Overview

Article 1 reduces the 6% and 8% income tax rates; expands the width of the married joint brackets to twice that of the single brackets, and increases the amount of income in the lowest tax bracket.

Article 2 repeals the accelerated June sales tax payments for sales and use, liquor, and tobacco taxes.

Article 3 reduces the motor vehicle registration tax on passenger motor vehicles.

Article 4 provides agricultural assistance and eliminates all state property tax relief aid and credit programs effective for taxes payable in 2002, and places an amount equal to the total funding for these programs in a transitional aid reform account.

Article 1: Income Taxes

Overview

Decreases the current 6% rate to 5.75 in tax year 1999 and the 8.0% rate to 7.75% in tax year 2000 and following years. Eliminates the marriage penalty in Minnesota's current brackets by increasing the brackets for married couples filing joint returns to be twice as wide as the brackets for single filers. Makes similar changes in the alternative minimum tax exemption and exemption phaseout. Expands the amount of income taxed at the lowest rate by $3,190 for single filers and $6,380 for married joint filers. Allows a one-time subtraction for IRA, pension, and Keogh contributions that were subject to state income tax but not federal income tax in the early 1980s, and allows a similar one-time subtraction of ACRS depreciation for assets placed in service in 1981 and 1982.

1 IRA, Keogh, and public pension contributions. Allows individual taxpayers to subtract individual retirement account (IRA), self-employed retirement plan (Keogh), and public employee pension contributions that were deductible for federal purposes but not for state purposes. Minnesota did not
immediately adopt the expanded contributions rules for these plans under the federal Economic Recovery Tax Act of 1981. The law now allows taxpayers to deduct these contribution as they receive distributions from the plans. The bill would allow the amounts not yet deducted to be claimed in tax year 2000. The subtractions under present law that apply when distributions are received is eliminated.

2 **ACRS, individuals.** Allows individuals to claim the remaining amount of their ACRS depreciation for assets placed in service in tax years 1981 and 1982 in tax year 2000. After the federal Economic Recovery Tax Act of 1981, Minnesota did not adopt the new ACRS rules until tax year 1983. The recovery of the remaining amounts was allowed at the end of the federal recovery period. This subtraction does not apply to properties that were sold before the end of tax year 1998. These properties would be subject to the adjustment of the amount of taxable gain, as under present law.

3 **Income tax rates and brackets.** Decreases the current 6% rate to 5.75% in tax year 1999 and the 8.0% rate to 7.75% in tax year 2000 and following years. Expands the amount of income taxed at the lowest rate by $3,190 for single taxpayers, and by $6,380 for married couples filing joint returns. Sets brackets for married couples filing joint returns at twice the single brackets, eliminating the marriage penalty in Minnesota’s regular tax brackets. Increases the amount of income in the first bracket for married joint filers from $25,220 under current law to $40,880, partly due to the marriage penalty elimination and partly to the bracket expansion. The maximum tax reductions under the proposed rate and bracket changes are: $415 in tax year 1999 and $607 in tax year 2000 for married couples filing joint returns; $265 in 1999 and $408 in 2000 for heads of household; and $115 in 1999 and $209 in 2000 for single filers.

4 **Indexing.** Directs the commissioner to adjust the brackets set in section 1 for inflation beginning in tax year 2000.

5 **Alternative minimum tax exemption amount.** Increases the married joint exemption amount under the AMT from $40,000 to $60,000. The income threshold at which the exemption phases out for married joint filers is increased from $150,000 to $225,000. In both instances, this makes the amounts twice the amount for single filers, and removes the marriage penalty that results from the current law AMT exemption and phaseout structure.

6 **Income tax credit.** Allows a nonrefundable income tax credit for individuals equal to 3 percent of liability before refundable credits for tax year 1999, and equal to 1.2 percent of liability in tax year 2000.

7 **Effective date.** Sections 1 and 2 are effective beginning in tax year 2000. The rate and bracket changes in sections 3 to 5 are effective beginning in tax year 1999, with indexing beginning in tax year 2000.

### Article 2: Sales Tax

#### Overview

Sections 1 to 3, and 6 to 8 repeal the June accelerated payment requirement for sales, liquor, and cigarette and tobacco taxes. This accelerated payment requirement is currently imposed on vendors, distributors, and wholesalers with an annual tax liability of $120,000 or more. Under current law these vendors must remit 75 percent of their estimated June liability by two business days before the end of June. The remainder of the June payment is remitted with their July payment.

Section 4 exempts purchases by veterans homes and by state hospitals from the sales and use tax.

Section 5 exempts goods used in the pre-production, production, and post-production of television commercials from the sales and use tax.
1 **Return required.** Eliminates a reference to the June reporting date which is repealed in section 2.

2 **Sales and Use tax returns.** Deletes a reference to filing the June return with the July return by August 25. The June return would now be due by July 25. (Note: The return is the paperwork, the actual payment or remittance of the tax would be due on July 14.)

3 **Sales and use tax.** Deletes the requirement that vendors with annual liabilities of $120,000 or more remit 75 percent of their June liability before the end of June with the remainder remitted with the July payment by August 14th. This would make the entire June remittance due by July 14th.

4 **Sales to governments.** Expands the sales tax exemption for purchases made by hospital and nursing homes that are owned by political subdivisions to include veterans homes operated by the veterans homes board of directors and hospitals and nursing homes owned by the state.

5 **Television commercials.** Exempts purchases of goods used in pre-production, production, and post-production of television commercials from the sales tax. This exemption would not apply to machinery and equipment or to fuels used for space heating and lighting. The exemption is roughly equivalent to the current exemptions for inputs to production and taxable services.

