HOUSE RESEARCH

Bill Summary

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Article 1: One-time Provisions

Overview

Imposes a four percent surcharge on taxable income over $500,000 for tax years 2013 and 2014. Provides for the surcharge rate to be adjusted downward based on unrestricted general fund balances projected in the November 2013 or February 2014 economic forecast for the fiscal year 2014-2015 biennium.

Restores the education aid payment shift to 90 percent in fiscal year 2014, and eliminates the property tax recognition shift in fiscal year 2014 and makes corresponding appropriations to the commissioner of education.

Allows the sales tax exemption for capital equipment at the time of purchase.

Conforms to increased federal section 179 expensing allowances under the individual income and corporate franchise tax for tax year 2013.

1 **Additional revenues; priorities.** Adds reduction in the rate of the surcharge imposed in section 6 for tax year 2014 as the fifth priority use for unrestricted general fund balances projected for the fiscal year 2014-2015 biennium, after reduction of the property tax recognition shift. Requires the commissioner of management and budget to certify the amount available for surcharge reduction to the commissioner of revenue, and the commissioner of revenue to reduce the surcharge accordingly in one-tenth of one percent increments.

Current law provides that if a forecast shows a surplus for the general fund in the current biennium, the commissioner of management and budget must allocate the surplus in priority order:

- to the cash flow account, until it reaches $350 million;
- to the budget reserve account, until it reaches $653 million;
- to increase the school aid payment schedule to 90 percent;
- to restore previous school aid reductions and reduce the property tax recognition shift accordingly; and
- to restore the $15 million transferred in 2008 from the state airports fund to the general fund.

At present the cash flow account and budget reserve account levels equal or exceed the amounts specified. Section 3 increases the school aid payment schedule to 90 percent in FY 2014, and section 2 reduces the property tax recognition shift in FY 2014. As a result, both education shifts will be repaid and any unrestricted general fund balance projected for the fiscal year 2014-2015 biennium in the November 2013 or February 2014 economic forecast would go to reducing the surcharge rate, and, if adequate, to the airports fund.

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2 **Levy recognition; property tax early recognition shift.** Eliminates the property tax early recognition shift for fiscal years 2014 and later years.

Background. The property tax recognition shift requires school districts to recognize a portion of their property taxes in the previous fiscal year. The current property tax recognition shift is set at 48.6 percent of a school district's shiftable property tax levies.

3 **Education aid payment shift.** Restores the aid payment shift percentage to 90 for fiscal years 2014 and following years.

Background. The aid payment shift works by having the state pay only part of the aid entitlement to the schools in the current year (in twice-monthly payments), and paying the remainder of the aid owed in a "clean-up" payment in the following year (in payments primarily in September and October). The aid payment shift percentage is currently 82.5.

4 **Additions to taxable income; individuals.** Conforms to increased section 179 expensing amounts enacted in the American Taxpayer Relief Act of 2012 (ATRA) for tax year 2013.

Background. Present law requires taxpayers to add to taxable income 80 percent of the increased section 179 expensing allowed at the federal level, and then subtract one-fifth of the amount added-back in each of the five following tax years, so that the full amount is subtracted over a six-year period, rather than in one year as at the federal level. For tax year 2013, the comparable allowances are $500,000 under federal law (the allowance is phased-out for total amounts of property purchased over $2 million), as compared with $25,000 (phased-out for amounts over $100,000) under Minnesota law. Absent congressional action, in tax year 2014 the federal allowance will revert to $25,000 and the phase-out threshold to $100,000.

5 **Additions to taxable income; corporations.** Conforms to increased federal section 179 expensing amounts enacted in ATRA for tax year 2013. See section 4 for background.

6 **Income surcharge.** Imposes a surcharge for tax years 2013 and 2014. The surcharge equals four percent of taxable income in excess of $500,000 for married joint, single, and head of household filers, and in excess of $250,000 for married separate filers, estates, and trusts.

7 **Capital equipment.** Eliminates the requirement that the sales tax on capital equipment purchases be paid at the time of purchase and refunded as provided in statute. Effective for sales and purchases made after June 30, 2013.

8 **Tax collected.** Eliminates a cross reference to the collection requirement in section 7. Effective for sales and purchases made after June 30, 2013.

9 **Refund; eligible persons.** Eliminates a reference to who can apply for a refund for the upfront tax payment eliminated in section 7. Effective for sales and purchases made after June 30, 2013.

10 **Application.** Corrects a cross reference related to the repeal of the capital equipment sales tax collection requirement. Effective for sales and purchases made after June 30, 2013.

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11 **Estimated tax; penalty exemption (safe harbor).** Exempts from penalties and interest the underpayment of estimated tax before July 1, 2013, resulting from the four percent surcharge in section 6.

12 **Appropriations.** Makes the following appropriations to the commissioner of education:

- $262.6 million for the reducing the education aid payment shift to 90 percent;
- $569.9 million for eliminating the property tax recognition shift; and
- $21.7 million for additional education aids paid as a result of eliminating the property tax recognition shift.

Article 2: Homestead Credit Refund and Renter Property Tax Refund

Overview

Modifies the renter and homeowner property tax refund programs by: decreasing the income threshold percentages used to determine eligibility for the homeowner program for income levels over $19,530, making corresponding decreases in the income threshold percentages under the renter property tax refund, and increasing the maximum refund for renters across all income ranges. Renames the homeowner program the "homestead credit refund." Provides that most voluntary contributions to retirement plans are not included in household income, and all distributions from retirement plans are included in household income. Requires the commissioner to match property tax data submitted by the counties with income tax and other data collected by the Department of Revenue and notify homeowners whom the commissioner determines may be eligible for the homestead credit refund.

1 **Household income.** Modifies the definition of household income used for the property tax refund program (for both homeowners and renters) by excluding a portion of contributions to voluntary retirement plans, and including all distributions from such plans. Also modifies the addition for the federal tuition deduction to reference the Internal Revenue Code, and strikes the obsolete addition for unemployment benefits.

Background. The definition of household income used for the property tax refund program begins with federal adjusted gross income (FAGI), but then requires the taxpayer to add a number of income sources not included in federal adjusted gross income such as nontaxable social security benefits, worker's compensation benefits, veteran's benefits, etc.

Contributions. Current law includes contributions to all voluntary retirement plans in household income. Contributions to Roth individual retirement accounts (IRAs) and other Roth plans are included in FAGI in household income, and property tax refund claimants are required to add to household income nontaxable contributions to voluntary retirement

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programs such as IRAs, SEP and Keogh plans, 401(k)s and deferred compensation plans.

This section allows claimants to exclude from household income up to $5,500 in contributions, including contributions to Roth IRAs and other Roth plans. The limit on contributions is defined by reference to the contribution limit for IRAs in effect for the tax year, which equals $5,500 for tax year 2013.

Distributions. Current law includes distributions from all voluntary retirement plans, except distributions from Roth style accounts and plans, to be added to household income.

This section requires claimants to include Roth distributions in household income.

Effective date. Effective for refunds based on taxes payable in 2014 and rent paid in 2013.

2 **Homestead credit refund.** Names the homeowner property tax refund the "homestead credit refund," and provides a new schedule for the refund. The new schedule decreases the threshold percentage used to determine eligibility for the refund, for homeowners with household income between $19,500 and $105,300, with the threshold decreasing to 2.0 percent for homeowners with household incomes from $19,500 to $64,930, and the threshold percentage at the highest income levels eligible decreasing from 3.5 percent to 2.5 percent. The schedule also updates the income brackets and maximum refunds to the amounts projected to be in effect under current law for refunds based on taxes payable in 2014. The reduction in the threshold percentage allows for the number of income ranges in the schedule to be decreased from 27 to 23. Effective beginning with refunds based on taxes payable in 2014.

Background. The refund is also sometimes called the "circuit breaker," and is a state-paid refund that provides tax relief to homeowners whose property taxes are high relative to their incomes. The refund equals a percentage of property taxes paid over a threshold of income, up to a maximum amount. The income measure used is household income, a broad measure that includes most taxable and nontaxable income, after adjustment for household size. The refund schedule has 27 income brackets: the threshold percentage increases as income increases, the percentage of taxes over the threshold paid by the homeowner (the copayment) also increases as income increases, and the maximum refund decreases as income increases. For refunds based on taxes payable in 2014, the maximum income eligible is projected to be $105,500.

3 **Renter property tax refund.** Decreases the threshold percentages under the renter property tax refund to be no higher than the threshold percentages proposed for the homestead credit refund in section 2. The effect is to decrease the thresholds to be two percent for household incomes from $31,030 to $57,170, the maximum income eligible. Under current law threshold percentages for incomes from $31,030 to $57,170 increase as income increases from 2.2 percent to 3.5 percent. The reduction in the threshold percentage allows for the number of income ranges in the schedule to be decreased from 29 to 22.

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Also increases the maximum refund allowed under the renter property tax refund across all income ranges, with the maximum at the lowest income ranges increasing from $1,620 to $2,000.

Effective beginning with refunds based on rent paid in 2013.

Background. The refund is also sometimes called the "renters' credit," and is a state-paid refund that provides tax relief to renters whose property taxes are high relative to their incomes. Property tax for renters is defined to equal 17 percent of rent paid. The refund equals a percentage of property taxes paid over a threshold of income, up to a maximum amount. The income measure used is household income, a broad measure that includes most taxable and nontaxable income, after adjustment for household size. The refund schedule has 29 income brackets: the threshold percentage increases as income increases, the percentage of taxes over the threshold paid by the renter (the copayment) also increases as income increases, and the maximum refund decreases as income increases. For refunds based on taxes payable in 2014, the maximum income eligible is projected to be $57,170.

4 **Homestead credit refund and renter property tax refund; inflation adjustment.** Updates the annual inflation adjustment of the income brackets and maximum refunds for the homestead credit refund and renter property tax refund to be calculated relative to the schedules provided in sections 2 and 3.

5 **Notification of potential eligibility; report.** Directs the commissioner to undertake a one-time effort in 2014 to notify homeowners who may be eligible for the homestead credit refund, using data from the most recent income tax returns and homestead credit refund claims matched with information about current year homestead property tax information provided by county auditors. Effective for refunds based on taxes payable in 2014, with the notifications due by August 1, 2014.

Requires a report to the legislature on the notification project, due by March 15, 2015. The report is to include information on:

- the count and dollar amount of homestead credit refund claims anticipated prior to the notification;
- the number of notifications issued by county;
- the count and dollar amount of claims processed through December 31, 2014; and
- information on any other outreach efforts conducted by the department.

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Article 3: Property Tax Aids and Credits

Overview

- Replaces the current LGA formula with a new formula that makes adjustments to an individual's city aid based on its "aid gap" or the difference between its current aid and its unmet need as measured by the formula.
- The LGA appropriation is increased from the current $426 million to $486 million for 2014 and $506 million in 2015. The appropriation is increased annually beginning with aids payable in 2016 by between 2.5 percent and five percent, depending on the annual growth in (1) inflation for state and local governments, and (2) annual change in total city population.
- Increases the appropriation for County Program Aid (CPA) by $28 million per year, from $166 million to $194 million.
- Imposes a $5 annual surcharge on homeowners and automobile insurance policies. Dedicates the proceeds for specified fire and police pension purposes.
- Modifies the sustainable forest incentive act to exclude properties under conservation easements, and limits payments to one-half the property tax paid.
- Increases the disparity reduction credit, which reduces tax burdens on commercial-industrial properties in four cities on the North Dakota border.

1 **Surcharge aid accounts.** (a) Creates a surcharge fire pension aid account in the special revenue fund, to receive the proceeds of the $5 annual surcharge on homeowners insurance. Requires the commissioner of revenue to allocate the money in the accounts as follows:

(1) 17.342 percent to the Public Employees Retirement Association (PERA) for deposit in the PERA police and fire fund;

(2) 8.658 percent to municipalities employing paid firefighters who have retirement coverage in the PERA police and fire fund;

(3) 74 percent for municipalities other than those receiving money under clause (2). These are municipalities served by volunteer firefighters.

(b) Creates a surcharge police pension aid account in the special revenue fund to receive the proceeds of the annual $5 surcharge on automobile insurance. Requires the commissioner of revenue to allocate money in the account as follows:

(1) one-third as police state aid to be distributed to employing government entities; and

(2) two-thirds to PERA (for deposit as a supplemental state aid in the PERA police and fire fund) and to the Minnesota State Retirement System (for deposit as a

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supplemental state aid in the state patrol retirement fund).

(c) Requires an annual report from the executive director of PERA.

(d) Specifies the method of determining the number of firefighters and police officers employed by a municipality for purposes of aid distributions under this section.

(e) Specifies timing for payments.

(f) Provides that existing laws that prevent municipalities and relief associations from receiving state aid until financial reporting requirements have been complied with apply to amounts payable under this section.

(g) Provides an appropriation from the accounts in the special revenue fund to make the payments.

2 **Disparity reduction credit.** Increases the credit by providing that the credit will be the amount necessary to reduce the effective tax rate on commercial-industrial and apartment properties in the four border cities to two percent, versus the current 2.3 percent.

3 **Sustainable forests.** Modifies the definition of "forest land" that qualifies under the Sustainable Forest Incentive Act (SFIA) program to exclude properties on which the Lessard-Sams program has purchased conservation easements or where comparable easements have been otherwise conveyed to a governmental or nonprofit entity.

4 **Sustainable forests.** Requires participants in the SFIA program to provide a copy of their property tax statements and any other information that the commissioner requires along with the annual certification form that is required to receive a payment.

5 **Sustainable forests.** Limits the amount of the sustainable forest payment to one-half of the property tax paid.

6 **Surcharge on homeowners and auto policies.** Imposes a $5 annual surcharge on homeowners and automobile insurance. Provides that these surcharges are not considered premiums for any other purpose, and that the surcharge must be separately stated on a bill or policy declaration.

Provides for collection and administration of the surcharge, and deposit of revenues into accounts in the state general fund.

Provides that the surcharge terminates when the funding ratios of the state patrol retirement plan and the PERA police and fire plan equal or exceed 90 percent.

7 **Pre-1940 housing percentage.** "Pre-1940 housing percentage" is defined as 100 times the ratio of total occupied and vacant housing units built before 1940 to the total number of occupied and vacant housing units in the city. For East Grand Forks, the ratio of pre-1940 housing units as of the 1990 census to the total current number of housing units is used to adjust for past floods in the city. This is a need factor for medium and large cities.

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8 **Percent of housing built between 1940 and 1970.** "Percent of housing built between 1940 and 1970" is defined as 100 times the ratio of total occupied and vacant housing units built in 1940 and later, but before 1970, to the total number of occupied and vacant housing units in the city. This is a need factor for large cities.

9 **City revenue need.** Defines city revenue need per capita for each size of city:

- For cities with a population over 10,000 (large cities): Revenue need = 1.15 times the sum of (1) 4.59 times the pre-1940 housing percentage, (2) 0.662 times the percent of housing built between 1940 and 1970, (3) 169.415 times the jobs per capita, (4) a sparsity adjustment, and (5) 307.664.
- For cities with a population between 2,500 and 10,000 (medium cities): Revenue need = 1.15 times the sum of (1) 572.62, plus (2) 5.026 times the pre-1940 housing percentage, minus (3) 53.768 times household size, plus (4) 14.022 times peak population decline.
- For cities with a population less than 2,500 (small cities): Revenue need = 410 plus 0.367 times the city population over 100. But the revenue need for these cities cannot exceed $630 per capita.

Paragraph (d) provides a transition mechanism for cities between the three need formulas. For the population between 2,500 and 3,000, a city's need is based on both a percentage of its need under the small city formula and a percent of its need under the medium city formula with the percent based on the medium city formula increasing as the population nears 3,000. A similar transition is provided between the medium and large city need formulas for populations between 10,000 and 10,500.

Retains an inflation index for need measures similar to the one in current law.

10 **Jobs per capita.** "Jobs per capita" is the average number of annual employees from the quarterly census of employment and wages divided by a city's population. This is a need factor for large cities and the Department of Employment and Economic Development will be required to calculate this every two years for the 95 large cities.

11 **Peak population decline.** "Peak population decline" is a city's population decline, if any, from its highest population listed in a decennial census from 1970 or later. This is a need factor for medium cities.

12 **Sparsity adjustment.** Provides a formula adjustment in the large city revenue need measure of $100 per capita for any city with a population density of less than 150 persons per square mile.

13 **City formula aid.** "Formula aid" for Pay 2014 is a city's 2013 certified aid plus a percentage of the gap between its unmet need and its 2013 certified aid. For aids payable in 2015 and thereafter, "formula aid" is the city's formula aid from the previous year plus the gap between its unmet need and its certified (total) aid from the previous year.

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14 **City aid distribution.** A city's total aid is equal to the sum of its formula aid plus or minus any adjustments in section 15. For aids payable in 2014, no city's total aid may be less than its 2013 aid. For aids payable in 2015 and thereafter, no city's total aid may decrease from the previous year by more than $10 per capita or an amount equal to five percent of its levy in the previous year, whichever is less.

15 **Certified aid adjustments.** Provides for two aid adjustments from the formula. Paragraph (a) continues to provide the city of Warroad an extra $150,000 per year for the next five years to compensate them for a commercial property devaluation. This had been a permanent adjustment under current law.

Paragraph (b) makes an adjustment for three cities that were given temporary aid increases that end in 2013 or 2014 under current law. The reduction is gradually phased in due to the annual cap on decreases in section 14. Affected cities are Newport (an extra $75,000 for six years related to the Wacouta bridge), Crookston ($100,000 for five years related to building on a flood plain), and Mendota ($25,000 for five years related to sewer infrastructure costs).

16 **Cities.** Sets the total city aid appropriation at $486.4 million for aids payable in 2014 and $506.4 million for aids payable in 2015. Beginning with aids payable in 2016, the appropriation increases annually for inflation and population growth under section 18.

17 **Counties.** Increases county program aid by $30 million per year for aids payable in 2014 and thereafter by increasing the appropriation for "need aid" and "tax base equalization aid" each by $15 million.

18 **Inflation adjustment.** Increases the city LGA appropriation by between 2.5 percent and five percent per year based on the growth in the inflation rate for state and local government purchases and the annual growth in total city population.

19 **Repealer.** Repeals a number of provisions needed for the current LGA formula that are no longer used in the new distribution formula as well as obsolete provisions related to aid reductions over the last several years. Also repeals supplemental aid payments to Mahnomen County, the city of Mahnomen, and the Mahnomen School District.

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Article 4: Property Taxes

Overview

Makes miscellaneous changes to the property tax system, including:

- granting active duty military homeowners a six-month grace period to pay their property taxes;
- granting property tax exemptions for Target Center and the new St. Paul ballpark;
- reinstating authority for Hennepin and Ramsey Counties to impose an additional tax on mortgage registrations and deed transfers;
- providing a one-year moratorium on changes in the taxable status of property involved in the production of biofuels and related industries, and requiring the commissioner of revenue to study the issue; and
- providing for a study of the Iron Range fiscal disparities program.

1 **Evaluation and report.** Extends the maximum amount of time the Board of Water and Soil Resources (BWSR) has to evaluate a local water management entity's progress in accomplishing its plan to ten years (from five years) and allows the board to determine the frequency based on the budget and operations of the entity.

2 **Tax levy authority.** Broadens tax levy authority by allowing a county, municipality, or township to levy for implementation funds for a comprehensive watershed management plan. Also clarifies that counties may levy for the reasonable costs to soil and water conservation districts for administering and implementing programs identified in the plans.

Comprehensive watershed management plans may consist of county water plans, watershed management plans, and/or county groundwater plans, or a new option (created last session) that allows a more comprehensive plan to be approved as a replacement to such plans.

3 **Financial assistance.** Requires a county that implements a water implementation tax to raise matching funds for base grants awarded by BWSR to levy at a rate that is sufficient to generate a minimum amount (to be determined by BWSR). Authorizes the use of funds raised by metropolitan county conservation fees (a $5 fee on mortgage and deed recordings/registrations) to be used as matching funds for the base grants and to address high-priority needs in local water management plans or comprehensive watershed management plans.

4 **Cost-sharing funds.** Eliminates cost-share fund allocation requirements that required 70 percent of cost-share funds to be allocated to certain areas and no more than 20 percent to be allocated for technical and administrative assistances. Requires funds for technical assistance to be used to leverage federal or other nonstate funds or address high-priority needs in local water management plans or comprehensive watershed management plans.

