

Subject Omnibus Tax Bill
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Article 1: Federal Conformity; Individual Income and Corporate Franchise Taxes

Article 1 contains changes to Minnesota's individual income and corporate franchise taxes. Changes in the article include:

- Adopting selected federal tax changes enacted by Congress since December 31, 2018, including tax provisions affecting unemployment compensation and the Paycheck Protection Program (PPP).
- Extension of the small business investment credit (angel credit) and historic structure rehabilitation credit.
- Establishment of new state tax credits for film production and charitable contributions to a housing investment fund at Minnesota Housing.
- Allowing taxpayers ages 19 to 21 without children to qualify for the Minnesota working family credit.
- Modifying the student loan credit calculation to reduce the marriage penalty.
- Establishing a state subtraction for payments from charitable contributions to volunteer drivers.
- Eliminating the state addition for section 179 carryovers for property placed into service prior to tax year 2020.

Section	Description – Article 1: Federal Conformity; Individual Income and Corporate Franchise Taxes
1	<p>Credit allowed.</p> <p>Allocates \$5 million to the angel investment credit (angel credit) for tax years beginning in 2022.</p> <p>Effective date: day following enactment.</p>
2	<p>Film production credit.</p> <p>Establishes a film production credit for 25 percent of eligible production costs paid in a taxable year.</p> <p>Subd. 1. Definitions. Defines “allocation certificate,” “application,” “commissioner,” “credit certificate,” “eligible production costs,” “film,” “project,” and “promotion of Minnesota” for purposes of establishing the credit.</p> <p>Subd. 2. Credit allowed. Allows a tax credit equal to 25 percent of “eligible production costs.” A taxpayer may only claim a credit if a credit certificate is issued.</p>

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Subd. 3. Credit assignable. Allows a taxpayer to assign the credit prior to the credit being claimed.

Subd. 4. Application; allocations. Requires taxpayers to apply to DEED prior to claiming the credit. Requires DEED to issue allocation certificates that verify eligibility for the credit, state the amount of credit anticipated, and state the taxable year in which the credit is allocated.

Limits the total credit allocations to \$4.95 million per taxable year.

No credits may be allocated after 2024.

Requires that credits be allocated on a first-come, first-served basis.

Requires an independent audit report detailing production costs to be submitted to DEED once the project is completed and the final credit amount must be based on the verified costs.

Permits DOR to use its audit and examination powers to verify the taxpayer is eligible for the credit.

Subd. 5. Report required. Requires the Department of Revenue to prepare a report by January 15, 2025, detailing the amount of credit certifications, use of the credit, types of projects funded, the economic impact of the credit, tax types of assignees claiming the credit, and annual tax paid by film and TV businesses in the state from 2019 through 2023.

Subd. 6. Appropriation. Appropriates \$50,000 to DEED annually to administer the credit.

Subd. 7. Expiration. Sunsets the credit after 2024.

Effective date: tax years 2021 through 2024.

3-5 **Partial federal conformity.**

Under current law, Minnesota's income tax code is tied to the federal Internal Revenue Code, as amended through December 31, 2018. Since that date, Congress has enacted six significant tax acts, which the state has not adopted for the purposes of its income and corporate franchise tax.

Sections 3-5 of the bill adopt 19 sections of federal law that Congress enacted after December 31, 2018. In some cases, the bill adopts the federal sections for the same

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tax years they are effective for federal purposes. In other cases, the bill adopts federal sections temporarily for tax year 2020.

The federal changes the bill adopts were enacted in the following acts (and sub-acts) of Congress:

- Further Consolidated Appropriations Act, 2020 (FCAA 2020), which contained two tax policy sub-acts:
 - Taxpayer Certainty and Disaster Tax Relief Act of 2019 (TCDTR 2019)
 - Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019
- Coronavirus Aid, Relief, and Economic Security (CARES) Act
- Consolidated Appropriations Act, 2021 (CAA 2021), which contained two tax policy sub-acts:
 - COVID-related Tax Relief Act (CTRA) of 2020
 - Taxpayer Certainty and Disaster Tax Relief Act of 2020 (TCDTR 2020)
- American Rescue Plan Act (ARPA)

The bill specifies that PPP loan forgiveness and nontaxable unemployment insurance are nontaxable income for the purposes of the Minnesota education credit.

The provisions the bill adopted are summarized in the table below.

Act	Sub-act, sec. #	Headnote, Description, Effective Date
FCAA 2020	TCDTR 2019, 101	Exclusion from gross income of discharge of qualified principal residence indebtedness. Provides exclusion from gross income for loan forgiveness on discharged mortgages on a taxpayer's principal residence. Effective for TY 2018-2020.
FCAA 2020	TCDTR 2019, 116	Accelerated depreciation for business property on Indian reservations. Extends through 2020 the shorter recovery periods for businesses on an Indian reservation. Effective for TY 2018-2020.

