Overview

This bill makes a variety of changes in several taxes.

Individual income tax. The tax rate on taxable income in the lowest rate bracket is reduced from 6 percent to 5.4 percent. Various changes are made to reduce marriage penalties -

- a subtraction is allowed to eliminate the marriage penalties that pass through from federal law in the standard deduction amounts
- a credit is allowed to offset marriage penalties in the state tax rate bracket widths
- the alternative minimum tax exemption amount is increased for married couples to be twice that of singles
- the phase-out threshold in the dependent care credit is raised for married couples to be twice those of single filers

Property tax. The market value of homesteads qualifying for the 1 percent class rate is raised from $75,000 to $115,000. The base homestead farm land value qualifying for the 0.35 percent class rate is increased from $115,000 to $135,000. The education homestead credit rate is increased and the general education levy reduced.

Sales tax. The bill reduces the general sales and motor vehicle sale tax rate from 6.5 percent to 6 percent. It also provides that starting in November, 2003 forecast general fund surpluses for the last two forecasts in a biennium will be used for permanent sales tax rate reductions, if the forecast surplus equals at least 0.5 percent of the general fund revenues for the biennium.
Motor vehicle registration tax. The bill reduces the maximum registration tax to $200 in the first year a vehicle is registered and to $75 in second and later years. General fund transfers are made to the highway user fund to offset the loss of revenue. A constitutional amendment is proposed to create a new transportation fund. Three-fifths of the motor vehicle sales tax would be dedicated to this fund. If the constitutional amendment is not adopted by the voters, the registration tax rates will revert to the levels under present law.

**Article 1: Individual Income Tax**

1. **Standard deduction.** Allows married joint filers an additional subtraction equal to the difference between the standard deduction under the federal income tax for two single filers and a married joint filer. For tax year 1999, this amount would be $1,400. Two single filers are allowed a deduction of $8,600, while a couple filing married joint qualify for $7,200 ($8,600 - $7,200 = $1,400). The amount of this subtraction is limited to married joint filers who either did not itemize or for itemizers only to the extent they would have derived a tax benefit from increasing the standard deduction to twice the amount for singles. This subtraction eliminates the marriage penalty that is implicit in the federal standard deduction amounts.

2. **Tax rates.** Reduces the tax rate that applies to the bottom bracket of income from 6 percent to 5.4 percent. The amounts of the brackets in the bill are the indexed amounts.

3. **Indexing.** Resets indexing to account for the changes made in section 2.

4. **Dependent care credit.** Doubles the threshold for phasing out the dependent care credit for married couples. This eliminates the marriage penalty in these phase-out thresholds. It will require separate phase-out calculation tables for married couples versus unmarried individuals claiming the credit.

5. **Indexing.** Resets indexing of the phase-out thresholds of the dependent care to take into the account the changes made in section 4.

6. **Marriage penalty credit.** Allows a marriage penalty credit designed to eliminate marriage penalties resulting from the rate brackets while minimizing increases in marriage bonuses. (Marriage penalties result when a married couple pays higher taxes than two single individuals with the same income. A marriage bonus results when the married couple pays less than two single individuals would.) The credit is calculated by determining hypothetical taxes for each spouse of the married couple based on the ratio of the two spouses' wages.

   The credit equals the difference between the married joint tax and the sum of these hypothetical taxes. The credit would be claimed under a look-up table. Nonresidents and part year residents would apportion the credit based on their Minnesota share of taxable income.

7. **AMT tax rate.** Reduces the tax rate under the alternative minimum tax from 7 percent to 6.8 percent.

8. **AMT tentative tax rate.** Makes a conforming change in the tentative tax for the AMT, reducing the rate from 7 percent to 6.8 percent. The tentative tax is used to calculate the AMT credit.

9. **AMT exemption amount.** Increases the AMT exemption amounts from $30,000 for single filers to $40,000; from $40,000 for a married joint filers to $80,000; and from $20,000 for a married separate filers to $40,000. The point at which the exemption begins to phase-out for married joint filers is increased to twice the threshold for single filers. These two changes eliminate the marriage penalties in the current AMT exemption amounts, as well as providing an increase in the exemption amount for all filers.

10. **AMT credit.** Makes a conforming change in the AMT credit to be consistent with the change in the rate from 7 percent to 6.8 percent.

11. **Effective date.** Provides the changes are effective for tax year 1999.

**Article 2: Property Tax**
1 **Homestead base value.** Increases the amount of residential homestead market value that qualifies for the 1 percent class rate from $75,000 to $115,000.

2 **Agricultural homestead land.** Increases the value of land and buildings (other than the house, garage, and 1 acre) that qualifies for 0.35 percent class rate from $115,000 to $135,000.

3 **Education homestead credit.** Increases the rate of the education homestead credit from 64.2 percent to 73 percent.

4 **HACA.** Provides that homestead and agricultural aid will be used to compensate local governments for the loss of tax base resulting from the changes in the homestead and agricultural homestead land class rates.