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5 **Authority.** Allows soil loss ordinances adopted by counties, cities, and towns to use the soil loss tolerance for each soil type developed by BWSR, in addition to those in the United States National Resources Conservation Service Field Office Technical Guide which is currently the only approved source. (Soil loss tolerance is the maximum annual rate of soil loss by erosion that will permit crop productivity to be sustained.) Requires soil loss ordinances to be consistent with a comprehensive plan, local water management plan, or watershed management plan.

6 **Manufactured homes and park trailers.** Exempts manufactured homes and park trailers from the motor vehicle registration tax and the personal property tax if held as inventory by a limited dealer. (Currently, the inventory exemption applies only to "licensed dealers.") References a new definition of inventory contained in section 9.

7 **Manufactured home as dealer inventory.** Defines a manufactured home as dealer inventory if it is listed as inventory by a licensed or limited dealer, and is unoccupied and not available for rent. Under these conditions, it is considered part of dealer's inventory even if it is permanently connected to utilities (when located in a manufactured home park); or temporarily connected to utilities (when located at a dealer's sales center).

8 **Economic development; public purpose.** Increases the allowed time that a jurisdiction may hold property awaiting development off the tax rolls from nine years to 15 years, if the property is located in a city with a population under 20,000 located outside the metro area. *[Under current law, the allowable period is 15 years for cities under 5,000 population located outside the metro area, and nine years for all other cities.]*

9 **Certain property owned by Indian tribe.** Creates a property tax exemption for certain property located in Minneapolis owned by a federally recognized tribal government used for tribal government activities or services to members of the tribe. The bill explicitly provides that the exemption applies only to property used for non-commercial and non-residential purposes. Limits the exemption to no more than two contiguous parcels. Provides that the exemption expires with taxes payable in 2024.

10 **Target Center; property tax exemption.** Provides a property tax exemption for the Target Center. The exemption does not apply to any portion of the facility leased for business purposes unrelated to the operation of the arena, including a restaurant open more than 200 days a year.

11 **St. Paul ball park; property tax exemption.** Grants a property tax exemption for a city-owned ball park primarily used by a minor league team. The ball park remains subject to special assessments.

12 **Electric generation facility; personal property.** Provides a property tax exemption for the personal property of a new electric generation facility on which construction begins between June 1, 2013, and June 1, 2007, that: exceeds five megawatts of installed capacity, utilizes natural gas as a primary fuel, is owned and operated by a municipal power agency, is located within the service territory of a municipal power agency's utility that serves a metropolitan county, and connects directly with a municipality's substation.

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These facilities are planned for the cities of Anoka, Chaska, No. St. Paul, and Shakopee.

13 **Valuation limit for class 4d property.** Limits the taxable value for class 4d property (low-income multi-family housing) to $100,000 per housing unit for taxes payable in 2014. In succeeding years, the limit is indexed to the average rate of change in value for all class 4a ("regular" apartments) and 4d property in the state.

14 **Due dates; penalties.** Inserts a cross reference to section 15.

15 **Federal active service exception.** Grants a six-month grace period for complying with the property tax due dates for homestead property owned by an individual who is on federal active service. No late fees or penalties may be assessed during this period. The taxpayer must also provide proof of the dates of active federal service at the time of payment.

16 **Delinquent property.** Provides that property owned by an individual who is on active federal service on the property tax due date shall not be deemed delinquent. The bill moves the October 1 due date to April 16 of the following year, and under current law all property with outstanding taxes on January 1 is delinquent. This section allows the grace period while preventing the property from being deemed delinquent.

17 **Hennepin and Ramsey Counties; mortgage registry tax authorization.** Codifies the authority for Hennepin and Ramsey Counties to levy an additional mortgage registry tax in the statute governing mortgage registry taxes.

18 **Hennepin and Ramsey Counties; deed tax authorization.** Codifies the authority for Hennepin and Ramsey Counties to levy an additional deed tax in the statute governing deed taxes.

19 **Cook-Orr Hospital District.** Modifies the levy authority of the Cook-Orr Hospital District by allowing the levy to be used to purchase equipment, parts, and replacement parts for ambulances, in addition to the existing authority to purchase ambulances. Maintains the current prohibition on using the levy for operating costs. Also provides that the proceeds of the levy be divided equally between the Cook ambulance service and the Orr ambulance service.

20 **Sawyer cemetery levy.** Reinstates and makes permanent Carlton County's authority to levy in and for the unorganized territory of Sawyer for cemetery purposes. Eliminates the $1,000 annual cap on the levy. Requires local approval.

21 **Levy authority.** Extends the authority of the Northwest Minnesota Multicounty Housing and Redevelopment Authority to levy up to 25 percent of its total levy authority on its own by five years, through taxes payable in 2018.

22 **Marshall County farm homesteads.** Allows farmers in Marshall County who were forced to move away from their farms due to flooding in 2009 to continue to receive agricultural homestead classification on the farmland indefinitely, provided they continue to reside in Minnesota within 50 miles of the land. This provision was originally adopted in 2010 on a

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temporary (two-year) basis.

23 **Entertainment facilities coordination.** Directs Minneapolis and St. Paul to establish a joint governing structure for marketing, promotion, and scheduling of the Target Center in Minneapolis and the Xcel Energy Center in St. Paul by January 1, 2015.

Requires the cities to report to the legislature by February 1, 2014, their study of providing a joint governing structure, including the feasibility of placing the facilities under the Minnesota Sports Facilities Authority, which owns and operates the Metrodome and eventually the new Vikings stadium. Requires the cities to do the study with representatives of the primary professional sports team tenants of each facility – the Wild hockey team in the Xcel Center and the Timberwolves basketball team in the Target Center.

24 **Moratorium on assessment changes.** Prohibits assessors from changing current assessment practices with regard to the taxable status of property used in the production of biofuels and other industries that use similar types of equipment. Effective for taxes payable in 2014 only.

25 **Study and report.** Requires the commissioner of revenue to study the assessment of property used in the production of biofuels and other industries that use similar types of equipment, and report the findings of the study to the legislature by February 1, 2014.

26 **Reimbursement for tax abatements.** Provides for the commissioner of revenue to reimburse taxing jurisdictions for property tax abatements granted because of a tornado that damaged parts of Minneapolis and other parts of the northern metro area in 2011. The state authorized these abatements (with state reimbursements) in the 2011 tax bill, but Hennepin County's request for reimbursements was submitted after the deadline in the legislation.

27 **Iron Range Fiscal Disparities Study.**

Subd. 1. Study required. Requires the commissioner of revenue to conduct a study of the Iron Range fiscal disparities program. The study is to be completed by February 1, 2015. The charge of the study is identical to the language commissioning a study of the metro fiscal disparities program in 2010. It requires the study to analyze:

- the extent to which benefits of economic growth in the region are shared throughout the region;
- the program's impact on the variability of tax rates across the region;
- the program's impact on the distribution of homestead tax burdens in the region; and
- the relationship between program impacts and overburden.

Subd. 2. Areawide levy. Requires $75,000 to be added to the areawide levy for taxes payable in 2014 to pay for the study.

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Subd. 3. Appropriation. Appropriates money for the study to the commissioner of revenue. Provides that any unspent funds be returned to the areawide pool for taxes payable in 2016.

28 **Repealer.** Paragraph (a) repeals the June 30, 2013, expiration of cities' authority to establish new special service districts or housing improvement areas, thereby making the authorizations permanent. Paragraph (b) repeals the sunset on the Hennepin and Ramsey Counties' additional taxes on mortgage registrations and deed transfers.

Article 5: Special Taxes

Overview

This article makes changes in various special taxes. It:

- Establishes a new ten percent gross receipts tax, at the wholesale level, on sports memorabilia. This tax would only apply to memorabilia sold under a license agreement with a professional sports team.
- Modifies and increases tobacco taxes. It taxes "little cigars" as cigarettes, rather than under the other tobacco products tax, as provided by present law. The tax rate on cigarettes is also increased to 14.5 cents/cigarette on cigarettes weighing less than three pounds per thousand, and 28.3 cents/cigarette on cigarettes weighing more than three pounds per thousand. (That is an increase of $1.60/pack of 20 cigarettes.) A minimum tax is imposed on moist snuff products equal to the excise tax on a pack of 20 cigarettes.
- The health impact fee and fund are repealed (offset by increases in the regular excise taxes). The article also indexes the cigarette excise tax rate to changes in sales prices.
- Increases the excise tax rates on alcohol beverages by roughly seven cents/drink. A limited, nonrefundable credit is provided for qualified wineries and the credit for small brewers is increased.

1 **Health impact fee.** Eliminates a reference to health impact fee, which is repealed by section 19.

2 **Sports memorabilia gross receipts tax.** Imposes a new ten percent gross receipts tax at the wholesale level on sports memorabilia.

Subd. 1. Definitions. Defines sports memorabilia as items sold under a license granted by a professional sports league or team or their affiliates or subsidiaries. It includes clothing as well as trading cards, photographs, sports equipment, and souvenirs.

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Subd. 2. Imposition. Imposes a ten percent tax on the gross receipts at the whole sale level.

Subd. 3. Estimated payments; annual return. Requires the wholesaler to make estimated quarterly payments of the tax if the tax is over $500 annually, with an annual return reconciling estimates with actual amounts due by March 15 of the following year. Provides for interest on significantly underestimated quarterly payments. Requires wholesalers with more than $10,000 annual tax liability to remit the taxes electronically.

Subd. 4. Compensating use tax. Provides a compensating use tax for sale or use of sports memorabilia in the state if the wholesale gross receipts tax was not paid.

Subd. 5. Administrative provisions. Provides that the same enforcement, audit, refund, interest, and penalty provisions that apply to the state sales tax apply to this gross receipts tax.

Subd. 6. Deposition of revenues. Revenues from the tax are deposited in the general fund.

Effective for sales made after June 30, 2013.

3 **Cigarette definition.** Modifies the definition of "cigarette" to include "little cigars." This will result in this product being taxed as a cigarette, as opposed to an "other tobacco product." This definition is significantly similar to the federal definition of "cigarette."

4 **Moist snuff.** Adds a definition for "moist snuff" products. Under section **Error! Reference source not found.Error! Reference source not found.Error! Reference source not found.Error! Reference source not found.Error! Reference source not found.**, a per-container minimum tax applies to moist snuff products.

5 **Other tobacco products.** Removes "little cigars" from the definition of other tobacco products, because under the language of the bill, "little cigars" would be taxed under the same rate as other cigarettes.

6 **Cigarette tax rate.** Increases the excise tax on cigarettes from 24 mills to 141.5 mills per unit for cigarettes weighing not more than three pounds per thousand, and from 48 mills to 283 mills for cigarettes weighing more than three pounds per thousand. This is a per unit tax rate. The rate of tax per cigarette is 14.15 cents on the former and 28.3 cents on the latter.

7 **Annual indexing.** Requires the commissioner of revenue to adjust the tax rates on cigarettes and other tobacco products annually. This rate adjustment will be based on the change in the average price of cigarettes sold in Minnesota, the same basis used to annually set the in-lieu sales tax on cigarettes.

8 **Other tobacco products tax rates.** Increases the tax imposed on other tobacco products from 35 percent to 95 percent of the wholesale sales price of the product. (The health impact fee, which is repealed by section 19, makes the current total tax/fee rate on other tobacco products 70 percent, so the net increase is from 70 percent to 95 percent.) A minimum tax on individual containers of moist snuff is imposed equal to the tax on a pack of 20 cigarettes.

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This minimum rate would apply to the sale of any product if 95 percent of the wholesale price of that product is less than the minimum tax.

9 **Tobacco use tax.** Raises the use tax on tobacco products from 35 percent to 95 percent of the cost to the consumer, or the minimum tax as outlined above.

10 **Non-settlement fee.** Increases the rate of the fee on cigarettes sold by manufacturers who are not required to pay a fee in connection with a legal settlement from 1.75 cents per cigarette to 2.5 cents per cigarette.

11 **Cigarette sales tax.** Provides the rate of the tax that is in lieu of the sales tax on cigarettes will be calculated using both the regular sales tax rate and the additional legacy rate (equal to 3/8 of one percent).

12 **Wine and liquor excise tax.** Increases the excise tax rates imposed on distilled spirits, wine, and cider. Assuming one drink equals either one and a half ounces of distilled spirits or five ounces of wine, the per drink rate increase is roughly seven cents per drink.

13 **Small winery credit.** Creates a tax credit for a qualified winery. A qualified winery is defined as any winery producing less than 100,000 gallons of wine in the calendar year immediately preceding the year for which the credit is being claimed. In calculating the total production, all brands and labels must be combined. The tax credit is equal to $2.08 per gallon for the first 50,000 gallons. The credit is nonrefundable, and it cannot exceed the tax liability of the winery or $104,000 per year.

14 **Beer excise tax.** Increases the excise tax rate imposed on fermented malt beverages or beer. Assuming one drink is 12 ounces, the increase is roughly seven cents per drink on both types of beer. The small brewers credit parameters are increased, so that the credit applies to the first 50,000 barrels produced (compared to 25,000 under present law) and the maximum amount of annual production that is allowed a qualified brewer is increased from 100,000 barrels/year to 200,000 barrels/year. The credit is not refundable, and it cannot exceed a brewers tax liability or $528,250 per year. This credit applies to either strong beer or beer containing not more than 3.2 percent alcohol.

15 **Cigarette definition.** Changes the definition of cigarette in the unfair cigarette sales act, which establishes minimum pricing rules for cigarette sales, to include "little cigars," consistent with the changes made in section 3.

16 **Floor stocks tax.** Imposes a floor stock tax on cigarettes, so that the increase in the tax under section 6 will also apply to cigarettes in the inventory of retailers and wholesalers. (This prevents "stocking up" to avoid the tax increase temporarily.) This tax would be imposed on both the stamped cigarettes and unaffixed stamps in the person's possession at 12:01 a.m., July 1, 2013. The rate of the tax imposed is 80 mills per cigarette. This section also gives the commissioner of revenue authority to conduct an audit to enforce this tax, as well as the ability to levy penalties. The proceeds from this section will be deposited to the general fund.

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17 **Interim sales tax.** Requires the commissioner to adjust the weighted average retail price of cigarettes on July 1, 2013, which will be used to calculate the tax rate imposed until December 31, 2013. This, in effect, will immediately incorporate the likely price effects of the excise and health impact fee changes made by the bill in the in-lieu sales tax rate. On January 1, 2014, the commissioner will resume annual adjustments to the weighted average retail price, occurring on January 1 of each calendar year.

18 **Tobacco tax collection report.** Requires the commissioner of revenue to report to the 2014 legislature on the tobacco tax collection system, including recommendations to improve compliance of all tobacco tax programs. This report will be due by January 1, 2014.

19 **Repealer**. Repeals the health impact fee on cigarettes and tobacco products and health impact fund. The only moneys deposited in the fund are the revenues from the health impact fee. These revenues are transferred to the general fund after the certification of the amount of state health care costs.

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Article 6: Individual Income and Corporate Franchise Taxes

Overview

Imposes an 8.49 percent rate at $400,000 of taxable income for married joint filers ($226,200 for single filers, and $340,700 for heads of household).

Makes the following changes to the corporate tax:

- Repeals the special rules for foreign operating corporations (FOCs)
- Reduces the exclusion for foreign royalties
- Expands the definition of domestic corporations to include corporations incorporated in foreign countries that are defined tax havens
- Treats foreign entities, taxed under federal law as partnerships or disregarded entities, as domestic entities
- Excludes real estate investment trust (REIT) dividends from the dividend received deduction
- Indexes the corporate franchise tax minimum fee for inflation

Conforms Minnesota's individual income tax and corporate franchise tax to most federal changes enacted since April 14, 2011, on an ongoing basis beginning in tax year 2013. Laws 2013, chapter 3, conformed to most federal changes for tax year 2012. Adjusts the income brackets for the 7.05 and 7.85 percent rate to offset the revenue effect of federal conformity.

Replaces the charitable contribution deduction claimed by itemizers and the non-itemizer charitable contribution subtraction with an eight percent credit for charitable contributions.

Makes the research credit nonrefundable for both individuals and corporations.

Provides employers with a nonrefundable income tax credit for hiring qualified veterans.

Modifies the angel investment credit.

Makes various technical changes to the historic credit, and increases the fee the State Historic Preservation Office may collect from developers to offset administrative costs.

Repeals the long-term care insurance credit, the subtraction of foreign subnational taxes, and the credit for nonresidents' payment of taxes to their state of domicile

1 **Angel credit; definitions.** Provides a new definition of "liquidation event" as a conversion of a qualified investment to cash, cash and other considerations, or any other form of debt or equity interest.

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Effective date: Effective for businesses certified after June 30, 2013.

2 **Angel credit; qualifying small business.** Modifies the requirements that a small business must satisfy to qualify under the angel investment credit:

- Extends the number of years in which a business may have been in operation from ten to 20 for businesses engaged in researching, developing, or producing drugs that require U.S. Food and Drug Administration approval;
- Prohibits the business from having its securities trade on a public stock exchange before the investment is made and within 180 days after the investment is made; and
- Prohibits the business from having a liquidation event, defined in section 1, within 180 days of the date the investment qualifying for the credit was made.

Effective date: The change related to businesses engaged in developing drugs that require FDA approval is effective the day following final enactment; the other changes are effective for businesses certified after June 30, 2013.

3 **Angel credit, permitted disclosure.** Modifies the exemption from the Government Data Practices Act for disclosure of information on businesses that receive investments qualifying for the angel credit. Under present law, only the name of the qualified business may be disclosed. This section allows the mailing address, telephone number, e-mail address, contact person's name, and industry type to also be disclosed.

Effective date: Effective the day following final enactment.

4 **Update of administrative tax provisions.** Adopts federal tax administrative provisions made between April 14, 2011, and January 3, 2013, that Minnesota references for state tax administration purposes under chapter 289A. Neither of the federal acts enacted between April 14, 2011, and January 3, 2013, changed federal provisions that Minnesota provisions refer to in chapter 289A.

Effective date: Effective the day following final enactment.

5 **Time for filing.** Updates a reference in the statute providing exemptions from filing returns reflect the renumbering of subtractions from taxable income in section 12.

6 **Foreign operating corporations (FOCs).** Eliminates a reference (in the tax administration chapter) to FOCs, which are repealed by the bill.

7 **Composite returns.** Updates a reference in the statute providing filing requirements for nonresidents to reflect the renumbering of additions from taxable income in section 11.

8 **Domestic corporation definitions.** Expands the definition of "domestic corporation" to include the following foreign corporations (i.e., corporations or other entities organized under the laws of a foreign country) or other foreign entities (such as partnerships or the equivalent of LLCs):

- Incorporated in a tax haven (defined in section 9);

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- Doing sufficient business in a tax haven to be subject to tax by the tax haven and 20 percent or more of its income is attributable to the tax haven; or
- With 20 percent or more of the average of their property, payroll, and sales in the United States or that derives 20 percent or more of their income from domestic sources.
- Foreign entities, taxed under federal law as partnerships or disregarded entities, if their income is required to be included in federal taxable income.

Domestic corporations that are part of a unitary business must be included on the combined report. As a result, this will require the income and apportionment factors of these foreign entities to be reflected in the combined report and will subject them to Minnesota corporate franchise tax. Present Minnesota law excludes all foreign corporations from the combined report, except foreign sales corporations.

9 **Tax haven.** Defines "tax haven" as a list of foreign countries that have been publicly identified by both the Organization of Economic Cooperation and Development (OECD) and by the Internal Revenue Services (based on federal court documents). (Originally, these countries were on the OECD's "black list," but are now on its "gray list" because the countries have agreed to expanded tax information exchanges.) The following countries qualify under the bill:

Anguilla	Jordan
Antigua and Barbuda	Lebanon
Aruba	Liberia
Bahamas	Liechtenstein
Bahrain	Malta
Belize	Marshall Islands
Bermuda	Monaco
British Virgin Islands	Nauru
Cayman Islands	Netherlands Antilles
Cook Islands	Niue
Costa Rica	Panama
Cyprus	St. Kitts and Nevis
Dominica	St. Lucia
Gibraltar	St. Vincent and Grenadines
Grenada	Samoa
Guernsey-Sark-Alderney	Turks and Caicos
Isle of Man	Vanuatu
Jersey	

Countries are removed from the list when two conditions are satisfied:

- the United States enters into a tax treaty or similar agreement with the country that provides for sharing tax information with the Internal Revenue Service that applies to individuals and all corporations (e.g., a tax agreement relating only to insurance companies would not qualify); and

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- the foreign country imposes a tax rate of at least ten percent on a base equal to at least 90 percent of the federal corporate tax base.

10 **Update to federal definition of taxable income.** Adopts all of the federal changes to taxable income effective when the federal changes became effective for tax year 2013 and following years, with the exceptions of increased bonus depreciation and the reinstated and modified limitation on itemized deductions and phaseout of exemptions. Laws 2013, chapter 3, adopted most federal changes for tax year 2012.