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FCAA 2020	TCDTR 2019, 117	<p>Expensing rules for certain productions.</p> <p>Allows up to \$15 million of qualified film, television, and live theater production costs to be expensed in the year incurred under IRC section 181.</p> <p>Effective for TY 2018-2020.</p>
FCAA 2020	TCDTR 2019, 130	<p>Special allowance for second generation biofuel plant property.</p> <p>Extends the additional deduction that may be taken the year that certain biofuel plant property is placed in service.</p> <p>Effective for TY 2018-2020.</p>
FCAA 2020	TCDTR 2019, 131	<p>Energy efficient commercial buildings deduction.</p> <p>Extends the deduction for energy efficient commercial building property.</p> <p>Effective for TY 2018-2020.</p>
FCAA 2020	TCDTR 2019, 144	<p>Certain provisions related to beer, wine, and distilled spirits.</p> <p>Creates an exception from the capitalization rules for interest paid during the aging period for beer, wine, and spirits, allowing a deduction in the year the costs are incurred.</p> <p>Effective for TY 2018-2020.</p>
FCAA 2020	TCDTR 2019, 201	<p>Definitions.</p> <p>Defines “qualified disaster area,” “qualified disaster zone,” “qualified disaster,” and “incident period.”</p> <p>Effective for qualified disasters after January 1, 2018, and before February 20, 2020.</p>
FCAA 2020	TCDTR 2019, 202	<p>Special disaster-related rules for use of retirement funds.</p> <p>Allows up to \$100,000 of disaster-related distributions for retirement accounts. Amount</p>

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		<p>of distribution is included in gross income in the three years following the distribution.</p> <p>Effective for disaster-related distributions within 180 days of a declared disaster, for qualified disasters between January 1, 2018, and February 20, 2020.</p>
FCAA 2020	TCDTR 2019, 204	<p>Other disaster-related tax relief provisions.</p> <p>Charitable contributions: Allows cash charitable contributions for disaster relief efforts up to 100% of the contribution base (ordinarily, the limit is 60% of the contribution base).</p> <p>Effective for contributions between January 1, 2018, and February 20, 2020.</p> <p>Casualty Losses: Allows deduction for the full amount of disaster-related casualty losses—current Minnesota law limits the casualty loss itemized deduction to losses greater than \$100 in excess of 10% of AGI.</p> <p>Effective for casualty losses between January 1, 2018, and February 20, 2020.</p>
FCAA 2020	SECURE, 301	<p>Benefits provided to volunteer firefighters and emergency medical responders.</p> <p>Provides for exclusion from gross income for up to \$50/month in benefits paid to volunteer firefighters and EMTs.</p> <p>Effective for TY 2020.</p>
CARES	1106(i)	<p>Loan forgiveness; taxability.</p> <p>Provides an exclusion from gross income for loan forgiveness through the federal Paycheck Protection Program (PPP).</p> <p>For most businesses, PPP loan forgiveness will occur in calendar year 2020 and 2021. Some businesses may qualify for forgiveness in calendar year 2022, and it is possible that fiscal year filers qualified for loan forgiveness in fiscal year 2019.</p>

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CARES	2202	<p>Special rules for use of retirement funds.</p> <p>Allows up to \$100,000 of coronavirus-related distributions for retirement accounts. Amount of distribution is included in gross income in the three years following the distribution.</p> <p>Effective for coronavirus-related distributions on or after January 1, 2020, and before December 31, 2020.</p>
CAA 2021	CTRA 275	<p>Regulations or guidance clarifying application of educator expense tax deduction.</p> <p>Requires the Secretary of Treasury to issue regulation or guidance to clarify that personal protective equipment (PPE), disinfectant, and other supplies to control COVID-19 are eligible for the federal educator expense deduction.</p> <p>Effective for expenses paid or incurred after March 12, 2020.</p>
CAA 2021	CTRA 276	<p>Clarification of tax treatment of forgiveness of covered loans.</p> <p>Allows businesses that received loan forgiveness through the Paycheck Protection Program to deduct their associated expenses.</p> <p>For most businesses, expenses associated with PPP loan forgiveness occurred or will occur in calendar year 2020 and 2021. It is possible that fiscal year filers had associated expenses in tax year 2019.</p>
CAA 2021	CTRA 277	<p>Emergency financial aid grants.</p> <p>Provides an exclusion from gross income for emergency financial aid grants provided to students under CARES.</p> <p>Effective for qualified emergency financial aid payments made after March 26, 2020.</p>
CAA 2021	CTRA 278(b)	<p>Clarification of tax treatment of certain loan forgiveness and other business financial assistance under the CARES Act (EIDL).</p>

