

# HOUSE RESEARCH

## Bill Summary

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**Subject:** 2001 Sales Tax Rebate  
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### Overview

Provides for a 2001 sales tax rebate that would be paid automatically to individuals who had state or federal income tax liability in 1999, who had social security or public pension income in 1999, who filed an income tax return in order to claim a refund of withheld or estimated taxes or a refundable tax credit, or who claimed a property tax refund. Dependents with wage income would receive a rebate equal to 35% of the table amount. Individuals with positive federal taxable income, but no state income tax liability, are allowed to file a claim with the commissioner in order to claim the rebate. The minimum and maximum rebates are \$237 and \$3,250 for married couples filing joint returns and heads of household, and \$120 and \$1,625 for other filers. The total amount of the rebate equals \$852,080,000, and would be adjusted to reflect the final fiscal year 2001 surplus as certified by the commissioner of finance on July 15, 2001.

### Section

- 1      **Statement of purpose.** Describes the Legislature's intent in enacting a sales tax rebate and asserts that it is:
  - reasonable to rebate sales tax;
  - reasonable to use estimates and averages to calculate individual rebates in the absence of a practical method of determining actual sales tax amounts paid by individuals; and
  - reasonable to use the Department of Revenue's *Tax Incidence Report*, which analyzes the relationship between income and tax burdens, to estimate sales tax liability.
- 2      **Sales tax rebate.**
  - Subd. 1. Eligibility.** Defines a person eligible for a rebate as someone who was a resident of Minnesota for at least part of 1999 and filed a 1999 income tax return with at least \$1 of liability before refundable credits, before November 30, 2001, and was not claimed as a dependent on another return.

**Subds. 2 and 3. Rebate schedule.** Provide tables showing the rebate amounts by taxable income. The minimum rebate is \$237 for married couples filing joint returns and head of household filers, and \$120 for single and married separate filers. The maximum rebate is \$3,250 for married couples filing joint returns and head of household filers and \$1,625 for single and married separate filers.

**Subd. 4. Rebate for nonresidents.** Provides that individuals who were not residents of Minnesota for any part of 1999 who paid more than \$10 of consumer sales tax in that year may apply for a rebate. The rebate for nonresidents equals the lesser of 41.25 percent of the amount for which a claimant has receipts or the amount the claimant would have qualified for if they had been Minnesota resident. Claimants must apply to the commissioner by November 30, 2001.

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

**Subd. 6. Minimum rebate, social security and public pension recipients.** Provides a rebate of \$120 to recipients of social security benefits or public pension benefits who were Minnesota residents in 1999, and who do not qualify for a rebate based on having federal taxable income. Rebates will be paid to recipients of public pensions under this provision, only if the commissioner can obtain timely and reliable information from the pension administrators permitting payment of the rebate. Individuals claimed as a dependent do not qualify for the rebate.

An individual receives this rebate if it is larger than the regular rebate. This situation can occur for a married couple, if both spouses receive social security or public pension benefits and would otherwise get the minimum amount under the regular rebate; twice the amount of the rebate (\$240) for benefit recipients is slightly larger than the minimum regular rebate for married couples (\$237). This occurs because information on marital status from the Social Security Administration is apparently not available.

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

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

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

**Subd. 9. Rebate for filers with federal taxable income.** Provides a rebate to an individual who was a Minnesota resident for any part of 1999; filed a 1999 federal tax return on or before December 31, 2001; had at least a \$1 federal taxable income; but does not qualify for the rebate

because of having Minnesota tax liability. The rebate is the amount for under the rebate schedule for the filing status of the individual, based on the individual's federal taxable income plus Minnesota additions (the same income measure used for determining rebates for individuals with Minnesota liability). Dependents must report earned income to qualify for the rebate under this subdivision, and receive a rebate equal to 35 percent of the amount shown on the table for single filers.