The new federal law and important changes are:

The American Taxpayer Relief Act of 2012 (ATRA), Public Law 112-240, enacted January 2, 2013, made the following major changes:

Provisions Made Permanent

- Increased the adjusted gross income (AGI) thresholds for the limitation on itemized deductions to $300,000 for married joint filers, $250,000 for single filers, and $275,000 for head of household filers, indexed after tax year 2013 for inflation. *(Minnesota would not conform to this provision, but instead would retain its limitation on itemized deduction, which in tax year 2013 begins when AGI reaches $178,150, adjusted annually for inflation, and allows a new subtraction from taxable income in section 12 for the amount limited at the federal level.)*

- Increased the adjusted gross income (AGI) thresholds for the phaseout of personal and dependent exemptions to $300,000 for married joint filers, $250,000 for single filers, and $275,000 for head of household filers, indexed after tax year 2013 for inflation. *(Minnesota would not conform to this provision, but instead would retain its phaseout of exemptions, which in tax year 2013 begins when AGI reaches $267,200 for married joint filers, $178,150 for single filers, and $222,700 for heads of household, adjusted annually for inflation, and allow a new subtraction from taxable income in section 12 for the amount phased out at the federal level.)*

- Increase in the standard deduction for married joint filers to be twice that for single filers (from $10,150 to $12,200 in tax year 2013), with a corresponding increase in the standard deduction for married separate filers to equal the amount allowed for single filers. *(Minnesota conforms to the extension of the increased standard deduction for married filers in section 11 by striking the addition to taxable income of the difference between the "old" and "new" federal standard deduction amounts.)*

- Increased contribution limit for education savings accounts and allowing use of education savings accounts for elementary and secondary school expenses.

- Exclusion of up to $5,250 of employer-provided educational assistance.

- Increased income limits and unlimited time period for deduction of student loan interest – for married joint filers, income eligibility for the deduction would otherwise decrease from $125,000 to $75,000 in tax year 2013, and for single filers income

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eligibility would decrease from $60,000 to $50,000.

- Exclusion of awards under the National Health Service Corps scholarship program and related awards for health-care professionals.
- Extends increased credit rates and maximum credit amounts for the federal dependent care credit, which affect calculation of the state dependent care credit.
- Increased maximum exclusion for employer-provided adoption assistance ($12,770 in tax year 2013), adjusted annually for inflation.

Provisions Temporarily Extended Through Tax Year 2013

- Increased the section 179 expensing amount and phase-out threshold for tax years 2012 and 2013 to $500,000 and $2 million. (In Article 1, Minnesota conforms to the extension of increased section 179 amounts for tax year 2013 by limiting the addition to taxable income to tax years before 2013.)
- Extends the educator classroom expense deduction of up to $250.
- Extends the higher education tuition expense deduction. The deduction applies to up to $4,000 of qualifying expenses for taxpayers with adjusted gross income up to $65,000 ($130,000 for married joint filers), and to up to $2,000 of qualifying expenses for taxpayers with adjusted gross income over $65,000 but less than $80,000 ($130,000 to $160,000 for married joint filers).
- Extends the itemized deduction for mortgage insurance premiums.
- Extends the option for taxpayers to claim an itemized deduction for sales taxes rather than income taxes paid. (Minnesota taxpayers will not be affected by this, since present law requires any deducted sales tax to be added back in computing Minnesota tax; the same add-back is required for income taxes deducted at the federal level.)
- Extends the increase in the federal adjusted gross income limit on the amount of qualified conservation easements that may be claimed as a charitable deduction. Permanent law limits deduction of contributions of appreciated property to 20 or 30 percent of adjusted gross income, depending on the type of recipient organization. Beginning in 2006, the limit was increased to 50 percent for donations of qualified conservation easements by most taxpayers, and to 100 percent for donations made by farmers and ranchers, defined as individuals with 50 percent of gross income from farming/ranching.
- Extends parity in qualified transportation fringe benefits under which employers may exclude up to the same maximum amount per month per employee for vanpool and transit pass expenses as for parking.
- Extends the authority for individuals age 70½ or older to transfer up to $100,000 from a traditional IRA or Roth IRA directly to a qualified charity, while excluding that

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amount from adjusted gross income.

- Extends the enhanced deduction for charitable contributions of food inventory, which allows pass-through entities (S corporations, partnerships, and proprietors) to deduct contributions of food inventory under the same rules as C corporations. Instead of being limited to the basis in the food inventory, the enhanced deduction equals the lesser of basis plus one-half of the appreciation in the food inventory, or two times basis, but may not exceed ten percent of the taxpayer's net income from pass-through entities.
- Extends the special rule limiting the amount of payments from controlled subsidiaries to parent exempt organizations that are subject to the unrelated business income tax to the amount in excess of allowable payments under the arm's-length transaction rules, providing that a binding written contract between the organizations was in effect as of August 17, 2006.
- Extends preferential treatment of dividends of regulated investment companies, under which dividends paid to foreign shareholders are exempt to the extent the dividends are derived from interest income that would be exempt if it had been earned directly by the foreign shareholder.
- Extends various provisions related to depreciation and expensing, including more generous rules for leasehold and restaurant improvements, including new restaurant property and improvements to retail property (15-year straight-line recovery), motorsports entertainment complexes (seven-year recovery period), mine safety equipment, accelerated depreciation for business property on Indian reservations, and qualified film and television productions expenses.
- Extends the exception under subpart F which allows U.S. shareholders with a ten percent or greater interest in a controlled foreign corporation (banking, financing, and similar businesses) to defer recognition of active income earned by the corporation but not distributed to the shareholders.
- Extends the limit on basis adjustments in S corporation stock when S corporations donate appreciated property to the tax basis of the property rather than the fair market value (this reduces capital gain on later sales of the S corporation stock, compared with prior law).
- Extends the 100 percent exclusion for the gain on sale of qualified small business stock held for more than five years for stock acquired after September 27, 2010, and before January 1, 2012, to apply to stock acquired before January 1, 2014. The exclusion will revert to 50 percent for stock acquired on or after January 1, 2014.
- Extends the reduction in the minimum holding period to avoid the tax on built-in gains on sales of assets of S corporations that converted from C corporations from ten years to five years, allowing S corporations to sell assets held more than five years without being taxed on built-in gains.

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- Extends 50 percent bonus depreciation to tax year 2013. (Minnesota would not conform to the extension of bonus depreciation but would retain its current law requirement that taxpayers add to taxable income 80 percent of the additional depreciation amount in the first tax year, and then subtract one-fifth of the amount added back in each of the five following tax years).

- Excludes from gross income discharges of indebtedness on principal residences.

11 **Additions to federal taxable income (FTI) for individuals.** Makes changes relating to the standard deduction for married filers and the deduction of charitable contributions. Section 20 provides a new credit for charitable contributions.

Also strikes obsolete language relating to the additional standard deduction amount for motor vehicle sales taxes and real property taxes, and the exclusion for federal subsidies for prescription drug programs, all of which have expired at the federal level, as well other obsolete language, and modifies the current law addition for state income taxes deducted at the federal level to reflect the retention of Minnesota's limitation on itemized deductions.

Standard deduction for married filers. Conforms Minnesota's income tax to the increased federal standard deduction for married filers. ATRA made the increased standard deduction for married filers a permanent feature of the income tax.

Charitable contribution deduction. Requires charitable contributions deducted at the federal level to be added to FTI, subjecting this income to Minnesota tax. The addition for charitable contributions would be limited to the amount that the sum of itemized deductions, less the deduction of charitable contributions and the deduction for state income or sales tax, exceeds the standard deduction. Thus, the addition cannot be more than total itemized deductions in excess of the standard deduction.

Effective date: Tax year 2013

12 **Subtractions from FTI for individuals.** Eliminates the following subtractions from FTI:

- Charitable contribution subtraction for nonitemizers (50 percent of contributions in excess of $500)

- Foreign subnational taxes in excess of the federal foreign tax credit

Section 20 provides a new credit for charitable contributions.

Also provides new subtractions for the federal limitation on itemized deductions and phaseout of personal and dependent exemptions. The federal limitation and phaseout resulted in additions to taxable income at the federal level; this section subtracts these amounts from state taxable income. Section 11 retains Minnesota's current law limitation on itemized deductions and phaseout of exemptions, which apply at lower income thresholds than the federal limitation and phaseout. The new subtractions in this section are necessary to avoid limiting deductions and phasing out exemptions twice.

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Provides a subtraction for railroad maintenance expenses by short line railroads that qualify for the federal tax credit in an amount equal to the credit.

Also updates cross references to conform to other changes in the bill.

Effective date: Tax year 2013.

13 **Additions to FTI for corporations.** Repeals the corporate franchise tax additions to federal taxable income for FOCs' deemed dividends. Section 36 repeals the preferential treatment of FOCs. This provision eliminates the corresponding addition to income for the deemed dividends that are not derived from foreign source income.

Eliminates obsolete language related to foreign sales corporations, federal subsidies for prescription drug benefits, income excluded under section 114 of the Internal Revenue Code, and the additional deduction amount for business donations of computers.

Effective date: Tax year 2013.

14 **Subtractions from FTI for corporations.** Reduces the subtraction from federal taxable income for foreign royalties from 80 percent to 50 percent. Eliminates an obsolete subtraction for certain foreign sales corporations, which was limited to taxable years ending before January 1, 1995, and updates cross references to conform to other changes in the bill. Provides a subtraction for railroad maintenance expenses by short line railroads that qualify for the federal tax credit in an amount equal to the credit.

Effective date: Tax year 2013.

15 **State itemized deduction; definition.** Provides a definition of "state itemized deduction" equal to federal itemized deductions before the federal limitation. This definition is referenced in the changes to the existing addition to taxable income of state income taxes in section 11.

16 **Internal Revenue Code.** Adopts federal changes to federal adjusted gross income (FAGI) made between April 14, 2011, and January 3, 2013. FAGI is used for computing individual alternative minimum tax and determining withholding, and is the starting point for calculating household income, which is used to compute the dependent care and K-12 education credit. The main changes to federal adjusted gross income are described in section 10.

17 **Foreign source income definition.** Adds a definition of foreign source income to chapter 290. This language follows federal law and parallels language used by present law, which section 13 eliminates in repealing the additions for non-foreign source income of FOCs.

18 **Individual income tax rates.** Imposes a new fourth rate of 8.49 percent. The 8.49 percent rate applies at the taxable income levels shown.

Filing Status	Minnesota Taxable Income
Married joint	Over $400,000

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Married separate	Over $200,000
Single	Over $226,200
Head of household	Over $340,700

Also decreases the income levels at which the 7.05 percent and 7.85 percent rates take effect to offset the revenue reductions that result from conforming to income tax changes adopted by Congress.

	Income floor for 7.05 percent rate		Income floor for 7.85 percent rate	
	Current Law	Proposed	Current Law	Proposed
Married joint	$35,480	$31,000	$140,960	$130,000
Single	$24,270	$21,200	$79,730	$73,500
Head of household	$29,880	$26,100	$120,070	$110,700

Also updates cross references to conform to other changes in the bill.

Effective date: Tax year 2013.

19 **Inflation adjustment of brackets.** Resets the base year for adjusting the income tax brackets for inflation to 2013, using as the starting point the bracket amounts provided in section 18.

20 **Charitable contribution credit.** Allows an eight-percent nonrefundable individual income tax credit for charitable contributions made in excess of the greater of:

- $400 ($800 for married joint filers), or
- two percent of the taxpayer's adjusted gross income

Charitable contributions qualifying for the credit are subject to the same limitations as under federal law. The charitable contribution credit is allowed against both the regular tax and the alternative minimum tax.

Effective date: Tax year 2013.

21 **Dependent care credit; limitation to earned income.** Updates cross references to reflect the renumbering of subtractions from taxable income in section 12.

22 **Dependent care credit; income definition.** Updates a cross reference in the definition of household income; modifies the addition for the federal tuition deduction to reference the Internal Revenue Code, and strikes the obsolete addition for unemployment benefits.

23 **Working family credit; phaseout.** Reduces the marriage penalty in the working family credit phaseout by increasing the income level at which the credit begins to phase out for married joint filers, beginning in tax year 2013. For tax years 2013 to 2017, the threshold is increased by $5,000, with the $5,000 amount indexed for inflation from 2009, so that the

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additional phaseout amount for tax year 2013 is estimated to be $5,340. For tax year 2018 and following years, increases the threshold by $3,000, with the $3,000 amount indexed for inflation from 2008. This would match the working family credit phaseout to the federal earned income credit phaseout for tax years 2013 and following years. *(In 2011 First Special Session chapter 7, Minnesota matched the federal extension to the phaseout threshold for tax year 2011 only).*

Also updates cross references to military pay to reflect the renumbering of subtractions from taxable income in section 12.

24 **Marriage credit; calculation of earned income of lesser-earning spouse.** Strikes a reference to the add-back of the additional standard deduction amount for married filers in the calculation of the marriage credit, since Minnesota would conform to the additional amount, with the add-back repealed in section 11.

25 **Military retirement credit.** Expands the eligibility criteria for the tax credit for past military service to include any veteran who receives a pension or retirement pay for service in the military. Current law limits the credit to individuals who receive retirement pay and have either served 20 years or separated from the military due to a disability. The change would extend the credit to individuals who were honorably discharged with retirement pay after serving fewer than 20 years, which was the case with individuals discharged due to military downsizing during the 1990s.

Effective date: Tax year 2013.

26 **Research credit carryover.** Restores the 15-year carryover of research credit amounts in excess of liability to conform with the elimination of the refundability of the research credit in section 27.

Effective date: Tax year 2013.

27 **Research credit.** Makes the research credit nonrefundable. Section 26 restores the 15-year carryover of credit amounts in excess of liability.

Background. The credit applies principally to amounts expended for wages for qualifying research activities that exceed a base amount. When the research credit was first enacted in 1982, it applied to both corporate franchise and individual income tax liability. In 1987, as part of the elimination of several credits, the research credit was restricted to the corporate franchise tax. The 2010 Jobs bill extended the research credit to the individual income tax, allowing it to be claimed by owners of pass-through entities, and made it refundable for both individual and corporate claimants. The federal research credit, on which the Minnesota credit is based, is available to both corporate and individual taxpayers, and is nonrefundable.

Effective date: Tax year 2013.

28 **Definitions; historic structure rehabilitation credit.** Adds definition of the term "federal credit" to mean the federal historic structure rehabilitation credit, and of the terms "placed in service," and "qualified rehabilitation expenditures," to have the meanings given in the

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Internal Revenue Code for the federal credit.

Effective date: Effective the day following final enactment.

29 **Applications; historic credit.** Authorizes the State Historic Preservation Office (SHPO) of the Minnesota Historical Society to collect up to 0.5 percent of estimated qualified rehabilitation expenditures, up to a maximum of $35,000, as an application fee for a project. Present law limits the application fee, which is used to offset the costs of administering the credit and preparing reports, to $5,000.

Requires the SHPO to notify the developer in writing if a project is eligible for a credit. Present law requires SHPO to determine eligibility but does not require notification.

Allows determinations of the SHPO regarding project eligibility for the historic credit to be appealed through a contested case procedure under chapter 14, within 45 days of the written notification.

Effective date: Effective the day following final enactment.

30 **Assignment of credit certificates and grants; historic credit.** Allows grant agreements to provide for grants to be issued to an individual or entity other than the developer. Present law does not provide for grants to be assigned. Requires entities that are assigned a credit certificate to notify the commissioner within 30 days of being assigned a credit, in a form and manner prescribed by the commissioner. Clarifies that the pass-through of credits to owners of a pass-through entity are not considered credit assignments.

Effective date: Effective the day following final enactment.

31 **Partnerships; multiple owners; historic credit.** Allows entities with multiple owners to allocate the credit among owners based on the allocation in any "executed agreement." Current law allows allocation of the credit either based on the ownership of the entity's assets, or as specified in the entity's organizational documents.

Effective date: Effective the day following final enactment.

32 **Veterans jobs tax credit.**

Subd. 1. Definitions. Defines terms used in determining the veterans credit.

"Qualified employee" excludes individuals who are not Minnesota residents on the date of hire, or who owns a controlling interest in the company for which they are employed, or who are immediate family members of the business owner(s).

"Qualified employer" means an employer who hires a veteran, including disabled and unemployed veterans, as well as other veterans.

"Disabled veteran" is a veteran with a service connected disability rating from the USVA.

"Unemployed veteran" is a veteran who has received unemployment compensation at

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any time within two years preceding the date of hire and who was unemployed when hired.

"Date of hire" means the date on which the veteran begins working for the employer.

Subd. 2. Credit allowed. Allows a qualified employer to claim a credit for each disabled or unemployed veteran hired during the taxable year, either in the year hired or in the following year (to allow the full credit amount to be claimed for those hired near the end of a year). Sunsets the credit after tax year 2016. The credit is nonrefundable and may only be used to offset income tax liability.

Subd. 3. Credit amount. The credit equals ten percent of wages paid to a veteran, up to a maximum of:

- $1,200 for a disabled veteran
- $600 for an unemployed veteran

Disallows the credit if the employer currently employs or has previously employed the veteran.

Subd. 4. Flow-through entities. Provides for credits paid to employers that are organized as flow-through entities (partnerships, S corporations, and the like) to be passed through to the individual owners based on their pro rata shares of the business or as specified in the entity's organizational documents.

Effective date. Effective for qualifying veterans hired in tax years 2013 through 2016.

33 **Alternative minimum tax; individuals.** Strikes the deduction allowed under the alternative minimum tax (AMT) for charitable contributions. The charitable contribution credit in section 20 would apply against the AMT. Also updates cross references to reflect the changes to individual additions and subtractions in sections 11 and 12.

Effective date: Tax year 2013.

34 **AMT; corporations.** Strikes a reference to the expired federal Puerto Rico and possessions tax credit and makes conforming changes to cross references in the corporate AMT to reflect the changes to corporate additions and subtractions in sections 13 and 14.

35 **Franchise tax minimum fee.** Increases the corporate minimum fee amounts and thresholds at which the fee amounts apply. The lowest fee under present law of $100 is increased to $190; the highest fee under present law of $5,000 increases to $9,340. The thresholds at which these fees apply increase from $500,000 (for the $100 fee) to $930,000 and from $20 million (for the $5,000 fee) to $37.36 million. These amounts are based on adjusting these amounts for inflation, as measured by the Consumer Price Index, from the year in which the original fee amounts were set.

Effective date: Tax year 2013.

36 **Unitary business principle.** Eliminates the authority to exclude the income and apportionment factors of FOCs from the combined report and eliminates the deemed dividend

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deduction for 80 percent of FOC income.

In addition, Minnesota sales of no-nexus subsidiaries must be reflected in the combined report and be reported by a corporation that is subject to tax by Minnesota.

States the legislature intends that if the inclusion of foreign corporations treated as domestic corporations under the provisions of sections 8 and 9 is invalid, these provisions are nonseverable from the exclusion of all foreign corporations from the combined report.

Also clarifies that unity of ownership does not exist when two or more corporations are involved unless there is, directly or indirectly, a common owner of more than 50 percent of the business.

Effective date: Tax year 2013.

37 **REIT dividends.** Excludes real estate investment trust (REIT) dividends from the dividend received deduction allowed to corporations to the extent that the REIT dividends do not qualify for the dividend received deduction under the federal corporate tax.

Effective date: Tax year 2013.

38 **Update of references to Internal Revenue Code in the property tax refund chapter.** Adopts the federal changes that affect household income, which uses the definition of federal adjusted gross income as a starting point.

39 **Taxable income; occupation tax.** Updates a reference in the statute allowing deductions from taxable income under the occupation tax to reflect the renumbering of additions to income in section 13.

40 **Estimated tax; penalty exemption (safe harbor).** Exempts from penalties and interest the underpayment of estimated tax before September 15, 2013, resulting from the 8.49 percent income tax rate in section 18.

41 **Repealer.** Repeals the following provisions, effective in tax year 2013.

Section of Statute	**Description**
290.01 subd. 6b	Definition of FOC
290.06, subd. 22a	Nonresidents' credit for taxes paid to state of domicile
290.0672	Long term care insurance credit
290.0921, subd. 7	Definition of FOC for the corporate AMT

Section

Article 7: Estate and Gift Taxes

Overview

This article:

- Imposes a gift tax to complement or back-up the Minnesota estate tax.
- Modifies the nexus rules under the estate tax for nonresident individuals who own pass-through entities with Minnesota real estate or tangible personal property.
- Makes clarifying changes to the estate tax exclusion for qualifying small business and farm property, enacted by the 2011 legislature.