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		<p>Provides an exclusion from gross income for advances through the COVID-19 Economic Injury Disaster Loan (EIDL) and Targeted EIDL Advance programs. Allows a deduction for associated expenses.</p> <p>The federal provision is effective for taxable years ending after March 27, 2020, and is effective for all EIDL and Targeted EIDL Advances, which occurred in 2020 and 2021. The bill adopts the provision for payments in tax year 2020 only.</p>
CAA 2021	CTRA 275(c)	<p>Clarification of tax treatment of certain loan forgiveness and other business financial assistance under the CARES Act (section 1112(c) SBA principal and interest subsidies).</p> <p>Provides an exclusion from gross income for small business loan subsidy payments under section 1112(c) of CARES. Allows a deduction for associated expenses.</p> <p>The federal provision is effective for taxable years ending after March 27, 2020, and is effective for section 1112(c) payments, which occurred in 2020 and 2021. The bill adopts the provision for payments in tax year 2020 only.</p>
ARPA	9042	<p>Suspension of tax on portion of unemployment compensation.</p> <p>Exclusion from gross income for \$10,200 of unemployment insurance compensation. The exclusion is limited to taxpayers with FAGI less than \$150,000. For joint returns, the exclusion is \$10,200 of compensation received by each spouse.</p> <p>Effective for TY 2020.</p>

6 Losses.

Makes three clarifications related to the Minnesota itemized deduction for casualty losses.

- 1) It limits the deduction to losses not covered by insurance.

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	<ul style="list-style-type: none">2) It explicitly subjects the deduction to the two percent AGI floor in section 67(b)(3) of the Internal Revenue Code.3) It explicitly subjects the deduction to the limits in section 165(h) of the Internal Revenue Code (which stipulate the deduction is amount in excess of \$100, less ten percent of the taxpayer's AGI). <p>These changes are consistent with the Department of Revenue's current interpretation of the law.</p> <p>Effective date: the day following final enactment.</p>
7	<p>Volunteer driver reimbursement.</p> <p>Allows a Minnesota subtraction for payments from charitable organizations to volunteer drivers. The subtraction is limited to payments in excess of the IRS reimbursement rates for charitable organizations (\$.14 cents/mile) but do not exceed the reimbursement rate for businesses (\$.56 cents/mile in 2021, subject to annual adjustment).</p> <p>Effective date: tax year 2021.</p>
8	<p>Film production credit.</p> <p>Allows a tax credit under the income tax for the film credit certified in section 2. Unused credits may be carried over for five years. Allows the Department of Revenue to audit the credit.</p> <p>Effective date: tax years 2021 through 2024.</p>
9	<p>Credit allowed.</p> <p>Allows taxpayers ages 19 to 21 without qualifying children to qualify for the Minnesota working family credit. Under current law, taxpayers of any age may qualify for the credit if they have a qualifying child, but taxpayers who are 21 to 64 years old may qualify for the credit if they do not have a qualifying child.</p> <p>Effective date: tax year 2021.</p>
10	<p>Sunset.</p> <p>Extends the sunset for the historic structure credit by one year.</p> <p>Effective date: day following enactment.</p>

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11	<p>Student loan credit.</p> <p>Subd. 1. Definitions. Amends the definition of “earned income” for the purposes of the student loan credit to reference the definition of “earned income” in the marriage penalty credit. Under current law, “earned income” includes wages, salaries, tips, and self-employment income. The bill adds Social Security benefits and some retirement income to the definition.</p> <p>Subd. 2. Credit allowed. Requires the Department of Revenue to allocate the couple’s combined adjusted gross income to each individual spouse based on the spouse’s percentage share of the couple’s earned income. This has the effect of reducing the marriage penalty in the credit.</p> <p>Effective date: tax year 2021.</p>
12	<p>Minnesota housing tax credit.</p> <p>Establishes a housing tax credit for 85 percent of contributions to the newly established contribution fund.</p> <p>Subd. 1. Definitions. Defines the following terms: “Agency” means the Minnesota Housing Finance Agency (MHFA). “Minnesota housing tax credit contribution fund” means the fund established in a later section. “Qualified project” means a project qualifying for a loan or grant under a later section.</p> <p>“Taxpayer” means an individual or corporation subject to the individual income tax, corporate franchise tax, or insurance premiums tax.</p> <p>Subd. 2. Credit allowed. Allows taxpayers to claim a credit for contributions of at least \$1,000 and up to \$2 million for contributions to the housing tax credit contribution fund. The credit equals 85 percent of the amount contributed in the taxable year. The credit is not refundable but may be carried forward for up to ten years. Excludes the contribution used to claim the credit from being used to claim any other subtraction or credit allowed under other sections of law. Requires the credit to be allocated according to provisions of current law for nonresidents and part-year residents.</p> <p>Subd. 3. Allocation. Allocates \$9.9 million annually for the credit. Allows contributions to be designated for a specific project, but prohibits designations disallowed in a later section. Requires the Minnesota Housing Finance Agency (MHFA) to file a credit certificate statement with the taxpayer and send a copy to the commissioner of revenue. If there are insufficient amounts to match the contribution, the MHFA must return the contribution to the taxpayer.</p>