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

**Subd. 11. Return of rebates for designated purposes.** Provides that recipients of rebate checks may endorse the check to the state for one of seven purposes:

the basic sliding fee child care program

K- 12 education for purposes such as paying heating costs or class size reductions

affordable rental housing

contaminated site cleanup

transit and highway funding to reduce congestion

higher education

nursing homes

The commissioner of revenue is directed to provide a box on the rebate mailer that the taxpayer may check to receive more information on how to return the rebate. The rebate mailer must provide a summary listing of the seven purposes.

**Subd. 12. Payment date; interest.** Requires the commissioner to begin paying rebates by 90 days after the bill is enacted in to law. Interest accrues on unpaid rebates beginning January 1, 2002.

**Subd. 13. Amended returns.** Provides that sales tax rebates will not be recomputed based on adjustments to a taxpayer's 1999 income tax return that are filed after the date the rebate is processed.

**Subd. 14. Married claimants.** Directs the commissioner to issue a joint rebate to taxpayers who filed a joint return in 1999. Allows taxpayers who filed a joint 1999 return to request a check for one-half of the joint rebate, if the original check has not been cashed. Also allows the commissioner to issue separate rebate checks to taxpayers who filed a joint return in 1999 but separate returns in 2000, or who notify the commissioner of separate addresses.

**Subd. 15. Deceased claimants.** Allows the commissioner to issue separate checks to beneficiaries of estates entitled to rebates if probate has closed before the rebate check was received. Requires the estate to provide documentation to the commissioner.

**Subd. 16. Application of other law.** Provides the rebate is covered by the data practices law that applies to other tax data and that the commissioner may retain the rebate to offset delinquent taxes. Also provides that payment of the sales tax rebate is subject to revenue recapture. It is the responsibility of the claimant agency to remit non-debtor spouses' shares of offset rebates.

**Subd. 17. Lapse of right to rebate.** Provides that the right to the rebate lapses and the rebate reverts to the general fund for rebate checks not cashed by July 1, 2003.

**Subd. 18. Appeal of rebate amount.** Provides a mechanism for taxpayers to protest if they did not receive a rebate or if they received an incorrect amount. The regular administrative and court appeal rights apply.

**Subd. 19. Fiscal year accounting; appropriation.** Specifies the rebate is an adjustment to fiscal year 2001 sales tax revenues and appropriates the amount necessary to make the rebate

payments.

**Subd. 20. Theft of rebates.** Provides that the commissioner may issue an order of assessment for the appropriate amount for a rebate check that is forged, improperly endorsed, or determined to have been issued in error or overstated. The assessment must be issued within two years unless cashing the check constituted forgery or theft, in which case no statute of limitation applies. The assessment can be appealed administratively and judicially, and collection may be commenced under chapter 289A.

**Subd. 21. Commissioner's authority.** Authorizes the commissioner to take whatever action is deemed necessary to pay the rebate. Allows the commissioner, in consultation with the department of finance and state treasurer, to contract with a private vendor to process, print, and mail the rebate checks and receive and disburse state funds when checks are cashed.

**Subd. 22. Payment by EFT.** Authorizes the commissioner of revenue to pay the rebate by electronic funds transfer to individuals who received their 2000 income tax refund by electronic funds transfer.

**Subd. 23. Adjustment of rebate schedule.** Directs the commissioner of revenue to adjust the rebate schedule and percentages proportionately to keep the total rebate estimated on the day the rebate is processed within the originally estimated cost of the schedule and within the amount of the available surplus, estimated at \$856,280,000 in the February 2001 forecast and adjusted to \$852,080,000 for \$4.2 million of fiscal year 2001 flood relief appropriations. The commissioner is directed to adjust this amount and the rebate schedule to match the actual fiscal year 2001 surplus as certified by the commissioner of finance on July 15, 2001. The rebate tables are also adjusted for returns filed after January 1, 2001, but before June 1, 2001.

3 **Appropriations.** Appropriates \$1.3 million to the commissioner of revenue to administer the rebate; \$500,000 in fiscal year 2001 and \$800,000 in fiscal year 2002.

Appropriates \$401,000 to the state treasurer to pay the cost of clearing rebate checks through commercial banks; \$278,000 in fiscal year 2001 and \$123,000 in fiscal year 2002.

4 **Effective date.** Effective the day following final enactment.