1 **Estate tax filing requirements.** Modifies the filing requirements for the estate tax to provide that taxable gifts (those in excess of the annual per-recipient, federal exclusion amount) made within three years of decedent's death must be added to the value of the estate to determine if the estate exceeds the $1 million filing requirement.

Effective date: Decedents dying after December 31, 2012.

2 **Estate tax definitions.** Makes three changes.

Federal update. Updates the estate tax for federal changes enacted through January 3, 2013, and includes the amount of taxable gifts made by the decedent within three years of death in the taxable estate. Under federal law, taxable gifts are defined as gifts of present interests that exceed the annual exclusion amount ($14,000 per recipient) or gifts of future interests of any value.

Situs rules for gifts. Provides situs rules for gifts: gifts of tangible personal property would be assigned to the place where property is normally kept or located and gifts of intangible property (e.g., cash, stocks, or other securities) would be assigned to the domicile of the donor.

Situs rules for certain nonresidents. Provides special situs rules under the estate tax for nonresidents who have ownership interests in pass-through entities that own real or tangible personal property in Minnesota. Pass-through entities are defined as:

- S corporations
- Partnerships
- Disregarded single-member LLCs
- Trusts

Under present law, ownership interests in these entities are treated as intangibles and would be assigned to the decedent's state of residence and, thus, would not be included in the

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Minnesota estate. This change assigns the situs of the real and tangible personal property as if the pass-through entity did not exist. Thus, it will include the Minnesota real and tangible personal property owned by the pass-through entity in the Minnesota estate of the decedent. If there are multiple owners of the entity, the property is assigned to the decedent based on his or her share of the capital interest in the entity.

Effective date: Decedents dying after December 31, 2012.

3 **Conforming change.** Provides that any gift tax paid on gifts included in the adjusted taxable estate and the credit allowed under section 4 reduces the estate tax due.

Effective date: Decedents dying after December 31, 2012.

4 **Nonresident decedent tax credit.** Allows a tax credit against the Minnesota estate tax for estate or inheritance tax paid to another state on property held in pass-through entities, as provided under section 2. The credit cannot exceed the Minnesota estate tax attributable to that property.

Effective date: Estates of decedents dying after December 31, 2012.

5 **Family member definition.** Clarifies that a trust whose beneficiaries are all family members qualifies as a family member for purposes of the qualified small business property and qualified farm property exclusion.

6 **Qualified small business property definition.** Modifies the qualified small business property definition for purposes of the exclusion to:

- Clarify that property held in trusts qualify for the exclusion (as property of the decedent), if they are included in the federal adjusted taxable estate.
- Clarify how the passive activity test applies to the tax year prior to the decedent’s death.
- Exclude publicly traded securities and assets not used in the operation of the trade or business from qualifying for the exemption (paralleling the treatment of cash).
- Treat replacement property of sole proprietors as meeting the three-year ownership test prior to decedent’s death if it replaced similar property.
- Exclude qualified farm property from qualifying for the exclusion; non-homestead farm property, as well as equipment, can qualify.
- Eliminates the requirement that a family member materially participate in the trade or business of the farm for three years after the decedent’s death and substitutes a test based on the federal passive activity rules.

7 **Qualified farm property definition.** Modifies the definition of qualified farm property for purposes of the exclusion to:

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- Clarify that the property must be agricultural land and owned by a person or entity that is not excluded from owning agricultural land by section 500.24.
- Remove the requirement that for three years after decedent's death a family member must continuously use the property in the operation of the trade or business.
- Require that for three years after decedent's death the property must be classified for property tax purposes as class 2a agricultural property, rather than that family material participate in the trade or business.
- Clarify that property held in trusts qualifies for the exclusion (as property of the decedent), if it is included in the federal adjusted taxable estate.

8 **Recapture tax**. Clarifies that for sole proprietor property, the qualified heir will not be treated as having disposed of an interest in the qualified property if the heir replaces qualified small business property with similar property.

9 **Definitions; gift tax.** Defines terms for purposes of the gift tax:

- Terms defined in the estate tax chapter apply to the gift tax.
- Taxable gifts are defined by reference to the federal gift tax. As a result, gifts below the annual exemption amount (for calendar year 2013, $14,000 per recipient, indexed for inflation) are excluded. Generation skipping gifts under federal law would not be treated as taxable gifts. Gifts to charities and spouses would also not be taxable, as under the federal gift tax.

10 **Gift tax imposition.** Imposes a ten percent tax on taxable gifts. A lifetime credit of $100,000 is allowed (the equivalent of a $1 million exemption). The tax does not apply to transfers of tangible personal property or real property with a situs outside of Minnesota.

11 **Gift tax returns.** Requires an individual making a taxable gift during the taxable year to file a gift tax return in the form and manner prescribed by the commissioner. If the donor dies before filing, the personal representative must file the return. The return is to include:

- Each gift
- The deductions claimed
- Description of the gift, the donee's name, address, and Social Security number
- Fair market value of non-cash gifts
- Any other information the commissioner requires

12 **Filing requirements.** Requires returns to be filed by April 15^{th} after the close of the calendar year in which the gift was made. If the donor dies, the due date is the time for filing the federal gift tax return.

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13 **Appraisal of property.** Authorizes the commissioner to require the donor or donee to show the property subject to tax and to hire suitable persons to appraise the property. The donor is required to provide a statement that the return reflects all of the taxable gifts for the year.

14 **Administrative provisions.** Imposes a payment date of April 15th following the calendar year in which the gift was made. If the donor dies, the time for payment of the federal gift tax applies. A ten-percent penalty (or $100, if greater) applies to late payments. The commissioner can extend the time for filing upon written request, filing of a tentative return, and a showing of good cause. However, tentative tax must be paid with interest (if applicable).

The taxpayer must notify the commissioner of federal changes in the value of taxable gifts within 180 days of a final determination. If a federal amended gift tax return is filed, the taxpayer must file an amended Minnesota return within 180 days.

Various special federal valuation rules apply, such as those for transfers of interests in closely held corporations and trusts.

15 **Credit against estate tax.** Provides that the amount of gift tax paid is a credit against the Minnesota estate tax to the extent that the gift is included in the Minnesota adjusted taxable estate.

Section

Article 8: Sales and Use Tax; Local Sales Taxes

Overview

Extends the existing sales tax to suites, box seats, and seat licenses in stadiums and arenas.

Increases the motor vehicle rental tax from 6.2 percent to 9.2 percent.

Exempts nonprofit car sharing organizations from the tax on short-term motor vehicle rentals.

Defines "solicitor" for purposes of determining sales tax nexus.

Provides a method for calculating the taxable paint and repair materials portion of a motor vehicle repair bill.

Allows customers to pay the sales tax on certain rent-to-own and lease-to-own used motor vehicles incrementally, with each lease payment.

Exempts sale of certain coin-operated devices.

Reinstates the lodging and food exemption for St. John's Abbey.

Provides a statewide exemption for public safety radio systems.

Provides sales tax exemptions for construction materials used in an industrial measurement manufacturing and controls facility, a biopharmaceutical manufacturing facility, and certain resort and private campground improvements.

Clarifies the treatment of accommodations intermediaries for local lodging taxes.

Modifies existing sales tax provisions in the following cities:

- Clearwater
- Central cities (St. Cloud area)
- Marshall
- Proctor
- St. Paul
- Rochester

Allows a new food and beverage tax and lodging tax in the city of Bemidji.

1 **Sale and purchase.** Expands the definition of sale for sales tax purposes to include seat licenses and the rental of suites, box seats, and similar rentals in stadiums and arenas.

Effective for sales made after June 30, 2013.

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2 **Retail sale.** Makes four changes to the definition of retail sale.

Coin-operated amusement devices. Exempts the sale of coin-operated devices whose main purpose is to provide amusement and entertainment from sales tax as a "sale for re-sale." Exempt devices would include juke boxes, pinball and video games, foosball and pool tables, photo booths, batting cages, and machines used in carnival games and rides.

Lease-to-own motor vehicles. Changes the definition of when a retail sales occurs and hence when the sales tax is owed for used motor vehicles leased on a lease-to-own or rent-to-own basis where the lease can be terminated at any time without penalty. Currently the retail tax occurs and the entire tax is owed when the lease is executed. Under the bill the tax will be owed incrementally with each lease payment.

Motor vehicle repair paint. Adds the sale of motor vehicle repair paint and materials to the definition of a taxable retail sale. Provides that the repair paint and supply portion of a bill can be calculated by multiplying the number of labor hours by an hourly consideration rate for the paint and materials. Allows the taxpayer to use another method to calculate the tax, provided that the method fairly reflects the gross receipts from the retail sale of the paint and materials. This provision does not apply to wholesale transactions at an automobile auction facility.

Certain payments to electric utilities and cooperatives. clarifies that a payment made as a contribution in aid of construction is a contract for improvement to real property and not a taxable sale.

Effective for sales, purchases, and leases entered after June 30, 2013.

3 **Motor vehicle repair paint and materials.** Defines repair paint and materials for sales tax purposes. "Motor vehicle repair paint" includes primer, body paint, clear coat, and paint thinner. "Repair materials" include items incorporated in the repair or directly consumed in the repair process. They do not include items used to clean and maintain the shop and shop equipment.

4 **Motor vehicle rental tax; rate increase; exemption for nonprofit car sharing organizations.** Increases the tax rate on car rentals from 6.2 percent to 9.2 percent. Effective for sales and purchases made after May 31, 2013.

Also exempts nonprofit car sharing organizations with individual or group members who pay the organization to use its vehicles from the tax on short-term motor vehicle rentals provided they meet the following requirements:

- Charge for the use of its vehicles on an hourly basis.
- Use unstaffed, self-service locations that are available any time of day.
- Provide vehicle maintenance, insurance, and fuel for its vehicles.

This is similar to the requirements repealed in section 5 except that it does not include the requirement that the rental rate not decrease for increased use.

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5 **Fee imposed.** Slightly expands the existing definition of nonprofit car sharing organizations qualifying for the exemption from the 5.0 percent short-term car rental fee by deleting the existing qualifying definition and linking this exemption to the qualifying requirements in the new exemption in section 4.

6 **Solicitor nexus.** Provides a definition of "solicitor" which includes residents in the state who directly or indirectly refer potential customers to a seller through an Internet Web site or similar link for a commission or other consideration. The presumption is that a retailer has nexus if the total receipts of sales to Minnesota customers generated by Internet referrals made through Web sites operated by Minnesota residents exceed $10,000 in the last 12-month period. A rebuttal process to this presumption is provided.

Retailers with a physical presence (nexus) in the state have a duty to collect sales tax under current law. Physical presence is currently defined as having property in this state or employees in this state, including "an affiliate, agent, salesperson, canvasser, or *solicitor* operating in the state."

7 **Multiple points of use.** Allows a business purchaser to use a multiple-points-of-use exemption certificate when purchasing electronically delivered goods and services that are concurrently available for use in multiple taxing jurisdictions (i.e. multi-user software licenses). The seller is exempt from collecting the tax, but the purchaser is responsible for paying the tax in the multiple jurisdictions using a consistent and uniform method of apportioning the sale.

The language is identical to language originally contained in the Streamlined Sales and Use Tax Agreement (SSUTA) and in Minnesota statute through 2008. When the language was removed as a required language from SSUTA, the state repealed it as well. However, a few states that are members of SSUTA have retained similar provisions and the staff of the governing board has indicated that a multiple-points-of-use exemption is not a problem under the current agreement.

Effective for sales and purchases made after June 30, 2013.

8 **Drugs; medical devices.** Expands the health care product exemption in the following three ways:

- exempts the purchases of all exempt drugs and medical devices if the purchase is covered by Medicare and Medicaid;
- expands the definition of exempt repair and replacement parts for durable medical equipment to include all accessories and supplies required for the use of the durable medical equipment, including items that are for single patient use; and
- changes the definition of exempt prosthetic devices to include all accessories and supplies necessary for use of the prosthetic devices.

Most health care items covered by Medicare, Medicaid, are already exempt; the majority of the expansion is to durable medical equipment not purchased for

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home use. The changes to the definitions of exempt purchases are allowed under the Streamlined Sales and Use Tax (SSUTA) agreement.

Effective for sales and purchases made after June 30, 2013.

9 **Sales to nonprofits.** Provides a cross reference to the exemption in section 11.

10 **Public safety radio communications systems.** Provides an exemption for ARMER and other emergency public safety radio systems in all counties. Currently only purchases for the ARMER system by the following counties are exempt:

- Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, and Washington Counties (the first and second phases of the ARMER system);
- Dodge, Freeborn, Fillmore, Goodhue, Houston, Mower, Olmsted, Rice, Steele, Wabasha, and Winona Counties (part of the third phase of the ARMER system); and
- Benton, Sherburne, Stearns and Wright, and Itasca Counties.

Effective for sales and purchases made after June 30, 2013.

11 **Established religious orders.** Excludes from the sales tax the sale of lodging and table food and beverages between an established religious order and an affiliated higher education institution. Defines both "established religious order" and "affiliated" for purposes of this subdivision. The effect is to reinstate the sales tax exemption St. John's Abbey lost last year when St. John's University underwent a governance restructuring in order to meet certain educational endorsement requirements. Retroactive to sales and purchases made after June 30, 2012.

12 **Nursing homes and boarding care homes.** Provides a sales tax exemption for most purchases by a nursing home or a boarding care facility. To qualify:

- the nursing home must be licensed by the state, and the boarding care home must be certified as a nursing facility under federal law;
- be an exempt 501(c)(3) entity; and
- either be certified to participate in the medical assistance program or certify to the commissioner of revenue that it does not discharge residents due to inability to inability to pay.

The exemption does not apply to the following purchases:

- construction materials purchased as part of a lump sum contract or used in constructing facilities that will not be primarily used by the nursing home or boarding care facility;
- lodging;
- prepared food, soft drinks, candy, and alcoholic beverages; and
- leased vehicles, except those leased and used to transport residents and

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property of the facility.

Effective for sales made after June 30, 2013.

13 **Industrial measurement manufacturing and controls facility.** Provides a sales tax exemption for materials, supplies, capital equipment, and fixtures in construction improvement or expansion of an industrial measurement manufacturing and controls facility if the facility meets the following conditions:

- total capital investment of at least $60 million;
- employs 250 new FTE employees in the state; and
- the Department of Employment and Economic Security determines that the project has a significant impact on the state economy.

The exemption also applies to materials used in privately-owned infrastructure needed to support the facility. The tax is owed at the time of purchase and the owner of the facility may apply for a refund.

Effective for sales and purchases after June 30, 2013.

14 **Building materials; resorts and recreational camping areas.** Provides a sales tax exemption for construction materials and supplies and equipment incorporated in the improvement of an existing structure at a resort or a private or public campground. The structure may be a cabin or any other structure for use by the resort guests or the campers. It does not apply to construction of new buildings. The tax must be paid at the time of purchase and the facility owner must apply for a refund.

Effective for sales and purchases made after June 30, 2013.

15 **Biopharmaceutical manufacturing facility.** Provides a sales tax exemption for materials, supplies, and capital equipment incorporated into construction improvement or expansion of a biopharmaceutical manufacturing facility if the facility meets the following conditions:

- it manufactures biologics;
- total capital investment of at least $50 million;
- the facility creates and maintains 190 new FTE employees in the state; and
- the Department of Employment and Economic Security determines that the project meets these requirement in each year in which a refund is requested.

The exemption also applies to materials used in privately-owned infrastructure needed to support the facility. The tax is owed at the time of purchase and the owner of the facility may apply for a refund.

The refund is metered out so that 25 percent of the total allowable refund to date is paid

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annually.

Effective retroactively to investments entered into and jobs created after December 31, 2012, and before July 1, 2019.

16 **Tax collected.** Provides that the purchasers of construction materials and equipment granted an exemption under sections 13 to 15 may pay the tax and apply for a refund of sales taxes paid.

17 **Refund.** Provides that owners of the facilities granted an exemption on construction materials under sections 13 to 15 must apply for a refund of sales taxes paid.

18 **Application.** Provides that subcontractors and contractors must provide information to facility owner on taxes paid on construction materials exempt under sections 13 to 15 to allow the owners to apply for a refund.

19 **Motor vehicle lease sales tax revenue.** Continues to require that a portion of the sales tax revenues collected on rent-to-own and lease-to-own used vehicles be distributed to the greater Minnesota transit account and county state-aid funds, even though the entire tax is no longer collected at the time the lease is executed.

20 **Tax base; locally collected taxes.** Clarifies that the local lodging taxes under general or special law apply to the same base as the state definition of taxable lodging, which includes related services provided by accommodation intermediaries (i.e. online travel companies).

21 **Collection (local lodging taxes).** Requires that if a local government imposes a local lodging tax that is not collected by the state, the local government may only require one payment per year from an accommodations intermediary and most notify the company of the due date for that payment.

Effective for sales made after June 30, 2013.

22 **Use of revenues (St. Paul).** Allows the city of St. Paul to deposit into an economic development fund any portion of the 40 percent of its sales tax revenue dedicated to the St. Paul Civic Center Complex not needed for meeting civic center obligations.

23 **Expiration of tax authority (St. Paul).** Extends the authority for the St. Paul local sales tax to December 31, 2042. Currently the tax would expire on December 31, 2030.

24 **Rochester lodging tax.** Modifies the Rochester lodging tax as follows:

Subd. 1a. Authorization. Increases the allowed rate of the lodging tax imposed to fund construction, renovation, improvement, and expansion of the Mayo Civic Center Complex from one percent to three percent.

Subd. 2. Disposition of proceeds. Adds design costs to the allowed uses for the lodging tax proceeds.

Subd. 2a. Bonds. Increases the authority to issue bonds for this project from $43.5

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million to $50 million.

Subd. 3. Expiration of taxing authority. Removes the requirement that the tax in subdivision 1a expires when the proceeds are sufficient to pay the bonds in subdivision 2a; however, it allows the city to choose to repeal the tax anytime after that time.

25 **Use of revenues (St. Cloud).** Modifies one of the existing allowed uses of the sales tax in the city of St. Cloud to limit funding to *regional* community and aquatic and recreational centers.

26 **Termination of tax (central cities).** Allows each city to extend the tax in its community from 2018 to 2038, provided the extension is approved by the voters at a general election held by November 6, 2018. The vote must still list the projects to be funded from the tax extension but the tax does not have to expire for one year before being re-imposed.

27 **Use of revenues (Clearwater).** The bill provides a specific list of park and trail improvements that the city of Clearwater may fund with its local sales tax. The total amount of revenue that the city may raise from the sales tax remains the same as it was in the original 2008 authorizing legislation – $12 million.

28 **Use of lodging tax revenues (Marshall).** Allows the city to use proceeds of this tax for construction of the Minnesota Emergency Response and Training Center and the Southwest Amateur Sports Center, as well as for their ongoing maintenance costs.

29 **Use of food and beverage tax (Marshall).** Allows the city to use proceeds of this tax for construction of the Minnesota Emergency Response and Training Center and the Southwest Amateur Sports Center, as well as for their ongoing maintenance costs.

30 **City of Marshall, validation of prior act.** Allows the city of Marshall until July 1, 2013, to file their approval of the special laws authorizing the taxes in subdivisions 28 and 29 which were originally enacted in 2010.

31 **City of Proctor; validation of prior act.** Allows the city to approve the extended uses and additional bond authority authorized under 2008 and 2010 special law by passing a resolution and filing the approval with the secretary of state by January 1, 2014. The additional bonding authority in the 2010 law was already approved by the city voters.

32 **Bemidji; local taxes authorized.** Allows the city of Bemidji to impose, by ordinance up to a one percent, food and beverage tax and a one percent local lodging tax. Proceeds from the taxes are to fund operating, maintenance, and capital replacement costs for the Sanford Center. The city may agree to allow the commissioner of revenue to administer and collect the tax.

33 **Repealer.** Repeals the Rochester local food and beverage tax authority authorized in 2009 but never imposed.

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Article 9: Economic Development

Overview

This article includes:

- $1.5 million allocation for border city enterprise zone tax reductions.
- The Mall of America (MOA) financing that uses the fiscal disparities taxes paid by properties located in the two tax increment financing (TIF) districts.
- An adjustment to the original net tax capacity for TIF districts that suffered large reductions in captured tax capacity as a result of enactment in 2011 of the homestead market value exclusion.
- Special TIF law provisions for the cities of Bloomington, Ely, Glencoe, Maplewood, Oakdale, and St. Cloud, and the Dakota County Community Development Agency.
- A value capture district for the city of Minneapolis to fund a downtown streetcar line.