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	<p>Subd. 4. Partnerships; multiple owners. Requires distribution of the credit to partners, members, shareholders, or multiple owners of property on a pro rata basis.</p> <p>Subd. 5. Recapture. Provides that credits claimed are not subject to recapture but that if grants or loans are canceled or recaptured, the grant or loan is returned to the housing tax credit contribution fund.</p> <p>Subd. 6. Audit powers. Provides that the commissioner of revenue’s audit and examination powers apply to credits claimed under this legislation.</p> <p>Subd. 7. Sunset. Sunsets the credit after 2028.</p> <p>Subd. 8. Appropriation. Appropriates \$100,000 annually to the MHFA to administer the credit.</p> <p>Effective date: tax years in 2023 through 2028.</p>
13	<p>Film production credit.</p> <p>Allows a tax credit under the premium tax for the film credit certified in section 2. Unused credits may be carried over for five years. Allows the Department of Revenue to audit the credit.</p> <p>Effective date: tax years 2021 through 2024.</p>
14	<p>Minnesota housing tax credit.</p> <p>Allows a tax credit under the premium tax for the housing tax credit established in section 12.</p> <p>Effective date: tax years in 2023 and later.</p>
15	<p>Housing tax credit contribution fund.</p> <p>This section establishes the housing contribution fund to which contributions may be made to qualify for the housing tax credit established in section 12.</p> <p>Subd. 1. Fund created. Establishes the fund and appropriates amounts contributed to make grants or loans to eligible recipients.</p> <p>Subd. 2. Use of funds; grant and loan program. Permits the commissioner to award grants or loans for multifamily and single family developments for persons and families with low to moderate incomes. Specifies the uses of loan and grant funds. Permits the commissioner to give preference to grants and loans to</p>

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proposals that include waivers or regulatory changes that result in identifiable cost avoidance or cost reduction. Sets aside ten percent for housing in non-metro areas with a population of 2,500 or less, 35 percent for families whose incomes are 50 percent or less of area median income, and 25 percent for single-family housing. After September 1, any remaining financing available after these set-asides may be awarded to any project.

Subd. 3. Eligible recipients; definitions; restrictions; use of funds. Specifies disqualified individuals and businesses, prohibits grants to disqualified individuals and businesses, and requires grant or loan recipients to disclose that the disqualifications do not apply. Permits the commissioner to make loans and grants to specified entities, subject to the rules for disqualified individuals and disqualified businesses. Except for the initial set-asides in subdivision 2, funds must be used for projects that serve households who meet the income limits established for the economic development and housing challenge program. To qualify, a homeownership project must serve households whose incomes were below 115 percent of the greater state or area median income. A rental project must serve households with incomes below 80 percent of the state or area median income.

Subd. 4. Recapture. Provides that loans or grants made through the program are subject to repayment or recapture. Recaptured funds are redeposited in the fund and not returned to taxpayers who made contributions to the fund.

Subd. 5. Report. Requires a report to the legislative committees having jurisdiction over housing regarding the credits, grants, and loans issued by region.

Effective date: tax years in 2023 through 2028.

16 Clarification of section 179 expensing conformity.

Clarifies that no state addition is required for the federal section 179 deduction claimed for tax year 2020 and thereafter.

Effective date: retroactive to 2020.

Article 2: Partnership Audits

This article modifies Minnesota's reporting and payment requirements generated by federal audits and assessments in response to federal changes enacted in 2015, which provided for conducting audits at the partnership level, rather than at the partner level. This article requires

state reporting of federal adjustments from a partnership-level audit and allows assessments to be paid at the entity level.

Section	Description – Article 2: Partnership Audits
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| 1 | Enforcement; administrative order; penalties; cease and desist.
Conforming change.

Effective date: when effective for federal purposes. |
| 2 | Individual income, fiduciary income, mining company, corporate franchise, and entertainment taxes.
Conforming change.

Effective date: when effective for federal purposes. |
| 3 | Erroneous refunds.
Conforming change.

Effective date: when effective for federal purposes. |
| 4 | Federal tax changes.
Conforming change.

Effective date: when effective for federal purposes. |
| 5 | Failure to report change or correction of federal return.
Conforming change; allows prepayment of estimated tax.