5 **PTR, rent constituting property taxes.** Increases from 19 percent to 20 percent the share of rent assumed to constitute property taxes for the property tax refund program.

6 **PTR, mobile home rent.** Increases from 19 percent to 20 percent the share of mobile site rent assumed to constitute property taxes for the property tax refund program.

7 **Repealer.** Repeals an obsolete provision in the education homestead credit.

8 **Reduction of general education levy.** Reduces the general education levy by $68 million beginning with taxes payable in 2000.

9 **Effective date.** Provides the changes are effective for property taxes payable in 2000 and PTR claims paid in 2000.

**Article 3: Sales Tax**

1 **Priority for use of surplus revenues.** Repeals the dedication of surplus revenues in even numbered year forecasts to the property tax reform account. Instead, these moneys would simply become unrestricted general fund moneys used to reduce the general sales tax rate.

2 **Sales tax rate reductions.** Reduces the sales tax rate by one-half a percentage point to 6 percent and provides for reduction in the general sales tax rate based on forecasts of sufficient surplus revenues as provided in section 3.

3 **Contingent sales tax rate reductions.** Triggers an automatic and permanent reduction in the sales tax rate, if the commissioner of finance projects a biennial general fund surplus of 0.5% or more in either a November forecast in an even numbered year or a February forecast in an odd numbered year. This rate reduction would apply to both the general sales tax and the motor vehicle sales tax. It would be calculated to the nearest one-tenth of a percentage point to use the available revenues. The reduction would take effect on the first day of the next fiscal year (i.e., the next July 1st).

4 **Effective date.** Provides this trigger mechanism would first become effective for the November, 2003 forecast. The sales tax rate reduction is effective on July 1, 2001.

**Article 4: Transportation Financing**

1 **Passenger vehicle registration tax.** Reduces the maximum registration tax in the initial year for a vehicle to $200 and to $75 in the second and subsequent years.

2 **Transportation fund.** Creates a Minnesota transportation fund in the state treasury.

   **Subd. 1. Fund created.** Creates the fund in the state treasury.

   **Subd. 2. Transportation accounts.** Creates a county transportation account and a municipal transportation account. Provides that these accounts receive from the transportation trust fund a percentage equal to the percentage the county state-aid highway fund and municipal state-aid street fund now receive from the highway user tax distribution fund (HUTDF). Allocates to the existing town road and town bridge accounts and the flexible account (an account created in 1998 to fund trunk highway turnbacks to local government) the same percentage they now receive from the HUTDF.
Provides that the percentages these accounts receive will be based on what they would have received from highway user tax revenues if auto license taxes had not been reduced under section 1.

**Subd. 3. County transportation account.** Creates the county transportation account and requires it to be allocated among the counties according to the same formula that now governs allocation of the county state-aid street fund. Allows counties to spend money received from the county transportation account for matching federal transportation aid and for any other highway or transit purpose.

**Subd. 4. Municipal transportation account.** Creates the municipal transportation account and requires it to be allocated among cities over 5,000 population according to the same formula that now governs the municipal state-aid street fund. Allows cities to spend money received from the county transportation account for matching federal transportation aid and for any other highway or transit purpose.

**Subd. 5. Appropriations.** Requires MnDOT to submit with its biennial budget a plan of appropriations from the fund, based on the state transportation plan, the statewide transportation improvement program, and statutory goals for transportation. Requires the recommendations to provide for allocating money to state agencies, local governments, and other entities to provide matching money for federal funds for highways, transit vehicle purchases, transit capital improvements, transportation enhancements, and other projects included in the statewide transportation improvement program.

**Subd. 6. Appropriation of fund balance.** Provides that any money remaining in the trust fund after appropriations under subdivision 5 will be allocated in the same manner as the highway user tax distribution fund (62 percent state trunk highways, 29 percent county state-aid highways, 9 percent municipal state-aid streets).

3 **Motor vehicle sales tax.** Deposits 60 percent of the revenues from the motor vehicle sales tax in the transportation trust fund and 40 percent in the general fund. Under present law, all of the revenue is deposited in the general fund.

4 **Constitutional amendment.** Proposes a constitutional amendment to:
   - Create a transportation trust fund to be used exclusively for highway and transit purposes.
   - Require the commissioner of transportation to make biennial recommendations to the legislature on appropriations from the fund.
   - Dedicate three-fifths of the motor vehicle sales tax revenue to the transportation trust fund.

5 **Ballot question.** Proposes the constitutional amendment in section 4 be submitted to the voters at the 2000 general election.

6 **Appropriation.** Transfers $107 million from the general fund to the highway user trust fund for fiscal year 2000. This transfer is to be made in equal monthly installments starting January, 2000. Transfers $220 million for fiscal year 2001 to be transferred in equal monthly installments.

7 **Effective date.** Provides the reduction in the registration tax is effective November 1, 1999. The transfer of the motor vehicle sales tax is effective July 1, 2001. The reduction in the registration tax reverts to the tax rates under present law and the dedication of the motor vehicle sales tax does not take effect, if the constitutional amendment is not approved by the voters.