1 **Public bidding requirement.** Modifies the Bloomington Port Authority's special law exception to the general law, competitive bidding requirements. Under present law, this exception is limited to structured parking constructed above, below, or adjacent to the development. The section expands the exemption to apply regardless of the source of port authority funds used (present law is limited to TIF and revenue bonds) and to extend it to other public improvements in addition to structured parking.

2 **Border city funding.** Allocates $1.5 million for border city enterprise zone and border city development zone tax reductions. This allocation is divided equally between the two programs ($750,000 to each), but the city can reallocate the amounts between the two programs. The allocation is divided among the qualifying border cities on a per capita basis. The five cities that qualify are Moorhead, Dilworth, East Grand Forks, Breckenridge, and Ortonville.

3 **Economic development districts.** Eliminates obsolete language related to the qualified retail facilities (the substantive definitions were repealed in 2010) and the temporary exemptions under the 2010 jobs bill.

4 **General government use.** Eliminates the prohibition on using tax increments for improvements and equipment that either primarily serve a decorative or aesthetic purpose or whose costs are twice as high because of the selection of the types of materials or designs compared with more commonly used improvements or equipment.

5 **4-year rule.** Extends the temporary two-year extension of the four-year rule that applies to TIF districts certified between January 1, 2005, and April 20, 2009, through December 31, 2016.

Background. The four-year rule is often referred to as the four-year knockdown rule. The

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rule requires development activity to occur on a parcel located in a TIF district within four years after the district is certified or the parcel is dropped from the TIF district. The parcel is reinstated if development activity occurs, but at its current value (not the value at the time of certification of the district). The knockdown rules can be satisfied by demolition, rehabilitation, or renovation (publicly or privately financed) of improvements on the parcel or by improvement of a public street adjacent to the parcel. Installing utilities (e.g., sewer and water service) does not qualify. The rule was designed to prevent TIF from being used to capture tax on inflation in the value of parcels on which no development activity occurred. In the recent real estate environment, little general inflation in land and property values has been occurring.

6 **Adjustment to original net tax capacity.** Authorizes development authorities to elect to reduce the original net tax capacity of a TIF district for the effects of enactment of the homestead market value exclusion (HMVE). This election must be approved by the municipality (typically the city in which the TIF district is located or the county for TIF districts located in towns). The election is limited to "qualified TIF districts" – generally districts that have a large loss in captured tax capacity as a result of enactment of the HMVE.

To qualify for the election, a district must satisfy three criteria:

(1) The district received a homestead market value credit of $10,000 or more for taxes payable in 2011 (the last year before the credit was replaced by the HMVE).

(2) The district's captured net tax capacity must have dropped by at least 1.75 percent as a result of the MVE for taxes payable in 2013 (the most recently available year).

(3) Either the district's five-year rule must still be open (that is, the increments are still permitted to be spent) or the district must not have enough increment to pay its outstanding bonds.

For a qualified district, the subtraction will equal the reduction in net tax capacity of the TIF district that results from the HMVE for taxes payable in 2013. The subtraction cannot reduce original net tax capacity below zero. An election must be made before July 1, 2014. For an election to apply for taxes payable in 2014, it must be made by July 1, 2013.

7 **Fiscal disparities calculations; MOA funding.** Provides that commercial-industrial tax capacity in the MOA TIF districts is exempt from contributing to the areawide pool and that tax increments in the MOA TIF districts include the tax that would normally be paid to the areawide pool.

Effective date: Taxes payable in 2014, but for this provision to take effect, the city clerk for Bloomington must certify to the Hennepin County auditor that the city has entered a binding, written agreement to rehabilitate or replace the Old Cedar Avenue bridge and approves the provisions of section 18 requiring the city to transfer increments from these districts to pay for the Old Cedar Avenue bridge.

8 **Bloomington Central Station (BCS) TIF.** Makes three changes in Bloomington's BCS TIF district:

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- Extends the five-year rule from ten years (under 2008 special legislation) to 15 years.
- Allows the city to extend the duration of the district through 2039 (an eight-year extension).
- Unfreezes the original tax capacity rate, allowing the district's increment to be calculated using the current tax rate, not the rate that was in effect when the district was certified.

9 **Oakdale TIF.** Modifies the special TIF law for the city of Oakdale, passed by the legislature in 2008 and modified in 2009, granting the city authority to deviate from general law rules with regard to TIF districts created in a defined area of the city. This bill makes two changes in the special law authority:

- The period of time that the city has to establish TIF districts under the special law is extended by four years from 2013 to 2017.
- An exemption is provided to the general law "blight test" rules. The blight test (essentially a requirement that an area contain "blighting" conditions that legally justify creating a redevelopment TIF district) requires that 70 percent of the parcels in an area be occupied by buildings or other qualifying structures and that 50 percent of the buildings be substandard. A parcel can be treated as being occupied by a substandard building if the parcel was occupied by a substandard building that was demolished within three years of certification of the district and if a four-part test is satisfied. The bill provides special rules for meeting this four-part test:
  - The three-year time limit between demolition of the building and the certification of the district does not apply.
  - The requirement that private demolition (if done by the property owner rather than the development authority) be done under a development agreement does not apply.

The adjustment to original net tax capacity (increasing it for any reduction in tax capacity resulting from demolition of the building) does not apply. This is consistent with the original special law, which allowed the city to set the original tax capacity at the land value.

10 **Oakdale TIF; extension and expanded spending authority.** Extends the duration of the Bergen Plaza TIF district in Oakdale by 16 years. In 2010, the legislature granted this district a ten-year extension, so the combined extensions would equal 26 years.

In addition, this section repeals the restrictions the 2010 special legislation placed on the extension. The 2010 legislation prohibited pooling of increments from the district during the extension, except to the extent that they were used for improvements on two listed parcels. (Pooling refers to the spending of increments from the district on activities outside of the geographic area of the district. This district is a pre-1990 district that would otherwise not have been subject to pooling restrictions.) Under the changes made by this section, this restriction would not apply; in effect allowing the city to use the district's increments on

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activities anywhere in the project area.

Because this is an extension, it would require approval by the county and school district in addition to the city.

11 **MOA TIF district; property transfer and extension.** Allows the port authority and city of Bloomington to elect to transfer several parcels between the MOA TIF districts. This will allow these undeveloped parcels on the northern edge of the district containing the mall to be shifted to the district containing the site of the former Met Center. This would have the effect of extending by three years the ability to collect increments from these parcels.

In addition, this section allows Bloomington to extend the two MOA TIF districts through 2034 (an 18-year extension for the district containing the mall and 15-year extension for the district containing the Met Center site). During the extension, however, increment would be limited to the special fiscal disparities computation provided by section 7; local tax rates for the city, county, school, and special districts would be computed including the captured tax capacity of the TIF districts. The extensions would terminate for taxes payable in 2024, if new improvements, worth at least $100 million, have not been constructed in District No. 1-G (the district containing the former Met Center) by January 1, 2021.

This provision is effective upon local approval by the city, but does not require approval by the county or school district, since the entire area covered by the fiscal disparities tax is affected equally, not just the school or county. In addition, the provision does not become effective unless the city has entered a binding, written agreement to rehabilitate or replace the Old Cedar Avenue bridge.

12 **St. Cloud TIF.** Deems TIF District No. 2, referred to as the Norwest District, in the city of St. Cloud, a "gap district," that is a district for which the request for certification was made on or after August 1, 1979, and before July 1, 1982. This will clarify an issue (which cannot be resolved in the city's records) of when the district was certified and what TIF rules apply to it. "Gap districts" were created before the 1982 legislature allowed "pooling" of increments for new TIF districts.

13 **Dakota County CDA TIF; West St. Paul.** Allows the Dakota County Community Development Agency (CDA) to establish a redevelopment TIF district in the city of West St. Paul. This district would consist of the parcels of a redevelopment district that was decertified in 2012; the original tax capacity of the district is set at $93,239. The district is treated as a redevelopment district, but it must be decertified in 2018. Under general law, a redevelopment district is allowed 26 years of increment, as contrasted with the five years allowed to this district. Alternatively, the bill could be viewed as a five-year extension of the pre-existing district, since the original tax capacity is set at the level of the decertified district.

This district would be exempt from the blight test (i.e., the rules that restrict areas that qualify as redevelopment districts) and is provided exemptions for the following limits on the spending of redevelopment district increments:

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- The requirement that increments be used for blight correction does not apply.
- The pooling rules (percentage limits on how much increment may be spent on activities outside of the TIF district) do not apply.

The district's captured tax capacity is included for computing state aid formulas (e.g., local government aid, county program aid, education aid, and so forth).

14 **Glencoe TIF extension.** Authorizes the city of Glencoe to extend the duration of its TIF district No. 4 through December 31, 2023. This district is a redevelopment district that is required by general law to be decertified in 2013, so this is a ten-year extension and the district would have a 35-year duration.

The additional increment collected during the extension would be limited to paying debt service on bonds that were outstanding on January 1, 2013, for public improvements serving:

- the city's TIF district No. 14 (a redevelopment district certified in 2004);
- the city's TIF district No. 15 (an economic development district certified in 2007); and
- benefited properties related to a series of special assessment bonds issued in 2007 (or refunding bonds).

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

15 **Ely TIF extension.** Allows the city of Ely to extend the duration of its TIF district No. 1 by four years (from 2017 to 2021). The city is also permitted to transfer increments from TIF District No. 3 to pay binding obligations of the TIF District No. 1, which has a deficit. This transfer is limited to $168,000 or the amount of the shortfall in District No. 1, whichever is less.

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

16 **Maplewood TIF.** Authorizes the city of Maplewood to establish TIF districts within an area of the city defined by reference to a property tax parcel number, which presumably consists of all or part of the corporate campus of the 3M Company. If the city so elects, these TIF districts will be subject to special law rules that differ from those under general TIF law.

The city could approve TIF plans and establish districts under this authority through December 31, 2018.

The following special rules or exemptions from general law would apply to districts certified in the defined project area:

- **Blight test exemption.** Redevelopment districts could be established without meeting the blight test. Ninety percent of increments from the district, unlike a general law redevelopment district, would not be required to be spent on correction of

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blight.

- **Pooling exemption.** So long as increments are spent within the defined project area, restrictions on pooling increments (that is, spending on activities outside of the TIF district) do not apply.

- **Five-year rule exemption.** The five-year rule, which requires spending to be completed within five years of certification of the district, is extended to ten years.

- **One-year knockdown rule.** Parcels in a district would be subject to a one-year knockdown rule – that is, if construction does not start on a parcel within one year after its certification for inclusion in the TIF district, the parcel would be dropped from the district and could only be reinstated when construction actually begins. Under general law, a four-year period applies.

17 **Minneapolis value capture district for transit.** Authorizes the city of Minneapolis to create a value capture district to finance construction of a streetcar line and related improvements. The city could include parcels in the district that are located in four defined areas of its downtown (three of the areas consist of one block and the other two blocks). Revenues from the district would be calculated using the same method that applies under the TIF law, except current tax rates would be used, rather than a certified original tax rate.

Revenues from district may be spent for items within an area located one block on either side of the streetcar line, the location of which would be determined by the city. Permitted uses of district revenues are limited to:

- planning and design for the streetcar line;
- acquiring, constructing, and equipping the line;
- transit stations; and
- related public infrastructure improvements (sidewalks, street improvements, and so forth).

District revenues may not be used to pay for operation of the streetcar line.

The city is authorized to issue bonds without an election under the authority.

The duration of the district is limited to 25 years or the time needed to pay for the capital improvements, including bonds, if that is shorter.

18 **City of Bloomington; Old Cedar Avenue Bridge.** Requires the city of Bloomington to transfer increment from its two MOA TIF districts equal to the amount of increment for taxes payable in 2014 as a result of section 7 to be used to renovate or replace the Old Cedar Avenue bridge.

The section also prohibits putting signage on or around the bridge acknowledging contributions, sponsorships, or sale of naming rights to the bridge.

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Effective date: Subject to local approval by the city of Bloomington

Article 10: Destination Medical Center

Overview

This article provides local bonding, taxing, and other development financing powers to the city of Rochester to fund public infrastructure for the destination medical center project. The article directs the city to create a nonprofit corporation to help develop the plan and to finance the development. In addition, the article provides state aid, based on the level of new nonpublic capital investment in Mayo Clinic building projects in the city, to provide state assistance in building public infrastructure for the development. The maximum amount of general state aid is $338 million, with no more than $30 million per year (the city and county are expected to pay for $128 million to qualify for this aid). In addition, $119 million funding for public transit for the project is provided with a portion of this to be funded with local taxes.

1 **Construction material; public infrastructure costs.** Provides a sales tax exemption for construction materials and supplies used in, and equipment incorporated into public infrastructure included in the Destination Medical Center Corporation (DMCC) development plan and financed with public funds.

2 **Definitions.** Defines “city” (Rochester), “county” (Olmsted), “Destination Medical Center Corporation” (nonprofit created by the city), “destination medical center development district” (geographic area in the city in which under the development plan public infrastructure projects are implemented), “development plan” (adopted by the nonprofit corporation), “medical business entity” (Mayo), and “public infrastructure project” (project funded in part or whole with public money to support the medical business entity’s development identified in the development plan).

3 **Destination Medical Center Corporation established.**

Subd. 1. DMCC created. Directs the city to establish a nonprofit corporation. Provides that the corporation is not subject to laws governing the city except as provided in this section.

Subd. 2. Membership. Provides for nine members:

- the mayor of the city or designee, subject to city council approval;
- a member of the city council;
- a member of the county board;
- two representatives of the medical business entity selected by the city from five nominees provided by the medical business entity;

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- two representatives of the city business community other than the medical business entity, selected by the city from among five nominees provided by the chamber of commerce; and
- two appointees of the governor.

Subd. 3. Bylaws. Directs the DMCC to adopt bylaws to address matters of organization and operation.

Subd. 4. Open meeting law. Provides for the open meeting law in chapter 13D to apply to the DMCC.

Subd. 5. Conflicts of interest. Prohibits members of the board of the DMCC, other than the representatives of the medical business entity, from being employees of, serving on the board of, or otherwise representing the medical business entity for a year before serving on the board and while on the board.

Subd. 6. Treatment of data. Provides that data of or provided to the DMCC is not government data except as provided in this subdivision.

Data of the DMCC that are public government data are:

- data that relate to or document the DMCC's receipt, investment, or use of public money; and
- data on the DMCC's development, adoption, and modification of the development plan.

Subd. 7. Powers; gifts. Permits the DMCC to exercise any powers granted in its articles of incorporation and bylaws as long as they are not inconsistent with this article. Permits the DMCC to accept gifts and use any money or in-kind gifts that are not public money to development and implement the adopted plan.

Subd. 8. Dissolution. Requires the articles of incorporation to provide for dissolution of the corporation.

4 Development plan.

Subd. 1. Development plan; adoption by DMCC; notice; findings. Directs the DMCC to prepare and adopt a development plan after publication, notice, and public hearing. Requires the DMCC to make certain findings before adopting the plan, including that the city has approved the plan.

Subd. 2. Modification of development plan. Directs the DMCC to review and update the plan at least every five years.

Subd. 3. Medical center development districts; creation; notice; findings. Permits the DMCC plan to create districts and subdistricts within the city. Permits projects to be undertaken within the districts consistent with the adopted development plan.

Subd. 4. DMCC consultant. Permits the DMCC to hire a consultant with the

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expertise and experience in developing the destination medical center.

Subd. 5. Audit of consultant contracts. Provides that any consulting services paid for with public money are subject to audit by the DMCC, the city and the state auditor, as necessary to certify the nature and extent of services furnished, and that payment complies with applicable laws and terms of the contract.

Subd. 6. Report. Requires an annual report by the DMCC and city to the legislature, and to the commissioners of revenue and employment and economic development, and to the county. Specifies scope of report, including actual costs and financing sources, including state aid amounts paid and the required local contributions.

5 **City powers; duties, authority to issue bonds.** Grants the following powers to the city for purposes of implementing the DMC development plan:

- general port authority powers;
- authority to provide money to fund the corporation;
- authority to issue any type of bonds, without referendum and outside of net debt limits, secured by any of the city revenues, including the newly authorized taxes and state aid payments under section 8.

The city is prohibited from issuing bonds secured only by state aid payments.

6 **City tax authority.** Provides the city of Rochester the following options to fund the city's share of the public infrastructure projects for the DMC development plan.

Subd. 1. Other local taxes authorized. Authorizes the city to impose by ordinance any of the following local taxes:

- a local lodging tax;
- a food and beverage tax; or
- an admission/entertainment tax.

Proceeds from any of these taxes must be dedicated to funding projects included in the development plan. If imposed, these taxes terminate by December 31, 2041 or when sufficient funds are raised to meet the cities obligations for funding these projects.

Subd. 2. General sales tax authority. The city may also choose to extend its existing local sales tax until 2041 under section 11 or increase its general local sales tax rate (by up to an additional 0.5 percent point) under section 9.

Subd. 3. Special abatement rules. Authorizes the city and county to use the general economic development abatement law to fund the DMC development without regard to the duration limits, the prohibition on granting additional abatements for

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eight years after an abatement was granted, and the percentage and dollar amount limits.

Subd. 4. Special tax increment financing rules. Authorizes the city to establish redevelopment TIF districts within the area of the DMC district without regard to the blight test and the requirement that redevelopment district increments be spent on blight correction.

7 **County tax authority.** Authorizes Olmsted County to impose, by resolution, up to a .25 percent general sales tax and/or up to a $10 per vehicle wheelage tax to pay a portion of the transit infrastructure costs related to the DMC development plan. Revenues are first dedicated to the county portion which is limited to the amount raised by a sales tax of 0.15 percent, and any excess revenues may be used by the county to fund other transportation and transit projects within the county.

Taxes imposed under this section expire at the earlier of December 31, 2041 or when the county determines it has revenues sufficient to meets its obligation to the DMC transit projects.

8 **State infrastructure aid.** Provides for general state infrastructure aid and transit aid based on private investment and local city and county contributions to fund infrastructure projects in the DMC development plan.

Subdivision 1. Definitions. Defines terms for the purposes of the aid programs:

- **Commissioner** is the commissioner of the Department of Employment and Economic Development (DEED).
- **Construction projects** are buildings in Rochester for which the building permit is granted after June 30, 2013.
- **Expenditures** are capital outlays by the Mayo Clinic for building construction projects, including both hard and soft costs.
- **Qualified expenditures** are expenditures that exceed $200 million; this is the point at which the expenditures enter into the aid formula calculations under subdivision 3 and 5.
- **Transit costs** are the parts of the development plan related to transit improvements.

Subd. 2. Certification expenditures. Requires Mayo Clinic to annually certify to DEED the amount of its expenditures. This must be done in the manner specified by DEED.

Subd. 3. General state infrastructure aid. Provides for payment of state aid to Rochester after the Mayo Clinic has made a minimum of expenditures of $200 million for construction of buildings in the city. The aid equals the amount of those

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expenditures in the prior calendar year multiplied by 2.75 percent. To qualify for this aid, the city must make the local match specified in subdivision 4. The aid will be paid on September 1. The city is authorized to use the aid only for public infrastructure costs (other than transit costs) of the DMC. The aid cannot exceed $30 million in any year and the total amount of aid cannot exceed the amount necessary to pay for the project costs of $366 million, including financing costs.

Subd. 4. General aid, local matching contribution. Sets a local matching contribution to qualify for the state aid of $128 million of project costs. DEED and the city will agree on the manner and timing for making this local contribution. The city and DEED may agree to modify this agreement when appropriate.

Subd. 5. Transit aid. Provides that transit aid is calculated in the same manner as state general aid, except a rate of 0.75 percent is used. To qualify for transit aid in any year, the local match must be provided as provided in subdivision 6.

Subd. 6. Transit aid; local match. Provides that the local match of transit aid is an amount equal the money that would be raised by imposing a county general sales tax at a rate of 0.15 percent. The local match could be met by the county imposing that tax or by the county and city agreeing to use other funds to provide an equal amount.

Subd. 7. Termination. Terminates aid payments in fiscal 2041. General infrastructure aid payments may terminate earlier if the maximum amount of project costs, as specified by subdivision 3, have been funded by state aid.

Subd. 8. Appropriation. Provides an open and standing general fund appropriation to pay the state aid.

9 **Sales and use taxes authorized (Rochester).** Authorizes the city of Rochester to impose an additional general sales tax of up to one-half of one percent without voter approval. This would be in addition to the current one-half percent tax in Rochester.