Effective date: when effective for federal purposes. |
| 6 | Report made of change or correction of federal return.
Conforming change.

Effective date: when effective for federal purposes. |
| 7 | Incorrect determination of federal adjusted gross income.
Conforming change.

Effective date: when effective for federal purposes. |
| 8 | Definitions relating to federal adjustments.
Amends Minn. Stat. ch. 289A, by adding Minn. Stat. § 289A.381, which contains various definitions relating to the reporting of federal adjustments, and federal |

Section Description – Article 2: Partnership Audits

adjustments to partnership returns. Incorporates MTC proposed language regarding negative adjustments in the definition of "federal adjustment."

Effective date: when effective for federal purposes.

9 Reporting adjustments following a partnership level audit.

This section provides the substantive provisions related to the state response to federal partnership audits.

Subd. 1. State partnership representative. Allows a partnership to designate a state representative for the partnership, otherwise, the federal representative is the state representative.

Subd. 2. Reporting and payment requirements for partnerships and tiered partners. Except for partnerships electing the partner pay option and negative adjustments, requires reporting of federal adjustments with the state and direct partners within 90 days of the final determination date. Within 180 days of a final adjustment, direct partners other than tiered partners must file a federal adjustments report of their distributive share of federal adjustments and pay any additional tax due.

Subd. 3. Election; partnership or tiered partners pay. Allows audited partnerships the election to pay tax at the entity level. Within 180 days of the final adjustment, a partnership must report the residency status of all direct partners and pay tax on the properly allocated and apportioned share of all income at the highest marginal rate for its individual and corporate direct and tiered partners.

Subd. 4. Tiered partners and indirect partners. Requires that direct and indirect tiered partners of an audited partnership are subject to the reporting and payment requirements and may also elect to pay their tax at the entity level.

Subd. 5. Effects of election by partnership or tiered partner and payment of amount due. Provides that the election under subdivision 3 is irrevocable. Deems partnership paid taxes to be paid in lieu of tax paid by the direct and indirect partners.

Subd. 6. Failure of partnership or tiered partner to report or pay. Allows the commissioner to assess direct or indirect partners for taxes owed if a partnership or tiered partner fails to timely report or pay as required.

Effective date: when effective for federal purposes.

Section Description – Article 2: Partnership Audits

- 10 **Consent to extend statute.**
Conforming change.

Effective date: when effective for federal purposes.
- 11 **Penalty for failure to notify of federal change.**
Conforming change.

Effective date: when effective for federal purposes.
- 12 **Partners, not partnership, subject to tax.**
Conforming change.

Effective date: when effective for federal purposes.
- 13 **Time limit for bad debt refund.**
Conforming change.

Effective date: when effective for federal purposes.
- 14 **Time limit for a bad debt deduction.**
Conforming change.

Effective date: when effective for federal purposes.
- 15 **Repayment procedures.**
Conforming change.

Effective date: when effective for federal purposes.

Article 3: Pass-through Entity Tax

Establishes a fully refundable pass-through entity tax that allows electing pass-through businesses to pay state income tax at the entity level and deduct this tax for federal income tax purposes. Under federal law, taxes on pass-through income are subject to the SALT cap of \$10,000.

Section	Description – Article 3: Pass-through Entity Tax
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1	<p>Pass-through entity tax.</p>
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Paragraph (a) establishes definitions for “income,” “qualifying entity,” and “qualifying owner” for purposes of the pass-through entity (PTE) tax. Income is calculated in the same manner as required for composite return filers. A qualifying entity may not have a pass-through business as an owner. A qualifying owner may be an estate or trust that is a shareholder of an S-corporation that is a qualifying entity.

Paragraph (b) allows a qualifying entity to file and pay the PTE tax if the owners holding more than a 50 percent ownership in the entity elect to do so. The election would be irrevocable for the taxable year. The election is only available in a year the SALT deduction cap is effective for federal purposes.

Paragraph (c) imposes the PTE tax on a qualifying entity. The amount of tax is equal to the amount of tax liability of each owner.

Paragraph (d) requires the tax liability of each owner to be calculated by applying the highest individual rate under the income tax. As is the case for the composite return filing rules, no nonbusiness deductions would be allowed. In addition, only those deductions and credits allowed to an individual owner are allowed in calculating the owner’s tax liability.

Paragraph (e) requires that the same deductions used to calculate an owner’s tax liability for the PTE tax must also be used to calculate the owner’s liability under the income tax.

Paragraph (f) imposes the estimated tax requirements on owners paying the PTE tax, in the same manner as required for composite return filers.

Paragraph (g) clarifies that an owner’s adjusted basis in the partnership is determined as if the election to pay the PTE tax was not made.

Paragraph (h) treats a PTE return and a qualifying entity like a composite return and composite filer for administrative purposes.

