the control of a Minnesota resident, the Minnesota resident is presumed the owner for sales tax purposes if two or more of six listed factors are met. The Minnesota resident is considered to be “in control” of the vehicle if the resident is a partner, member or shareholder of the foreign business entity, is insured to drive the vehicle, and operates or stores the vehicle in Minnesota for any period of time.

Effective the day following final enactment.

- 9 Returns; firefighter relief surcharge.** Reduces the number of tax returns companies file for the firefighter relief surcharge from three to two, by combining the March and May filings.

Effective for returns due after October 31, 2017.

- 10 Repealer.** Repeals Minnesota Rules, part 8125.1300, subpart 3, which addresses refunds of tax paid on gasoline used to propel aircraft and is made obsolete by the changes in article 9.

Effective the day following final enactment.

Section**Article 21: Department of Revenue Paid Preparer Policy Provisions****Overview**

Expands provisions related to individuals who prepare income tax returns to apply to paid preparers of all types of tax returns.

Authorizes the commissioner of revenue to issue a cease and desist order for improper preparer behavior.

Imposes new penalties of:

- up to \$5,000 imposed by the commissioner for each violation of a cease and desist order;
- up to \$10,000 imposed by the court for each violation of a cease and desist order; and
- \$500 for failing to provide a tax preparer identification number.

Recodifies provisions related to definitions of tax preparers, refund anticipation loans (RALs), and refund anticipation checks (RACs).

- 1 **Definitions.** Applies the definitions in section 270C.445, which currently relate only to tax preparation services, refund anticipation loans, and refund anticipation checks, which under the Revisor's instruction in section 21 are recodified from section 270C.445 to the recodified preparer provisions under this article. Under current law, section 270C.447 contains its own definition of tax preparer which section 22 repeals. The result is to consolidate definitions related to preparers in this section. Expands the definition of preparers from those who prepare individual income tax returns to include those who prepare any kind of tax return required to be filed with the commissioner of revenue, as well as claims for refunds, claims for homestead credit state refunds or renter property tax refunds, and the credit for military service in a combat zone. Clarifies that certified service providers, third-party bulk filers, and persons copying or providing other mechanical assistance are not preparers.
- 2 **Tax preparers; standards of conduct.** Adds the following prohibitions to the standards of conduct for tax preparers:
 - Failing to provide the preparer's identification number on the return if otherwise required under state or federal law.
 - Reporting household income on homestead credit state refund or renter property tax refund returns that the preparer knows or should know is inaccurate.
 - Engaging in conduct subject to civil penalty.
 - Failing to conform to the standards of conduct for preparers in administrative rules.
 - Engaging in incompetent or disreputable conduct as provided in administrative rules.
- 3 **Nongame wildlife checkoff.** Changes a reference from "form" to "claim" to be consistent with definitions in section 1.

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- 4** **Penalty; administrative order.** Prohibits preparers from applying for refunds of penalties for violations of the standards of conduct or cease and desist orders.
- Authorizes the commissioner to issue an administrative cease and desist order to a preparer who has violated the standards of conduct for preparers, the requirement that preparers issue itemized receipts, or requirements related to RALs and RACs. The administrative order is in addition to the current \$1,000 administrative penalty. The subject of a cease and desist order may request administrative review of the order under the contested case procedure by filing a hearing request within 30 days. The hearing must be conducted within ten days.
- Adds a penalty of up to \$5,000 for each violation of a cease and desist order, and may collect the penalty as an income tax liability. This penalty is in addition to the \$1,000 penalty under current law and both are allowed expedited review from the Office of Administrative Hearings.
- Adds a five year statute of limitations for imposing both the administrative penalty in current law and the proposed administrative order.
- 5** **Exchange of data; State Board of Accountancy.** Makes conforming cross-reference changes.
- 6** **Exchange of data; Lawyers Board of Professional Responsibility.** Makes conforming cross-reference changes.
- 7** **Exchange of data; commissioner of revenue.** Makes conforming cross-reference changes.
- 8** **Enforcement; civil actions.** Makes conforming cross-reference changes.
- 9** **Exemptions; enforcement provisions.** Authorizes the commissioner to impose administrative penalties and issue cease and desist orders to preparers who are otherwise exempt (attorneys, accounting professionals, enrolled agents, or an employee acting at their direction) if the individual has:
- had his or her professional license suspended for cause (other than failure to pay a professional license fee);
 - been convicted of a crime involving dishonesty or breach of trust;
 - been censured, suspended, or disbarred under U.S. Treasury Department Circular 230, governing practice before the IRS;
 - been sanctioned by a civil or criminal court; or
 - demonstrated a pattern of willful disreputable conduct.
- Also clarifies that registered accounting practitioners, registered accounting practitioner firms, and certified public accounting firms, all of which are subject to the jurisdiction of the State Board of Accountancy, are exempt from preparer regulations to the same extent as certified public accountants and other exempt individuals. Individuals acting as supervisors to exempt tax preparers are also exempt.
- 10** **Powers additional.** Clarifies that the commissioner's powers and authority related to tax preparers are in addition to the commissioner's other powers.