10 **Use of revenues (Rochester sales tax).** Requires that any additional revenue resulting from either (1) an extension of the duration of the existing local sales tax or (2) an increase in the local sales tax rate under section 9, be used to fund the city share of public infrastructure costs related to the DMC development plan.

11 **Termination of taxes (Rochester).** Authorizes the city to extend the duration of the existing ½ of one percent local sales tax as late as December 31, 2041 without voter approval. Also provides that if the sales tax rate is increased under section 9, the additional tax expires at the earlier of December 31, 2041 or when the city determines that the total revenues raised by the city for the DMC development project under this and other optional taxes is sufficient to meet the city's obligation.

12 **Rochester Area impact development and transportation impact study.** Requires the commissioner of transportation to prepare a study. This study is similar to a transportation study for the Rochester area that is in the omnibus transportation bill (H.F. No. 1444) to

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examine transportation needs in the region, including interaction with expansion of the Mayo Clinic. The only addition is a requirement to include in the study an analysis of the feasibility of high-speed rail between Rochester and the Mall of America, extending to the airport and the Union Depot in St. Paul.

13 **Effective date.** Upon local approval by the city of Rochester

Article 11: Mining Taxes

Overview

The article imposes a new $.55/cubic yard tax on silica sand extraction (mining) and importation and storage in the state and a three percent tax on processing of silica sand.

It also increases the occupation tax rate to one-half the corporate franchise tax rate.

The article also makes following changes in the distribution of the taconite production tax revenues:

- Provides for supplemental taconite school referendum aid payments.
- Increases the rate of the taconite production tax by five cents per ton.
- Increases the match requirement for companies receiving distributions from the taconite economic development fund from 50 percent to an equal match.
- Reduces the distribution to the property tax relief fund by nine cents per ton. (This fund pays the taconite homestead credit.)
- Provides onetime distributions to the cities of Hibbing, Mountain Iron, and Tower in 2013.
- Authorizes the Iron Range Resources and Rehabilitation commissioner to issue bonds to finance school capital projects for schools in the two taconite areas.

1 **Silica sand mining account.** Establishes a silica sand mining account in the special revenue fund. A portion of the proceeds of the tax imposed by section 4 is deposited in this account. The account is available, as appropriated by law, to develop model standards and to provide technical assistance to counties.

2 **Taconite payments and other reductions.** Fixes the school share of the portion of the taconite production tax that is used for property tax relief under this section at 95 percent of the total property tax relief for that year, and directs the other five percentage points to the cities and townships located within that school district.

3 **Definitions.** Defines terms used in the taxation of silica sand mining and processing.

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4 **Tax imposed; deposit of proceeds.** Imposes a tax of $.55 per cubic yard on the mining or storage of silica sand and a separate processing tax equal to three percent of the market value of the sand (determined based on the sale price).

For a qualified processor, defined as a person who uses means to prevent silica sand particles from becoming airborne, the processing tax rate is one percent of the market value of the sand (determined based on the sale price).

A person is exempt from the mining tax if they transport less than ten percent of the finished product on public roadways. A credit is provided against the tax equal to the aggregate tax imposed by the county on the sand mining.

The first $2 million of revenues from the taxes ($2.69 million for FY2015) annually are deposited in the special silica sand account established by section 1 and the remainder in the general fund.

5 **Reporting and registration.** Establishes registration and reporting requirements for firms that mine or process fracturing sand. Monthly reports must be filed with DOR showing the amount of sand mined or processed. In addition, records necessary to document the amount of tax (e.g., scale records, invoices and so forth) must be kept for 3½ years after each monthly report.

6 **Limitations on time of taxation.** Establishes a 3½ year statute of limitations for the assessment of tax (measured from the filing of the return) and payment of refunds (measured from the due date of the return). The statute of limitations does not apply to false or fraudulent returns and is extended to 6½ years for understatements of 25 percent or more. Rules for bankruptcy and extension agreements are also established.

7 **Civil penalties.** Imposes the following penalties:

- Failure to pay: five percent for each 30-day period up to a maximum of 15 percent
- Failure to file: five percent
- Intentional or negligent disregard: ten percent
- False or fraudulent return: 50 percent
- Pattern of repeated failure to file or pay: 25 percent

8 **Interest.** Provides that regular statutory rate of interest on unpaid state taxes applies to unpaid taxes, assessments, erroneous refunds, judgments, and penalties. (Interest rules for payment of refunds is not specified.)

9 **Occupation tax; other ores.** Increases the occupation tax from 2.45 percent to 4.9 percent (from one-quarter to one-half of the corporate franchise tax rate). The occupation tax is paid in-lieu of the corporate tax for taconite and nonferrous mining.

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10 **Occupation tax; taconite and iron ore.** Increases the occupation tax from 2.45 percent to 4.9 percent (from one-quarter to one-half of the corporate franchise tax rate).

11 **Taconite economic development fund (TEDF).** Requires taconite companies to provide a dollar-for-dollar match to any funds received from the TEDF, beginning with distributions in 2014. Under current law, the match requirement is 50 percent, but only applies to the first 14.7 cents of the TEDF (out of 30.1 cents total). The higher match would apply to all TEDF grants.

12 **Taconite production tax rate.** Increases the rate of the taconite production tax by five cents per ton, to $2.56 per ton.

Effective date: Production year 2013.

13 **Taconite school aid.** Increases the general distribution to taconite area schools by nine cents per ton and provides for a supplemental distribution of taconite production tax proceeds to school districts with referendum levies, based on the size of each district's referendum levy authority and its tax base.

Effective date: 2014 distribution.

14 **Property tax relief.** Reduces the distribution to the fund that pays for the taconite homestead credit by nine cents/ton (from 43.8 cents/ton to 34.8 cents/ton). This will increase the amount available to the residual distribution to the Taconite Environmental Fund and the Douglas J. Johnson Economic Fund, offsetting the increased distributions to schools under section 13.

Effective date: 2014 distribution.

15 **Increased distribution to taconite homestead credit fund.** Resets the escalator for the rate going to the taconite tax relief fund after the rate reduction under section 14.

16 **Aggregate tax.** Allows any county which imposes the aggregate tax to impose up to double the current rate. These funds are to be apportioned by the statutory formula under current law.

17 **2013 onetime distributions.** Provides for onetime distributions of $4.7 million to the cities of Hibbing ($2 million for a water supply improvement), Mountain Iron ($1.7 million to move city utilities), and Tower ($1 million for improvements to a marina). These distributions would come out of the moneys that otherwise would be distributed to the property tax relief fund.

Effective date: 2013 distribution.

18 **IRRR school bonds.** Authorizes the Iron Range Resources and Rehabilitation commissioner to issue bonds to make grants to school districts in the taconite tax relief areas for capital projects. These bonds would be paid by production tax distributions equal to ten cents per ton. The bonds would qualify for the credit enhancement program that applies to bonds directly issued by school districts.

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Effective date: 2014 distribution.

Article 12: Public Finance

Overview

The article contains portions of the annual bill sponsored by the Public Finance Institute, a trade association of businesses and professionals providing services in connection with state and local government bonding. It makes a variety of changes in the laws that affect the investment of local government money and the authority of local units of government to issue debt securities.

The article also:

- Authorizes Metropolitan Council bonding of $35.8 million for transit.
- Creation of municipal street improvement districts.
- Expands street reconstruction bonding authority to include bituminous overlay projects.
- Extends the city of St. Paul's capital improvement plan bonding authority.

1 **Authority to invest in state and local securities.** Modifies the law regulating the authority to invest local government funds in municipal securities to include:

- Revenue obligations of local governments without taxing authority, if the obligations are rated AA or better. Under current law, the issuing governmental unit must have taxing power.
- Any short-term school district obligation (13-months or less) if it is either (1) rated in the highest rating category, or (2) covered by the state credit enhancement program.

2 **Guaranteed investment contracts (GICs).** Authorizes local governments to invest in short-term GICs (18-months or less), if the issuer's or guarantor's short-term debt is rated in the highest rating category. This will allow purchase of short-term GICs issued by companies whose long-term debt is rated below the top two rating categories.

3 **Special assessments for energy improvements.** Eliminates a reference under the energy improvement financing program (EIFP), enacted by the 2010 legislature, that the properties must be "benefited" and allows EIFP special assessments to be repaid in 20 equal annual installments.

4 **County capital notes.** Modifies the definition of "capital equipment" for which county capital notes may be issued to include:

- Computer hardware and software without regard to its useful life

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- Development and training services bundled with computer hardware and software

5 **County capital improvement program (CIP) bonds.** Expands the permitted facilities and expenditures that may be financed with county CIP bonds to include:

- Public works facilities
- Fairgrounds buildings
- Records and data storage facilities
- Expenditures incurred before adoption of the plan, if the expenditures are included in the plan

Under present law, CIP bonds may be issued without referendum approval, but issuance is subject to a reverse referendum.

6 **County CIP bonds; election requirement.** Makes three changes in the statute related to the reverse referendum authority for county CIP bonds. The section:

- Ties the five-percent petition requirement to the number of voters in the last county general election. Current law ties this to the most recent general election, regardless of whether county officials were on the ballot.
- Eliminates the requirement that the commissioner of revenue prepare the ballot question.
- Prohibits the county from proposing to issue CIP bonds for a one-year period, if a reverse referendum petition is filed and the county chooses not to issue the bonds, rather than holding an election to approve them. If the issue is submitted and the voters do not approve, the issue can be resubmitted to the voters after 180 days.

7 **Dakota County Community Development Agency (DCCDA); housing improvement area powers.** Authorizes the DCCDA to exercise housing improvement district powers. The agency would be allowed to do this by resolution, rather than ordinance, as is required for cities exercising those powers. (The DCCDA does not have authority to enact ordinances.) Housing improvement powers are used to help housing developments (e.g., town house developments) to finance rehabilitation costs more inexpensively than they can do through the private market (e.g., obtaining bank loans).

8 **Home rule charter city capital notes.** Makes changes to the capital note authority for home rule charter cities similar to those under section 4 for county capital notes.

9 **Statutory city capital notes.** Makes changes to the capital note authority for statutory cities similar to those under section 4 for county capital notes.

10 **Municipal street improvement districts.** Authorizes cities to establish a municipal street improvement district.

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Subd. 1. Definitions. Defines terms used in the section, including "improvements" and "maintenance."

Subd. 2. Authorization. Permits a statutory or home rule charter city to establish by ordinance street improvement districts and defray part or all of the costs of improvements and maintenance with fees charged to all parcels in the district. Prohibits more than one district per property.

Subd. 3. Uniformity. Requires costs of street improvements and maintenance to be apportioned on all parcels or tracts of land in the district on a uniform basis within each real estate classification. The city may elect to apportion the cost based on market value, tax capacity, front footage, or area, but regardless of the method chosen, no class of property can bear more than twice the cost that it would if the method used apportioned the cost uniformly across all classes of property.

Subd. 4. Adoption of plan. Requires a plan, adopted after notice and public hearing, that identifies the district(s) before the fee may be imposed. Fees must be imposed for a period of at least five years and no more than 20 years.

Subd. 5. Use of fees. Requires fee revenues be put in a separate account and used only for projects in the district and identified in the plan.

Subd. 6. Collection; up to 20 years. Provides that fees may be collected for no more than 20 years. Permits collection of unpaid fees as a special assessment.

Subd. 7. Improvement fee. Requires notice and a public hearing on the fee ordinance before it is voted on or adopted.

Subd. 8. Not exclusive means of financing improvements. Prohibits imposing special assessments for projects funded with the street improvement fee, but otherwise permits the city to use any other means of financing local street improvements or maintenance within the city.

Subd. 9. Unimproved parcels; fees. Limits imposition of a fee on properties that are unimproved or not previously occupied.

Subd. 10. Institutions of purely public charity. Provides that property qualifying for exemption from property taxes as an institution of purely public charity cannot be subjected to assessment of costs.

11 **Metropolitan Council; transit obligations.** Increases the council's authority to issue debt obligations to fund its capital improvement plan for transit and paratransit by $35.8 million. Proceeds may also be used to pay issuance costs (subject to the $35.8 million limit).

12 **City CIP bonds.** Authorizes use of CIP bonds for expenditures incurred before adoption of the CIP, if the expenditures are included in the plan. This parallels the similar change in section 5 for county CIP bonds.

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13 **City CIP bonds; election requirement.** Makes changes to the city CIP reverse referendum provisions that parallel those made to the county CIP program by section 6.

14 **Street reconstruction bonds.** Makes changes in the reverse referendum provisions governing street reconstruction bonds for questions that are subject to referendum, but that are not submitted to the voters or that are defeated to parallel the similar provisions for county and city CIP bonds in sections 6 and 13, and also provides that expenditures incurred before adoption of the capital improvement plan can be financed with the bonds, if the expenditures are included in the plan.

This section allows street reconstruction bonds to be used for bituminous overlay projects, which under current law are not considered to be reconstructions.

15 **St. Paul capital improvement plan (CIP) bonding.** Extends the St. Paul CIP bonding authority, which is set to expire at the end of 2013, through 2024. These bonds are general obligation bonds and may be issued upon a vote of five of the seven members of the city council without voter approval – this is an exception to the city's home rule charter, which otherwise would require simple majority approval by the council and voter approval.

Article 13: Miscellaneous Provisions

Overview

Extends the suspension of the political contribution refund for four years.

Extends the E911 fee and the Telecommunication Access Minnesota fee (which provides devices to persons with communications impairments to enable them to use telecommunications devices) to prepaid wireless customers.

Modifies the calculation of the backup revenue trigger for funding the Vikings stadium to include the extension of the sales tax to suites and box seats and the sports memorabilia tax.

Provides that tax court appeals are considered timely filed based on the date of the U.S. Postal Service postmark.

Provides purpose statements for new tax expenditures proposed in the bill.

1 **E911 fee; collection.** Provides an exception to the requirement that all telecommunications carriers collect the Telephone Access Minnesota (TAM) fee under this subdivision.

2 **E911 fee; prepaid wireless telecommunications service.** Specifies that the regular TAM fee does not apply to prepaid wireless communications service, which is subject instead to the fee established in section14, subdivision 1, paragraph (b).

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3 **E911 fee; Minnesota tax laws.** Adds fees established in section 403 (i.e., the E911 fee) to the definition of "Minnesota tax laws."

4 **E911 fee; Department of Public Safety.** Allows the commissioner of revenue to disclose return information to the Department of Public Safety as necessary to administer the collection of E911 and TAM fees from prepaid wireless customers.

5 **Timely filed.** Provides that, when filed by mail delivery, an appeal is timely filed if the official postmark stamped on the envelope by the United States Postal Service is within the time allowed for an appeal, even if the envelope is physically delivered by mail on a date that is not within the time allowed for the appeal. Other more technical requirements, including that the envelope be properly addressed, are also included. Applies to appeals filed in the state's tax court for review of decisions of the commissioner of revenue related to taxes, fees, or other assessments.

This allowance applies only to postmarks made by the United States Postal Service or its designated delivery service. A mark made by a private postage meter would not qualify for consideration of timely filing under the standards provided in this section.

6 **Determination of revenues increase.** Requires the commissioner of management and budget to estimate the additional revenue raised from the taxes imposed in article 5, section 2 (sports memorabilia tax) and article 8, section 1 (tax on suites and box seats), to determine whether the backup revenues to fund the Vikings stadium are triggered.

7 **Prepaid wireless telecommunications services; definition.** Provides a definition of prepaid wireless telecommunications services in chapter 403 for use in administering the E911 fee.

8 **Wireless telecommunications service; definition.** Provides a definition of wireless telecommunications service in chapter 403 for use in administering the E911 fee.

9 **Wireless telecommunications service provider; definition.** Changes the existing definition of wireless telecommunications service provider to reference the new definition of wireless telecommunication service in section 8.

10 **Biennial budget; annual financial report.** Requires inclusion of 911 revenue and expenditure forecasts and projections, including separate data for prepaid wireless revenues, and projections of year-end fund balances in the Department of Public Safey's annual budget report to the legislature.

11 **Emergency telecommunications service fee; account.** Exempts prepaid wireless customers from the current 911 fee and subjects them to the fee established in section 14.

12 **Report.** Requires semiannual reports from telecommunications providers to the commissioner of public safety on the number of prepaid and total wireless subscribers sourced to Minnesota. Specifies that this is trade secret data.

Section

13 **Definitions; prepaid wireless fee.** Provides definitions for use in administering the E911 prepaid wireless fee.

14 **Prepaid wireless fees imposed; collection; remittance.**

Subd. 1. Fees imposed. Imposes an E911 and TAM fee on prepaid wireless service at the current monthly rate.

Subd. 2. Exemption. Exempts from the fees in subdivision 1 a minimal amount of prepaid wireless telecommunications service (ten minutes or $5 or less) sold with a prepaid wireless device that is charged a single non-itemized price.

Subd. 3. Fee collected. Specifies that these fees must be collected at the point of retail sale, combined into one amount, and separately reported on a receipt.

Subd. 4. Sales and use tax treatment. Specifies that the sales tax statutes be used to determine whether retail transactions of prepaid wireless service occur in Minnesota.

Subd. 5. Remittance. Specifies that the seller is liable to remit these fees as provided in section 15.

Subd. 6. Exclusion for calculating other charges. Excludes the fees from being included in the base for measuring any other tax or charge imposed by the state or a local government.

Subd. 7. Fee changes. Specifies that these fees for prepaid wireless service must be increased or reduced proportionately to fluctuations in the same fees that apply to other customers. Specifies the effective date of fee changes and notice requirements.

15 **Administration of prepaid wireless 911 fees.**

Subd. 1. Remittance. Specifies that the fees must be collected by sellers and remitted to the commissioner of revenue in the same general manner as sales taxes.

Subd. 2. Seller's fee retention. Authorizes a seller to deduct and retain three percent of these fees.

Subd. 3. Department of Revenue provisions. Specifies that the audit, collection, appeal, and other procedures of chapter 297A apply to these fees.

Subd. 4. Procedures for resale transactions. Authorizes the commissioner of revenue to establish procedures by which a seller may document that a sale is not a retail transaction that substantially coincide with existing provisions in chapter 297A.

Subd. 5. Fees deposited. Requires the commissioner of revenue to deposit each fees in its corresponding account within 30 days of receipt. The department may retain and deduct up to two percent of the collected fees for administration costs.

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16 **Liability protection for sellers and providers.** Exempts providers and sellers of prepaid wireless telecommunications service from liability for damages resulting from providing or not providing 911 services or in providing lawful assistance to a state, federal, or local law enforcement officer.

17 **Exclusivity of prepaid wireless E911 fee.** Prohibits any tax, fee, or surcharge being imposed on prepaid wireless telecommunications service for E911 purposes.

18 **Political contribution refund.** Extends the suspension of the political contribution refund for four years for campaign contributions made from July 1, 2013, through June 30, 2017. Laws 2010, First Special Session chapter 1, suspended the political contribution refund program for campaign contributions made from July 1, 2009, to June 30, 2011, and Laws 2011, First Special Session chapter 7, extended the suspension through June 30, 2013.

19 **Report; recommendations.** Requires the commissioner of public safety to submit a report to the legislature by March 1, 2015, assessing the revenue collected from these fees and recommending any adjustment necessary to fund legislative appropriations for wireless E911 expenditures or to maintain fairness with respect to the amount of fees paid by customers.

20 **Purpose statements for tax expenditures.** Provides purpose statements for various tax expenditures added by the bill as follows:

- Federal conformity – to simplify compliance and administration of the individual income tax.
- Employer credit for hiring veterans – to hire unemployed and disabled veterans.
- Income tax subtraction for federal railroad track maintenance credit – to increase maintenance and upgrading of railroad track in Minnesota.
- Sales tax exemption for coin-operated devices – to reduce tax pyramiding.
- Motor vehicle rental tax exemption for car-sharing – to provide similar treatment for car ownership and car sharing.
- Expansion of sales tax exemption of durable medical products to Medicare and Medicaid purchases – to simplify sales tax administration and provide relief for sellers unable to collect tax under Medicare and Medicaid.
- Sales tax exemption for public safety radio communications systems – to provide equal treatment to local governments on public safety radio purchases.
- Sales tax exemption for established religious orders – to maintain an existing exemption that is jeopardized due to a St. John's University governance change.
- Sales tax exemption for nursing homes and boarding care homes – to maintain an existing exemption potentially eliminated due to a property tax court case.

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- Various sales tax exemptions for construction materials – to increase jobs and reduce tax pyramiding.
- Sales tax exemption for public infrastructure related to destination medical center – to reduce city costs for projects.

Background. Minnesota Statutes, section 3.192, requires bills that create new tax expenditures or renew existing tax expenditures to provide a purpose for the tax expenditure and a standard or goal for use in measuring its effectiveness.