Paragraph (i) allows the commissioner of revenue to prescribe the content, format, and manner of PTE returns and other documents.

Paragraph (j) allows PTE filers to also pay the composite tax.

Paragraph (k) allows the PTE tax to satisfy the tax liability for nonresidents, in the manner allowed for nonresidents electing composite return filing.

Effective date: tax year 2021 and thereafter.

Section Description – Article 3: Pass-through Entity Tax

- 2 Pass-through entity tax.**
Provides that the PTE tax is treated as a corporate tax for the purposes of certain civil penalties.

Effective date: tax year 2021 and thereafter.
- 3 Schedules of rates for individuals, estates, and trusts.**
Requires an adjustment to the residency percentage for nonresident qualifying owners of a PTE tax-electing pass-through business, for the state income tax addition and state subtraction for tax refunds, to the extent these adjustments are attributed to the electing pass-through.

Effective date: tax year 2021 and thereafter.
- 4 Credit for taxes paid to another state.**
Clarifies that the provision requiring a pro-rata share of a partnership-level tax to be considered a tax imposed on the partner also includes LLCs.

Effective date: tax year 2021 and thereafter.
- 5 Pass-through entity tax credit.**
Allows a taxpayer to claim a refundable credit for their share of the amount of PTE tax paid by an electing pass-through business.

Effective date: tax year 2021 and thereafter.
- 6 Withholding by partnerships.**
Provides an exception to the withholding rules for partners in a partnership that elects to file and pay the pass-through entity tax in section 1.

Effective date: tax years in 2021 and thereafter.
- 7 Withholding by S-corporations.**
Provides an exception to the withholding rules for shareholders in an S-corporation that elects to file and pay the pass-through entity tax in section 1.

Effective date: tax years in 2021 and thereafter.

Article 4: Sales and Use Taxes

This article makes a number of changes to the requirement of certain vendors to remit June accelerated sales tax liabilities. This article also provides an exemption for fundraising sales made by school-associated student groups.

Section	Description – Article 4: Sales and Use Taxes
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1	Additional revenues; priority.
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Requires the reduction of the percentage of accelerated June sales tax liabilities of certain vendors if there is a budget surplus determined by a November forecast.

The reduction in percentage is priority number six for the allocation of additional revenues in a surplus situation. The percentage will only be reduced if the other five priorities are met first.

Requires the commissioner of management and budget to certify the reduced percentage to the commissioner of revenue by March 15 annually, and requires the commissioner of revenue to certify the percentage to stakeholders by April 15 annually.

Effective July 1, 2021.

2	Sales and use tax.
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Makes the following changes relating to June accelerated tax payments:

- reduces the percentage of accelerated June sales tax liabilities of certain businesses in accordance with section 1;
- requires the expiration of the June accelerated payment for sales and use tax liabilities after the percentage is reduced to zero; and
- exempts certain vendors that make retail sales of certain construction materials from the requirement to remit June accelerated payments.

Effective for estimated payments made after July 1, 2021.

3	Accelerated payment of June sales tax liability; penalty for underpayment.
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Adjusts the threshold for the imposition of penalties for the underpayment of accelerated June sales tax liabilities to the percentage as determined under section 1.

Requires this provision to expire once the percentage is reduced to zero.

Effective for estimated payments made after July 1, 2021.

Section	Description – Article 4: Sales and Use Taxes
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4	Fund-raising sales by nonprofit groups.
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Exempts from sales tax the sales made by school-associated student groups even when the money is recorded as part of school district revenues provided that:

- the sales are for fund-raising purposes of elementary or secondary student organizations for the purposes of funding extracurricular activities such as sports, arts, etc.; and
- the school district reserves the revenue raised for extracurricular activities and the money raised for a specific activity is spent on that activity.

This provision restores this exemption that was in place prior to a change made in the 2019 omnibus education bill.

Effective the day after final enactment.

Article 5: Vapor and Tobacco Taxes

This article makes a number of conforming changes related to the cigarette and tobacco products tax and regulations surrounding the distribution of tobacco products. The changes include:

- clarifying the administrative requirements imposed on retailers and out-of-state retailers making sales into Minnesota;
- clarifying the definition of “nicotine solution products” to include other commonly-used terms for nicotine solution product devices; and
- amending provisions in the chapter regulating distribution of tobacco products (chapter 325F) to align with changes made in the cigarette and tobacco taxes chapter regarding retailers and out-of-state retailers making sales into Minnesota.

Section	Description – Article 5: Vapor and Tobacco Taxes
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1	Delivery sale.
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Creates a definition of “delivery sale” within the cigarette and tobacco taxes chapter to align with the meaning given in the chapter regulating distribution of tobacco products.