6 **Monthly return; cigarette distributor.** Eliminates the June accelerated cigarette tax remittance for certain distributors. Currently these vendors must remit 75 percent of their estimated June payment with the payment for their May liability two business days before June 30th with the remainder due by August 18th.

7 **Monthly return; tobacco products distributor.** Eliminates the June accelerated tobacco tax remittance for certain distributors. Currently these vendors must remit 75 percent of their estimated June payment with the payment for their May liability two business days before June 30th with the remainder due by August 18th.

8 **Repealer.** Repeals various provisions related to the June accelerated tax payments for sales, tobacco and liquor taxes.

   Section 289A.60, subdivision 15 contains a penalty for underpayment or nonpayment of the June accelerated sales and use tax payment if the vendor is required to make the accelerated payment.

   Section 297F.09, subdivision 6 defines the cigarette and tobacco product distributors that are required to make June accelerated payments. Distributors with annual cigarette and tobacco taxes of $120,000 or more per year must make the June accelerated payment under current law.

   Section 297G.09, subdivision 5 requires certain liquor manufacturers and wholesalers to make June accelerated payments of liquor taxes of 75 percent of the estimated June amount. This requirement applies to a manufacturer or distributor with a liquor tax liability of $120,000 or more per year. Requires the remainder of the June liability to be remitted by August 18th and imposes a penalty for nonpayment or underpayment of the June accelerated amount.

9 **Effective dates.**

   **Article 3: Passenger Automobile Registration Tax**

   **Overview**

   This article reduces the maximum registration tax on passenger automobiles to $75 in the second and later years after initial registration. It appropriates money from the general fund to replace the reductions in revenues to the dedicated transportation funds.

   **Passenger automobile registration tax.** Limits the tax on registration of passenger automobile (after the initial registration of a new automobile) to $75. This is effective for registrations required
to be made after December 31, 1999.

2 **Appropriation.** Transfers money from the general fund to various dedicated transportation accounts to replace the revenue lost as a result of the reduction in the registration tax.

<table>
<thead>
<tr>
<th>Fund</th>
<th>FY2000</th>
<th>FY2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trunk highway fund</td>
<td>56,367,300</td>
<td>112,734,600</td>
</tr>
<tr>
<td>County state aid fund</td>
<td>26,365,350</td>
<td>52,730,700</td>
</tr>
<tr>
<td>Municipal state aid fund</td>
<td>8,182,350</td>
<td>16,364,700</td>
</tr>
<tr>
<td>Flexible highway account</td>
<td>2,559,975</td>
<td>5,119,950</td>
</tr>
<tr>
<td>Town road account</td>
<td>1,459,425</td>
<td>2,918,850</td>
</tr>
<tr>
<td>Town bridge account</td>
<td>765,600</td>
<td>1,531,200</td>
</tr>
</tbody>
</table>

3 **Effective date.** Effective for motor vehicle registration taxes paid after December 31, 1999.

**Article 4: Agricultural Assistance and State Aid Reform**

**Overview**

Establishes an agricultural assistance program for 1999, 2000 and 2001, for farmers with incomes below $30,000 who sustain a net taxable loss from farm activities. Extends levy limits by four years, through taxes payable in 2003. Eliminates all state property tax relief aid and credit programs effective for taxes payable in 2002, and places an amount equal to the total funding for these programs in a transitional aid reform account. Delays a $30 million permanent increase in family preservation aid from CY 2000 to CY 2001.

1 **Homestead and agricultural credit aid (HACA).** Delays the transfer of $10 million from county HACA to family preservation aid by one year, from CY 2000 to CY 2001.

4 **Levy limits.** Extends current levy limit provisions for four years, from pay 2000 to pay 2003. (Under current law levy limits expire after pay '99.)

5 **Family preservation aid.** Delays the $30 million increase in family preservation aid ($20 million in new funding, $10 million transfer from HACA) by one year, from pay 2000 to pay 2001.

7 **Agricultural assistance in 1999.**

**Subdivision 1. Agricultural assistance.** Provides that payments will be made in 1999, 2000 and 2001 to qualified individuals with incomes below $30,000, equal to 10 percent of the difference between the individual's federal adjusted gross income for the previous year and $30,000.

**Subd. 2. Qualifications.** In order to qualify, an individual (or a married couple, if filing jointly) must have had in the previous year at least $30,000 of gross income from farming, and a net taxable loss from farming. The individual must file an application with the commissioner of revenue by September 1 of the current year.

**Subd. 3. Payment.** Provides that the state will begin making payments to qualified individuals on October 1 of each year. Further provides that payments made after November 15 of each year must bear interest.

**Subd. 4. Administration of payment.** Provides that payments under this section are to be considered as claims for refund of individual income taxes, and are subject to recapture.

**Subd. 5. Farm relief account.** Establishes a farm tax relief account in the general fund; amounts in the account may only be used to make payments under this section. $60 million is to be deposited into the account on June 30, 1999, $20 million of which is appropriated for each of fiscal years 2000, 2001, and 2002. $120,000 each year may be used by the commissioner of revenue for administrative
costs.

8 Aid payments. Provides that no state warrants shall be issued after FY 2002 for the following programs: property tax refund (including targeting), city and town local government aid, homestead and agricultural credit aid (HACA), disparity reduction aid, disparity reduction credit, attached machinery aid, local performance aid, police and fire aid, metro transit tax "feathering" aid, enterprise zone credit, criminal justice aid, family preservation aid, education homestead credit, county Indian casino payments, PERA aid payments, senior property tax deferral payments, and low-income housing aid. Further provides that an amount equal to the amounts that would have been expended for these programs in FY 2003 is to be deposited into a transitional aid reform account.

9 Effective dates.