Article 14: Market Value Definition

Overview

This bill converts the computation of levy, tax, spending, debt, and similar limits that are based on "market value" or "taxable market value" to estimated market value. This is done in response to the 2011 law that replaced the market value homestead credit with the market value exclusion and had, following a Department of Revenue interpretation, the consequence of reducing these limits by the amount of the new exclusion. Using estimated market value will base these limits on the assessor's estimate of the properties' fair market value, including any board or court orders adjusting that value, but before any exclusions, adjustments, or other changes are made to the value for tax or legislative policy purposes (e.g., green acres and similar deferrals and the homestead market value or other exclusions).

Section

1 **County fairgrounds improvement expenditures.** Converts from taxable to estimated market value the qualifying criterion (a minimum of $105 million of market value) that permits a city, town, or school district to spend up to $10,000 per year on county fairgrounds improvements.

2 **County agriculture and conservation land assistance program; required levy.** Converts the minimum levy required for a county to participate in the state agricultural land preservation and conservation assistance program from a percentage of taxable market value to estimated market value. This levy is capped at $15,000.

3 **State police and fire aid; definitions.** Modifies the definitions for state police and fire aid to refer to estimated market value, rather than market value. Market value is used to allocate the amount of fire aid among recipient jurisdictions. The definition includes tax exempt market value.

4 **Apportionment of state fire aid.** Provides for apportionment of state fire aid among recipient jurisdictions (cities, towns, and various other governmental units) based on

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estimated market value, rather than market value.

5 **State fire aid.** Changes a reference in state fire aid from market value to estimated market value.

6 **Auxiliary forest.** Deems the market value of land in an auxiliary forest for all purposes other than taxation to be based on estimated, rather than taxable, market value.

7 **Watershed management tax district; levy limit.** Converts the watershed management tax district levy limit in rural towns from a limit based on 0.02418 percent of taxable market value to the same percentage of estimated market value.

8 **Watershed management organizations; bond levy.** Converts the levy limit on watershed management organization bond levies in rural towns from a limit based on 0.02418 percent of taxable market value to estimated market value.

9 **Lake Minnetonka Conservation District, total funding limitation.** Converts the total funding limit that applies to the Lake Minnetonka Conservation District from 0.00242 percent of taxable market value to estimated market value. This limit may be exceeded by resolution of three-fourths of the participating municipalities.

10 **White Bear Lake Conservation District; municipal levy limits.** Converts the levy limit for municipalities to fund the White Bear Lake Conservation District from 0.02418 percent of taxable market value to estimated market value. This affects the cities of White Bear Lake, Dellwood, and Mahtomedi, and the town of White Bear.

11 **Watershed districts; organizational expense fund.** Converts the cap on a watershed district's organizational expense fund, which is funded by a property tax levy, from a limit based on 0.01596 percent of taxable market value to estimated market value. This fund is capped at $60,000.

12 **Watershed districts; general fund and basic features levy limits.** Converts the limit on a watershed district's general levy limit from one equal to 0.048 percent of taxable market value to estimated market value. This levy cannot exceed $250,000. An additional 15-year levy for basic water management features, if petitioned for by 50 or more resident owners, is also converted from taxable market value to estimated market value.

13 **Watershed districts; survey and data acquisition levy.** Converts the limit on a watershed district's survey and data acquisition levy limit from 0.02418 percent of taxable market value to estimated market value. This levy may only be imposed once every five years.

14 **Eminent domain blight test.** Modifies the definition of "structurally substandard" under the blight test in the eminent domain law to refer to estimated market value, rather than taxable market value. This test limits certain uses of the eminent domain power to properties where the cost of curing housing and similar types of code violations exceeds 50 percent of the value of the property. Under the changes, this would be measured against estimated, rather than taxable, market value.

Section

15 **Computation of adjusted net tax capacity or ANTC.** Requires the Department of Revenue (DOR) to compute ANTC values for cities and counties. ANTCs are used in various state aid formulas that are based on "equalized" tax base amounts (i.e., adjusted for the variations in assessment practices using assessment sales ratios). The statute now refers only to the computations for school districts. Changes in the section also clarify that these computations use values that reflect fiscal disparities, tax increment financing, and the power line credit. All of these changes codify the current DOR practice. Section 111 directs the Revisor to recodify this statute in the property tax statutes.

16 **County historical society levy.** Converts the city and town levy limit for county historical societies from 0.02418 percent of taxable market value to estimated market value.

17 **EMS district levy limit.** Converts the emergency medical service EMS taxing district levy limit from 0.048 percent of taxable market value to estimated market value. This levy is capped at $400,000.

18 **CSAH formula; rural counties.** Converts the levy calculation in the county state aid highway (CSAH) formula for rural counties from 0.01596 percent of taxable market value to estimated market value. This levy determines the expected local contribution under the formula.

19 **CSAH formula; urban counties.** Converts the levy calculation in the CSAH formula for urban counties from 0.00967 percent of taxable market value to estimated market value. This levy determines the required local contribution under the formula.

20 **Mandated expenditure of CSAH money; exemption.** Modifies the exemption from a mandate on counties to spend CSAH money on bridge and dam improvements in statutory, third, and fourth class cities. Under present law, this requirement does not apply to cities with taxable market value of more than $2,100 per capita. This measure is converted to an estimated market value base.

21 **County road and bridge levy in unorganized townships.** Modifies qualifying rules related to expenditure of the county road and bridge levy in unorganized towns from valuation based on taxable market value to estimated market value. This provision applies only to counties with unorganized townships and between 95 and 105 full or fractional townships and values between $12 million and $21 million. An obsolete reference to base for the property tax on "money and credits" is repealed; this tax was eliminated in the 1930s.

22 **County road and bridge bond limit.** Converts the limit on county road and bridge bonds from 0.12089 of taxable market value to estimated market value and repeals a reference to the obsolete property tax on money and credits.

23 **Estimated market value; definition.** Defines "estimated market value" for purposes of the property tax statutes as the assessor's determination of market value, including any board orders, for the parcel of property. The definition of estimated market *for a taxing district* in section 25 governs the computation of tax levy limits, debt limits, and state aid computations. This section contains the general definition of a *parcel's* estimated market value.

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24 **Taxable market value; definition.** Defines "taxable market value" for purposes of the property tax statutes as the estimated market value of the parcel reduced by:

- Market value exclusions
- Deferments of value (e.g., green acres, rural preserves, open space, metropolitan agricultural preserves and so forth)

Other adjustments that reduce market value before class rates are applied.

25 **Market value definition; computation of levy limits, debt limits, and state aid.** Converts from taxable market value to estimated market value the definition of "market value" in the statute that provides the general rules for computing tax levy limits, debt limits, and state aid computations based on market value. Under current law, taxable market value is computed after (1) limited market value (which has expired and is obsolete) and (2) the "This Old House" valuation exclusion, but includes tax exempt wind energy values. In addition, it provides that market value does not reflect adjustments for TIF, fiscal disparities, and the power line credit. In applying the statute, DOR has excluded a variety of minor valuation exclusions that are not referenced in the statute. This section now specifically references the minor exclusions, while providing that estimated market value is the value before these adjustments.

By converting the limits to estimated market value, the definition will not reflect the reductions or shifts in value caused by the following:

- The various deferrals, such as green acres, open space, rural preserves and so forth – this is a policy change from current practice and will increase limits somewhat in areas with these properties.
- Exclusions, including the homestead market value exclusion enacted by the 2011 legislature, as well as the more minor exclusions in prior law – this reflects either a change in the way the statute is written or DOR practice, but under prior law (before enactment of the homestead market value exclusion) these amounts were very minor.
- Adjustments to tax capacity, such as fiscal disparities and TIF – this is the same as current practice.

Present law requires that tax exempt wind energy property be added to taxable market value. The section reverses that, confirming apparent local administrative practices in the counties with the largest amounts of this property.

The measure of estimated market value for tax limits is the amount for the previous assessment year, while for debt limits it is the most recently available amount.

Limits under special law and city charters that are based on market value are also converted to estimated market value.

26 **Cross reference.** Corrects a cross reference to a subdivision (relating to the value of platted

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land) that was recodified as two subdivisions in 2008.

27 **Manufactured home park cooperative.** Eliminates a reference to the repealed market value homestead credit with a reference to the market value homestead exclusion.

28 **Homestead application.** Replaces a reference to the repealed market value credit with a reference to the market value exclusion.

29 **Tax definition.** Eliminates an obsolete reference to gross tax capacity.

30 **Disparity reduction aid (DRA).** Requires taxable market values to be used in the computation of DRA, since DRA computations are based on net tax capacity, which is always based on taxable market value.

31 **Disparity reduction credit (DRC).** Confirms that the DRC will continue to be computed using taxable market value. This prevents the definitional change in section 25 from modifying the computation of the DRC.

32 **Levy limits based on mill rates; growth factor.** Provides that the law converting old special law and city charter provisions containing levy or mill rate limits will provide increases based on the rate of growth in estimated market value, rather than taxable market value.

33 **Correction of town levies.** Modifies the thresholds used to determine which year's levy a correction of mistakes in town levies will be added to from a percentage of taxable market value to estimated market value.

34 **Obsolete levy limit law.** Converts the growth factor under the old (last effective for the 2010 levy) levy limit law for commercial-industrial property from taxable to estimated market value.

35 **Contents of tax statement.** Updates a cross reference in the statute specifying the contents of the property tax statement to the new definition of taxable market value contained in section 24 and eliminates an obsolete reference to limited market value.

36 **Iron Range fiscal disparities; adjusted market value.** Defines "adjusted market value" for the purposes of the Iron Range fiscal disparities law to be taxable market value, adjusted by the sales ratio. This change confirms existing practice, which is contrary to the statute's use of estimated market value.

37 **Iron Range fiscal disparities; fiscal capacity.** Clarifies that fiscal capacity under the Iron Range fiscal disparities law is based on adjusted market value.

38 **Iron Range fiscal disparities; average fiscal capacity.** Clarifies that average fiscal capacity under the Iron Range fiscal disparities law is based on adjusted market value.

39 **Iron Range fiscal disparities; net tax capacity.** Clarifies that net tax capacity under the Iron Range fiscal disparities law is based on taxable market value.

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40 **Iron Range fiscal disparities; adjustment of values.** Eliminates the mandate that limits on levies, aid, taxes, debt, or salary based on values be adjusted to reflect the effect of the Iron Range fiscal disparities law. (Most of these limits will be based on estimated market value, which does not reflect the effects of fiscal disparities.) The section also clarifies computation of fiscal capacity (used to compute distributions) to be consistent with administrative practices.

41 **Allocation of multi-county mortgage registry tax collections.** Provides that the county portion of collections of mortgage registry tax paid for mortgages on properties in multiple counties is allocated among the counties using the estimated, rather than taxable, market value of the properties.

42 **Allocation of multi-county deed tax collections.** Provides that the county portion of collections of deed tax paid for properties in multiple counties is allocated among the counties using the estimated, rather than taxable, market value of the properties.

43 **Employer contributions to volunteer firefighters' pensions.** Provides that one-half of additional contributions to a volunteer firefighters' pension fund, required as a result of insufficient fund assets, to be allocated to employer-municipalities in proportion to their estimated, rather than taxable, market values.

44 **Major town purchases.** Converts the threshold that subjects large contracts for town purchases to reverse referendum authority from 0.24177 percent of taxable market value to estimated market value.

45 **Town certificates of indebtedness.** Converts the threshold that subjects town issuance of certificates of indebtedness to reverse referendum authority from 0.25 percent of taxable market value to estimated market value.

46 **Town firefighter relief levy limit.** Converts the levy limit for firefighter pension benefits, applicable to towns with populations of 1,200 or more, from 0.00806 percent of taxable market value to estimated market value.

47 **Metropolitan area towns; certificates of indebtedness.** Converts the threshold that subjects metro area town issuance of certificates of indebtedness to reverse referendum authority from 0.24177 percent of taxable market value to estimated market value.

48 **Dissolution of towns.** Converts the criteria for dissolution of a town, which is triggered by the town's total taxable market value dropping below $165,000, to estimated market value.

49 **County boundary changes.** Converts the criteria allowing changes in county boundaries to estimated, rather than taxable, market value.

50 **County CIP bonds.** Eliminates the definition of "tax capacity" in the county capital improvement plan (CIP) bond law. This definition is obsolete, since the CIP debt limit is based on market value, rather than tax capacity.

51 **County CIP bond debt limit.** Converts the limit on county CIP bonds from 0.12 percent of

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taxable market value to estimated market value.

52 **Limit on county spending for nonprofit legal assistance.** Modifies the limit on the amount a county may spend to fund a nonprofit legal assistance corporation from 0.00604 percent of taxable market value to estimated market value.

53 **County courthouse bonds.** Converts the debt limit for county courthouse bonds that may be issued without an election from 0.0403 percent of taxable market value to estimated market value.

54 **County emergency jobs program.** Modifies the limit on the county levy for an emergency jobs program from 0.01209 percent of taxable market value estimated market value.

55 **Hennepin County; building fund.** Converts the Hennepin County reserve and building maintenance levy limit from 0.02215 percent of taxable market value to estimated market value.

56 **Hennepin County Library levy limit.** Converts the Hennepin County Library levy limit from 0.01612 percent of taxable market value to estimated market value.

57 **Three Rivers Park District levy limit.** Converts the levy limit for the Three Rivers Park District from 0.03224 percent of taxable market value to estimated market value.

58 **Anoka County Library debt limit.** Converts the debt limit (expressed relative to the maximum annual payment of principal and interest) on Anoka County Library bonds from 0.01 percent of taxable market value to estimated market value.

59 **Anoka County Library levy limit.** Converts the Anoka County Library levy limit from 0.01 percent of taxable market value to estimated market value.

60 **County interfund borrowing.** Converts the minimum size threshold for a county to engage in interfund borrowing from $1.033 billion of taxable market value to estimated market value.

61 **Continuance of nonconforming land uses.** Modifies the exception to the authority to continue nonconforming land uses if more than 50 percent of the market value of the building or structure is destroyed by fire or natural disaster so that the test is based on estimated, rather than taxable, market value.

62 **Regional rail authority levy limit.** Converts the regional rail authority levy limit from 0.04835 percent of taxable market value to estimated market value.

63 **Community corrections facilities; rent limit.** Converts the rent limit in the law permitting lease-revenue bond financing of community corrections facilities from 0.1 percent of taxable market value to the same percentage of estimated market value.

64 **Capital notes; home rule charter cities.** Converts the debt limit that applies to capital notes issued without an election by a home rule charter city from 0.03 percent of taxable market value to estimated market value.

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65 **Certain contracts; statutory cities.** Converts the threshold that subjects conditional sale contracts and contracts for deed purchases by statutory cities to reverse referendum authority from 0.24177 percent of taxable market value to the same percentage of estimated market value.

66 **Certificates of indebtedness; statutory cities.** Converts the threshold that subjects statutory cities' issuance of certificates of indebtedness to reverse referendum authority from 0.25 percent of taxable market value to estimated market value.

67 **Special service districts; property subject to charges.** Modifies the test to determine whether a split-use property in a special service district is subject in full or proportionately to the charges or levies from 50 percent of taxable market value to the same percentage of estimated market value. (Properties with more than 50 percent of their value derived from the commercial-industrial uses are subject to the charges on their full value, while properties with lower percentages are only subject to the charges on the C/I portion of the value.)

68 **Pedestrian mall improvements; levy limit.** Converts the levy limit for special city tax for pedestrian mall improvements from 0.12089 percent of taxable market value to the same percentage of estimated market value.

69 **First class city hospital levy.** Converts the authorized levy for operation of a first class city-owned hospital from 0.0806 percent of taxable market value to estimated market value.

70 **Campground levy.** Converts the authorized levy for operation and maintenance of a city or town tourist camping grounds from 0.0806 percent of taxable market value to estimated market value.

71 **Hennepin County park museum levy.** Converts the Hennepin County park museum levy (used for the Minneapolis Museum Institute of Arts) from 0.00846 percent of taxable market value to estimated market value.

72 **St. Cloud Transit Commission levy.** Converts the limits on the St. Cloud Transit Commission property tax levy from 0.12089 percent of taxable market value to estimated market value.

73 **Duluth Transit Commission levy.** Converts the limits on the Duluth Transit Commission property tax levy from 0.07253 percent of taxable market value to estimated market value.

74 **Cities; acceptance of conditional gifts.** Converts the qualifying rule for second, third, and fourth class cities to accept gifts with conditions (such as life annuity gifts with interest not to exceed five percent) from $41 million of taxable market value to estimated market value.

75 **HRA levy limit.** Converts the levy limit for housing and redevelopment authorities (HRAs) from 0.0185 percent of taxable market value to estimated market value.

76 **HRA debt limit.** Converts limit on the issuance of general obligation HRA bonds from 0.5 percent of taxable market value to estimated market value.

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77 **Port authority, mandatory city levy.** Converts the levy limit for the mandatory port authority levy (i.e., the levy the city must levy on behalf of the port authority) from 0.01813 percent of taxable market value to estimated market value.

78 **Seaway Port Authority levy.** Converts the maximum basic levy of the Seaway Port Authority (which levies as a special tax district, rather than requiring the city to levy its tax as other port authorities do) from 0.01813 percent of taxable market value to estimated market value.

79 **Port authority; discretionary city levy.** Converts the limit for the discretionary port authority levy (i.e., the levy the city may levy on behalf of the port authority) from 0.00282 percent of taxable market value to estimated market value.

80 **EDA levy.** Converts the economic development authority city levy from 0.01813 percent of taxable market value to estimated market value.

81 **Multicounty economic development levy.** Converts the levy for county contributions to a multicounty, nonprofit economic development corporation from 0.0008 percent of taxable market value to estimated market value.

82 **First class city publicity levy.** Converts the authorized first class city publicity levy from 0.0008 percent of taxable market value to estimated market value.

83 **Hazardous property penalty.** Converts the limit on the penalty a city may assess on hazardous properties from one percent of taxable market value to estimated market value.

84 **Joint maintenance of cemeteries.** Modifies the law allowing contiguous towns and statutory cities to agree to jointly maintain public cemeteries, if each has a minimum market value of $2 million. The minimum market value requirement would be based on estimated, rather than taxable, market value. This law limits the maximum expenditure by each governmental unit to no more than $10,000 per year.

85 **City improvement fund; taconite cities.** Modifies the minimum requirement ($2.5 million) of taconite and iron ore value that permits a city to establish a permanent improvement fund to being based on estimated, rather than taxable, market value.

86 **Taconite cities improvement fund levy limit.** Converts calculation of the levy limits for the permanent improvement fund for taconite cities from 0.08059 percent of taxable market value to estimated market value.

87 **Acceptance of 1943 law applying to cities with high concentrations of iron ore value.** Modifies references in the acceptance section of an old law, regulating financial practices, which applied to cities with more than one-half of their value in unmined iron ore value, to refer to estimated market value. Note: this law is likely obsolete, since no city has sufficient iron ore value to qualify.

88 **Metropolitan Council debt limit.** Converts the Metropolitan Council's debt limit from 0.01209 percent of taxable market value to estimated market value.

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89 **School district debt limits; adjustment for detached airport property.** Converts the statute that adjusts school district debt limits for districts affected by airport detachments (this affects both the MSP and Holman Field airports) from taxable market value to estimated market value. In addition, the language of the statute is updated to reflect that these detachments have already occurred. (The statutory language is written to apply to future detachments.)

90 **Metropolitan Airports Commission (MAC); levy limit for general budget purposes.** Converts the MAC's levy limit for general budget purposes from 0.00806 percent of taxable market value to estimated market value. MAC has not levied property taxes for any purpose in over 40 years.

91 **MAC general obligation bonding; additional levy limit.** Converts the MAC additional levy limit (beyond what is necessary to pay its general obligation revenue bonds) from 0.00121 percent of taxable value to estimated market value.

92 **MAC general levy limit.** Converts the MAC's levy limit from 0.00806 percent of taxable market value to estimated market value.

93 **Metropolitan Mosquito Control Commission (MMCC); levy limit.** Converts the rate of growth in the MMCC's levy limit from the growth in its taxable market value to the growth in estimated market value.

94 **Metro area fiscal disparities; adjusted market value.** Defines "adjusted market value" for the purposes of the metropolitan area fiscal disparities law to be taxable market value, adjusted by the assessment sales ratio. This change confirms existing practice, which is contrary to the statute's use of estimated market value.

95 **Metro area fiscal disparities; fiscal capacity.** Clarifies that fiscal capacity under the metropolitan area fiscal disparities law is based on adjusted market value.