A “delivery sale” is a sale of tobacco products to a consumer in Minnesota when the item is sold over the phone, online, or by mail order form, or is delivered to the customer in Minnesota by mail or other delivery service.

Section Description – Article 5: Vapor and Tobacco Taxes

Effective January 1, 2022.

2 Nicotine solutions products.

Amends the definition of “nicotine solution products” to add commonly-used terms for nicotine solution product devices and includes these devices in the definition regardless of whether they are sold with a solution containing nicotine.

Effective January 1, 2022.

3 Registration requirement.

Clarifies that the registration requirement applicable to out-of-state retailers applies before making delivery sales.

Effective for all delivery sales occurring after December 31, 2021.

4 Retailer collection and remittance of use tax.

Requires retailers and out-of-state retailers to collect and pay any use tax legally due and give the purchaser a receipt of taxes paid.

Effective for all delivery sales occurring after December 31, 2021.

5 Use tax return.

Requires retailers and out-of-state retailers that make delivery sales to file a monthly tax return accompanied by the full unpaid tax liability.

Effective for all delivery sales occurring after December 31, 2021.

6 Reporting requirements.

Requires retailers and out-of-state retailers that make delivery sales to file monthly reports. Clarifies that this requirement may be met by meeting certain federal law requirements and by filing under the use tax return requirement.

Effective for all delivery sales occurring after December 31, 2021.

7 Electronic payment.

Requires retailers and out-of-state retailers having a liability of \$10,000 or more during a fiscal year ending June 30 to remit all liabilities in all subsequent calendar years by electronic means.

Effective for all delivery sales occurring after December 31, 2021.

Section Description – Article 5: Vapor and Tobacco Taxes

8 Accelerated tax payment.

Requires retailers and out-of-state retailers to meet the accelerated tax payment requirements that are applicable to delivery sales occurring after December 31, 2021.

Effective for all delivery sales occurring after December 31, 2021.

9 Definitions.

Makes conforming changes to the definition of “tobacco products” in chapter 325F to include “cigarettes” and “tobacco products” as defined in the cigarette and tobacco taxes chapter.

Effective January 1, 2022.

10 Registration requirement.

Makes conforming changes in chapter 325F to align the registration requirement of out-of-state retailers with the registration requirement imposed by the cigarette and tobacco taxes chapter.

Effective January 1, 2022.

11 Collection of taxes.

Makes conforming changes in chapter 325F to the section imposing penalties on retailers making delivery sales to align with the amended requirements in the cigarette and tobacco taxes chapter that require these retailers to file all returns and reports, collect and pay all taxes, and maintain all records.

Effective for all delivery sales occurring after December 31, 2021.

Article 6: Property Taxes

This article makes a number of changes related to property taxes, including:

- authorizing the creation of fire protection districts;
- moving the homestead application deadline to December 31;
- setting the first tier valuation limit for 4d property at \$100,000 for the next two assessment years;
- authorizing the use of special assessments for energy improvement projects; and
- requiring a report on the 4d affordable housing program.

Section Description – Article 6: Property Taxes

- 1 Fire protection and emergency medical services special taxing districts.**
Expands current law emergency medical services special taxing district authorization to include fire protection services. This section also requires political subdivisions and newly established districts to submit levy and expenditure reports to the legislature.

Effective the day following final enactment and applies to districts established after June 30, 2021, except that districts established prior to June 30, 2021, are eligible for additional property tax levy and issuance of debt authorizations.
- 2 Certain property owned by an Indian Tribe.**
Exempts from property taxes approximately 35 parcels owned by the Leech Lake Band of Ojibwe in Cass County. This provision reestablishes the property tax exemptions for these parcels and provides for a refund of any state general taxes paid in 2020 and 2021.

Effective beginning with assessment year 2021.
- 3 General rule.**
Adds grandparent, stepparent, stepchild, uncle, aunt, nephew, and niece to the list of qualifying relatives for agricultural relative homestead.

Effective for property taxes payable in 2022 and thereafter.
- 4 Homestead established after assessment date.**
Moves the homestead occupancy and application deadlines to December 31.

Effective beginning with assessments in 2021.
- 5 Homestead application.**
Contains a conforming change related to the homestead application deadline in section 4.

Effective beginning with assessments in 2021.
- 6 Class 2.**
Provides that when a parcel of at least 20 acres is enrolled in the Sustainable Forest Incentive Act program (SFIA) and the parcel has been improved with a structure, the number of acres assigned to the split parcel is the greater of three or the number of acres excluded from SFIA due to the structure.

Effective for assessment year 2022 and thereafter.

Section Description – Article 6: Property Taxes

- 7 Class 4.**
Sets the first tier limit for 4d property at \$100,000 for assessment year 2022 and assessment year 2023. After assessment year 2023, the tier limit will be adjusted annually.