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- 11** **Publication of list of tax preparers subject to penalties.** Expands the list of circumstances that require the commissioner to include a preparer on the published list of preparers subject to penalty to preparers who have been:
- convicted of crimes related to identity theft;
 - subject to administrative penalty for more than one violation of the standards of conduct or regulations related to RALs and RACs;
 - issued a cease and desist order that has become final; or
 - subject to administrative penalty for failure to obey a cease and desist order.
- Publication does not apply if convictions or orders are under appeal or if the time for appeal has not expired.
- 12** **Notice to tax preparer.** Removes the requirement that the written notice to tax preparers of pending publication be made by certified mail; this will allow notice by methods other than the U.S. Mail.
- 13** **Form of list.** Conforms language related to the commissioner’s discretion over the medium and method of list publication to other changes in the article.
- 14** **Removal from list.** Extends from 90 days to three years the time period after satisfaction of the preparer’s sentence before the preparer may be removed from list; clarifies that this period includes probation and payment of penalties.
- 15** **Civil action.** Requires the court to grant a permanent injunction or other appropriate relief if the commissioner shows that the preparer has violated a law administered by the commissioner or a cease and desist order under section 4 and adds Ramsey County District Court as a venue for DOR’s civil action.
- 16** **Injunction prohibiting specific conduct.** Adds violation of a cease and desist order under section 4 to the items that may be enjoined.
- 17** **Injunction prohibiting business activities.** Changes references from “tax return preparers” to “tax preparers” consistent with the definitions in section 1.
- 18** **Enforcement of cease and desist orders.** Directs the court to consider allegations in a cease and desist order under section 4 as conclusively established for final orders.
- Grants the court new authority to enforce cease and desist orders, including an additional civil penalty of up to \$10,000 per violation of an order. Authorizes the commissioner to collect penalties as income tax liabilities. Prohibits the court from requiring the commissioner to post bond in actions under this section.
- 19** **Tax preparers; civil penalties.** Extends the current law \$500 civil penalty for reckless disregard or willful understatement of tax in chapter 289A to claims for credit for military service in a combat zone, and replaces a definition of tax preparer with a reference to the definition in section 1.
- 20** **Preparer identification number.** Imposes a \$500 civil penalty for failure to provide a tax preparer identification number. Also conforms chapter 289A requirements for provision of tax preparer identification numbers with changes in the article, including a cross-reference to

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the definition of tax preparer in section 1. This expands the requirement to additional tax types beyond the individual income tax.

21 **Revisor instruction.** Directs the Revisor to recodify subdivisions relating to RALs and RACs into a new section 270C.4551 in the next compilation of Minnesota Statutes.

22 **Repealer.** Repeals:

- section 270C.445, subdivision 1, which specifies the tax preparers subject to DOR oversight; that is replaced by the expanded definitions in section 1.
- section 270C.447, subdivision 4, a definition of tax return preparer that is replaced by the consolidated definition in section 1.