96 **Metro area fiscal disparities; average fiscal capacity.** Clarifies that average fiscal capacity under the metropolitan area fiscal disparities law is based on adjusted market value.

97 **Metro area fiscal disparities; net tax capacity.** Clarifies that net tax capacity under the metropolitan area fiscal disparities law is based on taxable market value.

98 **Metro area fiscal disparities; adjustment of values.** Eliminates the mandate that limits on levies, aid, taxes, debt, or salary based on values be adjusted to reflect the effect of the fiscal disparities law. (Most of these limits will be based on estimated market value, which does not reflect the effects of fiscal disparities.) The section also clarifies computation of fiscal capacity (used to compute distributions) to be consistent with administrative practices.

99 **City CIP bonds.** Converts the limit that applies under the city capital improvement program (CIP) bond law from 0.16 percent of taxable market value to estimated market value. CIP bonds may be issued without an election, but are subject to a reverse referendum requirement.

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100 **General net debt limit.** Converts the general net debt limit (applies to municipalities other than school districts and first class cities) from three percent of taxable market value to estimated market value.

101 **Net debt limit; first class cities.** Converts the net debt limit that applies to first class cities from percentages of taxable market value to estimated market value.

102 **Net debt limit; school districts.** Converts the net debt limit that applies to school districts from 15 percent of taxable market value to estimated market value and clarifies the values may be adjusted by the assessor's sales ratio, if that results in a higher limit.

103 **Refunding bonds; referendum exemption.** Converts the debt threshold that allows a city, county, town, or school to issue refunding bonds without holding an election from 1.62 percent of taxable market value to estimated market value.

104 **Bonds qualifying for State Board of Investment (SBI) purchase.** Converts the maximum limit on Minnesota municipal bond purchases by SBI from 3.63 percent of the taxable market value of the issuer to estimated market value.

105 **Local government aid (LGA); ANTC.** Updates the reference to city net tax capacity in the LGA statute to the recodified section (under the Revisor's instruction in section 111) that provides for calculation of ANTCs.

106 **Commercial-industrial percentage.** Requires the commercial-industrial percentage factor in the LGA formula to be based on the estimated market value of commercial-industrial property relative to the city's total estimated market value.

107 **County program aid; ANTC.** Updates the reference to county net tax capacity in the county program aid statute to the recodified section (under the Revisor's instruction in section 111) that provides for calculation of ANTCs.

108 **County jail bonds; referendum exemption.** Converts the annual tax levy permitted to pay county jail bonds issued without an election from 0.09671 percent of taxable market value to estimated market value.

109 **County jail leases; rent limit.** Converts the rent limit in the law permitting lease-revenue bond financing of county jails from 0.1 percent of taxable market value to estimated market value.

110 **Definition of estimated market value.** Adds a definition of "estimated market value" to the general definition section of the statutes (section 645.44). This definition points to (cross references) section 25's definition and applies for purposes of levy, tax, spending, and debt limits and calculation of aid payments.

111 **Revisor's instruction.** Directs the Revisor of Statutes to recodify the statute governing calculation of ANTCs in the property tax statutes (chapter 273). This law is now codified in the school finance law, but largely relates to computation of aids paid to cities and counties and is the primary responsibility of the commissioner of revenue.

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112 **Repealer.** Repeals the following statutes:

Section	Description
276A.01, subd. 11	Iron Range fiscal disparities law, definition of "valuation;" this is replaced by the definition of "adjusted market value" as redefined in section 36.
473F.02, subd. 13	Metropolitan area fiscal disparities law, definition of "valuation;" this is replaced by the definition of "adjusted market value" as redefined in section 95.
477A.011, subd. 11	Definition of "equalized market value" in the local government aid statute; this is replaced by the use of adjusted net tax capacity, the measure that is actually used in the formula.

113 **Effective date.** Provides the changes affecting the computation of debt limits are effective the day following final enactment, while changes that affect levy and tax limitations or aid computations are effective for taxes payable in 2014.

Article 15: Department Income, Franchise and Estate Taxes

Overview

Makes changes recommended by the Department of Revenue:

- Requires all regulated investment companies to report municipal bond interest and dividend payments.
- Clarifies that various estimated tax provisions apply both to C corporations and entities subject to the unrelated business income tax.
- Makes clarifying changes to the recapture tax enacted as part of the estate tax exclusion for qualifying small business and farm property, effective retroactively to the original effective date of the exclusion.
- Increases the payment threshold for eight percent withholding on payments to out-of-state construction contractors from $50,000 of cumulative payments to contracts exceeding $50,000.
- Strikes references to expired federal provisions.

1 **Recapture tax – return required**. Moves the return filing requirement for the recapture tax which applies when a qualifying heir of a family business or farm fails to satisfy the three year qualifying use requirement, from the estate tax chapter to chapter 289A, the chapter of the statutes that provides general tax and administrative provisions. (Sections 3**Error! Reference source not found.Error! Reference source not found.Error! Reference source not found.Error! Reference source not found.Error! Reference source not found.** to 6

Section

similarly relocate existing provisions in chapter 291 or place new administrative provisions related to the recapture tax in chapter 289A.)

2 **Municipal bond interest reporting; regulated investment companies.** Requires regulated investment companies to report payment of municipal bond interest and dividends without regard to whether the company is required to register under chapter 80A, the Minnesota Securities Act.

3 **Recapture tax – informational return required.** Requires qualified heirs to file two informational returns during the three-year period after a decedent's death if the decedent excluded from the taxable estate qualified small business or qualified farm property. These returns are due 24 months and 36 months after the decedent's death.

4 **Recapture tax – return due date.** Specifies that the due date for the recapture tax return is six months after a disqualifying cessation of the trade or business or a disqualifying disposition of the property that was excluded from the taxable estate.

5 **Regular estate tax – payment due date.** Clarifies that the estate tax payment due date relates only to the regular estate tax (as distinguished from the recapture tax, which is covered by section 6).

6 **Recapture tax – payment due date.** Provides that the recapture tax payment is due on or before six months after a disqualifying cessation of the trade or business or a disqualifying disposition of the property that was excluded from the taxable estate.

7 **Estimated tax payments; short taxable year.** Along with sections 8, 9, and 10 clarifies that estimated tax provisions apply to both C corporations that pay corporate franchise tax and exempt entities that pay unrelated business income tax. Under present law, estimated tax payment requirements for businesses with short taxable years reference "entity" but not "corporation." Effective the day following final enactment.

8 **Underpayment of estimated tax.** Clarifies that interest on underpayments of estimated tax is added to the tax due for both C corporations that pay corporate franchise tax and exempt entities that pay unrelated business income tax. Under present law, the interest on underpayments provision references "corporation" but not "entity." Effective the day following final enactment.

9 **Required installments; estimated tax.** Clarifies that statute outlining the calculation of required installments of estimated tax apply to both C corporations that pay corporate franchise tax and exempt entities that pay unrelated business income tax. Present law references "entity" but not "corporation" in some sentences, and "corporation" but not "entity" in others. Effective the day following final enactment.

10 **Failure to file estimated tax.** Clarifies that the statute defining the time from which an underpayment of estimated tax runs applies to both C corporations that pay corporate franchise tax and exempt entities that pay unrelated business income tax. Under present law references "entity," but not "corporation." Effective the day following final enactment.

Section

11 **Withholding; out-of-state construction contractors.** Changes payment threshold that triggers the eight percent withholding requirement on payments to out-of-state construction contractors from $50,000 of cumulative payments during the year to contracts exceeding $50,000. Effective for payments made to contractors after December 31, 2013.

Article 16: Department Sales and Use and Special Taxes

Overview

This article makes changes in sales and special taxes provisions, as recommended by the Department of Revenue (DOR).

1 **Deed tax; partitions.** Defines a real property "partition" for purposes of the deed tax exemption for partition deeds (i.e., a deed to or from a co-owner partitioning their undivided interest in the same piece of real property). The definition provides, in effect, that the exemption only applies to a deed, or that portion of a deed, that divides a contiguous tract of co-owned real property into physically separate tracts owned individually by each of the co-owners.

Effective date: Day following final enactment.

2 **Sales and use tax**. Eliminates the accelerated remittance schedules for vendors with annual sales tax collections of at least $120,000 for all months except for June collections. Effective the day following final enactment. These early remittance requirements became inactive after the full statutory amounts for the budget reserve and cash flow accounts were restored in the February 2012 economic forecast.

Effective date: Day following final enactment.

3 **Exemption certificate taken in good faith.** Defines the term "taken in good faith" for purposes of seller relief from sales tax liability when a seller obtains a fully completed exemption certificate within 120 days after a request by the commissioner for substantiation of the exemption. Also clarifies that the relief is not available if the commissioner finds that the seller:

- knows or has reason to know that the information relating to the exemption was materially false; or
- knowingly participated in activity intended to purposefully evade the tax due.

This is current practice but putting the definition in statute is necessary for conformity with the Streamlined Sales Tax Agreement.

Effective date: Retroactively from January 1, 2013.

Section

4 **Wholesale sales price; tobacco products.** Modifies the definition of wholesale sales price by replacing references to price lists in current law with a reference to the price at which a distributor purchases the tobacco product.

Effective date: Purchases made after December 31, 2013.

5 **Beer excise tax; small brewer credit.** Ties allowance of the credit for small brewers to the fiscal year (rather than calendar year).

Effective date: Day following final enactment.

6 **Nonadmitted insurance tax.** Includes purchasing groups that purchase insurance directly from a nonadmitted insurer in the entities subject to tax.

Effective date: Premiums received after December 31, 2013.

7 **Retaliatory provisions.** Includes life insurance companies in the list of entities that are covered by the retaliatory tax provisions.

Effective date: Day following final enactment.

8 **Tax on purchasing groups.** Removes the tax on purchasing groups that purchase insurance directly from a nonadmitted insurer. Section 6 moves the tax on these groups to tax that applies to entities that purchase insurance from nonadmitted insurers.

Effective date: Premiums received after December 31, 2012.

9 **Purchasing groups due date.** Eliminates the requirement that purchasing groups file biannual returns. Section 10 provides for filing of annual returns.

Effective date: Premiums received after December 31, 2013.

10 **Purchasing groups due date.** Changes purchasing groups' due date for filing returns from twice a year to once a year. This is consistent with the annual return due for other entities that buy directly from unauthorized insurers rather than from licensed insurance companies or surplus lines brokers.

Effective date: Premiums received after December 31, 2013.

11 **Repealer.** Repeals the penalty and safe harbor provisions related to the early remittance schedules for sales tax eliminated in section 2.

Section

Article 17: Department of Revenue Property and Minerals Provisions

Overview

Makes miscellaneous technical and policy changes to property tax law recommended by the Department of Revenue, including:

- Allowing assessors to do appraisals related to land exchanges;
- Clarifying the format of notices related to delinquent property taxes; and
- Providing that certain transfers of land enrolled in the rural preserves program do not trigger payment of back-taxes.

1 **Definitions.** Modifies a cross reference due to the change made in section 10.

2 **Taxes credited to state airports fund.** Clarifies that the commissioner of revenue collects the air flight property tax. Current law only requires the tax to be credited to the state airports fund but does not specifically require the commissioner to collect the tax.

3 **Prohibited activity (assessor's duties).** Modifies the list of non-tax property appraisals that an assessor may perform within their jurisdiction, so that county assessors are allowed to do appraisals related to land exchanges.

4 **Authority; air flight property tax penalties.** Adds a citation to allow the commissioner to abate air flight property tax late payment penalties, clarifying that the commissioner has the power to abate both late payment and late filing penalties upon finding reasonable cause.

5 **Exempt property used by private entity.** Clarifies that taxes on the use of federal real property are assessed as a personal property tax against the user.

6 **Net proceeds tax, property tax exemption.** Deletes the exemption from property tax for "direct reduced ore" under the net proceeds tax. Direct reduced ore is an iron ore product, which will not be the net proceeds tax that only applies to nonferrous ores, metals, or minerals.

7 **Definition of person for property taxes.** Clarifies that for property tax purposes the term "person" includes many different kinds of entities.

8 **Additional taxes (ownership changes for property in rural preserves).** Allows certain new owners of property enrolled in the rural preserves program to qualify without an intervening period of disqualification. This avoids deferred taxes becoming payable when both the prior owner and the new owner qualify. Provides that the new owner will qualify in the following situations: (1) a transfer of the property to a surviving owner due to death; (2) a transfer of the property to a spouse by reason of marriage or divorce; or (3) a transfer of the property to a trust or authorized farming partnership, corporation, or company when the same people retain the same beneficial interests.

Section

9 **Class 2 agricultural classification.** Clarifies that (a) intensive livestock and poultry confinement operations are agricultural even if less than ten acres in size, (b) land must have been agricultural prior to enrollment in a conservation program in order to retain agricultural classification, and (c) certain 11-acre parcels fall under qualification criteria for ten-acre parcels.

10 **Class 4 residential nonhomestead classification.** Eliminates a requirement that assessors separately report residential nonhomestead properties located on farms (but makes no changes in how those properties are classified or taxed).

11 **Tax exempt property; lease.** Clarifies that the tax on leased exempt property applies in the case of property owned by a local unit of government.

12 **Administrative appeals; railroad and utility valuations.** Allows railroads until the earlier of June 15 or ten days after the date of the valuation, and utilities until the earlier of July 1 or ten days after the valuation, to file an administrative appeal of their property tax valuations. Current law allows both railroads and utilities to file appeals until May 15 or ten days after the date of the valuation, whichever is earlier.

13 **Definition of rural area; electrical cooperatives per capita tax.** Amends the definition of rural area to refer to "statutory cities" and "home rule charter cities." This technical change is necessary because the current statute refers only to "incorporated city," a designation that no longer exists. All cities are now either statutory cities or home rule charter cities.

14 **Notice of delinquent property tax.** Eliminates obsolete text from the notice regarding the various times within which the owners of different types of property may avoid a forfeiture of the property by paying the taxes, costs, and interest. Instructs the commissioner of revenue to provide a narrative description of the various redemption periods that the respective county auditors will include in the notice. Effective for notices required beginning in 2014.

15 **Approval; recording (senior deferral program).** Allows the commissioner to prescribe the form of the lien notices recorded under this program, eliminating the need for the lien notices to be notarized or contain a notation that the document was drafted by the commissioner of revenue.

16 **Nonferrous occupation tax, mining.** Defines the term "hydrometallurgical processes" that is used in nonferrous minerals tax.

17 **Net proceeds tax.** Modifies the terminology used in the distribution language for the net proceeds tax to be consistent with the language imposing the tax.

18 **Public corporation; listed powers (duties of assessors).** Provides that county assessors need not be licensed as real estate appraisers in order to do land exchange appraisals as provided in section 3.

19 **Repealer.** Repeals obsolete provisions relating to (a) filing a list of leased tangible personal property with the commissioner of revenue, (b) limited market value, and (c) a market value

Section

exclusion for property treated for lead paint removal.

Article 18: Department of Revenue Miscellaneous Provisions

Overview

- Makes miscellaneous changes recommended by the Department of Revenue:
- Provides that the state is not liable to holders of warrants voided when the commissioner issues a replacement warrant.
- Provides that notices sent via email by the commissioner are sufficient if the taxpayer agreed to accept notices electronically
- Replaces explicit statements of the time for running of interest on penalties in the various tax chapters with a reference to a general definition in chapter 270C, which provides that interest on penalties runs from the time the penalty was assessable.
- Modifies the definition of "E85" and adds a new definition of biobutanol for use in the petroleum tax chapter.

1 **Void warrants.** Clarifies that a holder of a void warrant is not a holder-in-due-course and may not recover against the state. Effective the day following final enactment.

2 **Notice by electronic means.** Provides that notice of determinations and actions of the commissioner sent by electronic means is sufficient notice if the taxpayer or other person agrees to accept notice electronically. Effective the day following final enactment.

3 **Penalty for failure to pay electronically; interest.** Replaces language requiring interest on the penalty for failure to pay by electronic means from the date the payment was due with a reference to section 270C.40, subdivision 3, which provides that interest on penalties runs from the time the penalty was assessable. Effective the day following final enactment.

4 **Interest on penalties; mortgage registry and deed tax.** Replaces language requiring interest on penalties under the mortgage registry and deed tax chapter (chapter 287) to run from the date the payment was required, including any extensions, with a reference to section 270C.40, subdivision 3, which provides that interest on penalties runs from the time the penalty was assessable. Effective the day following final enactment.

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5 **Interest on penalties; civil penalties under chapter 289A.** Replaces language requiring interest on civil penalties under chapter 289A to run from the date the payment was required, including any extensions, with a reference to section 270C.40, subdivision 3, which provides that interest on penalties runs from the time the penalty was assessable. Chapter 289A provides for administration of taxes under chapters 290, 290A, 291, 297A, and parts of 298, including the individual income, withholding, corporate franchise, estate, sales and minerals taxes administered by the state, and the property tax refund. Effective the day following final enactment.

6 **Interest on penalties; understatement of liability under chapter 289A.** Replaces language requiring interest on the penalty for substantial understatement of liability for taxes administered under chapter 289A, except for the sales tax, to run from the date the tax was underpaid with a reference to section 270C.40, subdivision 3, which provides that interest on penalties runs from the time the penalty was assessable. Effective the day following final enactment.

7 **Biobutanol definition.** Provides a new definition of biobutanol for use in the petroleum tax chapter.

8 **E85 definition.** Modifies the definition of E85 (ethanol) used in the petroleum tax chapter to conform to recent changes to the American Society for Testing and Materials (ASTM) standard.

9 **Penalty for failure to pay; petroleum taxes.** Clarifies that interest on penalties for failure to pay taxes or fees under the petroleum tax accrues until the tax or fee is paid. Effective the day following final enactment.

10 **Interest on penalties; operating without a license.** Provides that the penalty for operating without a license under the petroleum tax chapter bears interest as provided in section 270C.40, subdivision 3. Effective the day following final enactment.

11 **Interest on penalty for unpaid motor vehicle sales tax.** Clarifies that interest on any additional tax and penalties under the motor vehicle sales tax chapter runs from the date the payment tax or penalty was assessable, set by reference to section 270C.40, subdivision 3, until the tax or penalty is paid. Effective the day following final enactment.

12 **Interest on civil penalties; chapter 297E (gambling taxes).** Replaces language requiring interest on civil penalties under the gambling tax chapter (297E) from the date the payment was required, including any extensions, with a reference to section 270C.40, subdivision 3, which provides that interest on penalties runs from the time the penalty was assessable. Effective the day following final enactment.

13 **Interest on penalty for unpaid cigarette and tobacco taxes.** Replaces language requiring interest on the penalty for unpaid cigarette and tobacco taxes to run from the date the payment was required with a reference to section 270C.40, subdivision 3, which provides that interest on penalties runs from the time the penalty was assessable. Effective the day following final enactment.

Section

14 **Interest on civil penalties under chapter 297F (cigarette and tobacco taxes).** Replaces language requiring interest on civil penalties under the cigarette and tobacco tax chapter (297F) to run from the date the payment was required, including any extensions, with a reference to section 270C.40, subdivision 3, which provides that interest on penalties runs from the time the penalty was assessable. Effective the day following final enactment.

15 **Interest on penalty for unpaid liquor taxes.** Replaces language requiring interest on the penalty for unpaid liquor taxes to run from the date the payment was required with a reference to section 270C.40, subdivision 3, which provides that interest on penalties runs from the time the penalty was assessable. Effective the day following final enactment.

16 **Interest on civil penalties under chapter 297G (liquor taxes).** Replaces language requiring interest on civil penalties under the liquor tax chapter (297G) from the date the payment was required, including any extensions, with a reference to section 270C.40, subdivision 3, which provides that interest on penalties runs from the time the penalty was assessable. Effective the day following final enactment.

17 **Interest on penalty; insurance premiums taxes.** Replaces language requiring interest on penalties under the insurance premiums tax chapter (chapter 297I) to run from the date the return or payment was required to be filed or paid with a reference to section 270C.40, subdivision 3, which provides that interest on penalties runs from the time the penalty was assessable. Effective the day following final enactment.

18 **Interest on repayment of JOBZ tax incentives.** Provides that any additional taxes and penalties due on repayment of JOBZ tax incentives bears interest and for interest on penalties to run from the date assessable, by reference to section 270C.40, subdivision 3, to the date of payment. Effective the day following final enactment.

19 **Interest on repayment of biotechnology and health sciences industry zone tax incentives.** Provides that any additional taxes and penalties due on repayment of biotechnology and health sciences industry zone tax incentives bears interest and for interest on penalties to run from the date assessable, by reference to section 270C.40, subdivision 3, to the date of payment. Effective the day following final enactment.