Effective beginning with assessment year 2022.
- 8 Homestead of veteran with a disability or family caregiver.**
Moves the application deadline for the disabled veteran's homestead market value exclusion to December 31 to match the homestead application deadline change in section 4.

Effective beginning with assessments in 2021.
- 9 Levy amount.**
Decreases the commercial-industrial portion of the state general levy by \$20.1 million so that the increased exclusion in section 10 does not result in shifting of the state general tax.

Effective beginning with property taxes payable in 2023 and thereafter
- 10 Commercial-industrial tax capacity.**
Increases the commercial-industrial market value excluded from the state general tax to \$150,000.

Effective beginning with property taxes payable in 2023 and thereafter.
- 11 Notice of proposed property taxes.**
Requires fire protection and emergency medical service special taxing districts to hold annual Truth-in-Taxation hearings on their proposed levies.

Effective beginning with property taxes payable in 2022.
- 12 Notice of proposed taxes required supplemental information.**
Adds a supplemental statement to the notice of proposed property taxes. This statement must contain two pieces of information: (1) the percent change in levy proposed for the following year by the county, city or township, and school district; and (2) summary budget information for the county, city, and school district.

Effective for property taxes payable in 2022 and thereafter.

Section Description – Article 6: Property Taxes

- 13 Special taxing districts; definition.**
Expands the emergency medical service special taxing district definition to include fire protection.

Effective the day following final enactment.
- 14 Income.**
Excludes veterans disability compensation from the definition of “income” used for purposes of the homestead credit refund and the renter’s property tax refund.

Effective for refund claims based on property taxes payable in 2022 and rent paid in 2021, and thereafter.
- 15 Improvements authorized.**
Authorizes a city to impose a special assessment for an energy improvement project, upon petition by owner. The municipality must administer and fund the improvements and notice of low- or no-cost alternatives must be provided.

Effective for assessments payable in 2022 and thereafter.
- 16 Petition by all owners.**
Makes conforming changes related to the petition requirement in section 15.

Effective for assessments payable in 2022 and thereafter.
- 17 Cloquet Fire and Ambulance Special Taxing District.**
Removes the levy limit for the Cloquet Area Fire and Ambulance Special Taxing District to match the taxing authority allowed for fire protection and emergency medical services special taxing districts in the bill.

Effective the day after the governing body of the district approves the law through resolution and certifies the approval with the secretary of state.
- 18 Sustainable Forest Incentive Act; violations.**
Provides that land that was split-classified using the current method for agricultural land while enrolled in SFIA is not in violation of the program.

Effective for determinations of violations after June 30, 2021.
- 19 4d affordable housing programs report.**
Requires the commissioner of revenue, in consultation with Minnesota Housing, to produce a report on class 4d property and on local 4d affordable housing programs.

Section	Description – Article 6: Property Taxes
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The report must include information on the number of 4d units and the property tax impacts of the 4d classification on these units. It must also contain an analysis of the impact of reducing the classification rate of the first-tier of 4d property to 0.25 percent. The report must be completed by January 15, 2022.

Effective the day following final enactment.

Article 7: Aids and Credits

This article makes a number of changes related to state aids, including:

- creating a new local homeless prevention aid to counties;
- providing a supplemental aid to cities losing LGA in 2022; and
- providing a grant to the city of Floodwood.

Section	Description – Article 7: Aids and Credits
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1 Counties.

Transfers the portion of county program aid designated to public defender costs to the Board of Public Defense, rather than the commissioner of management and budget.

2 Local homeless prevention aid.

Creates a new state aid to counties that can be used to fund family homeless prevention and assistance projects and programs. Each county's overall distribution contains two amounts: (1) the greater of (i) \$5,000 or (ii) the county's per capita share of five percent of the overall annual allocation; and (2) the remaining allocation multiplied by the county's proportional share of the rolling three-year average of students experiencing homelessness. The aid would distribute \$20 million annually and sunset after six years.

Effective beginning with aids payable in 2023 and thereafter.

3 Supplemental 2022 city aid distribution.

Provides supplemental aid for a city for which the LGA certified for payable 2022 is less than the amount certified for the city in 2021. The amount of supplemental aid for each city is equal to the reduction in LGA between 2021 and 2022. An appropriation from the general fund is provided.

Effective for aids payable in calendar year 2022.

Section	Description – Article 7: Aids and Credits
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|----------|--|
| 4 | <p>City of Floodwood; grant.</p> <p>Provides \$250,000 in fiscal year 2022 to the city of Floodwood to pay for costs related to the city’s street and infrastructure project.</p> <p>Effective the day following final enactment.</p> |
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Article 8: Local Taxes

This article provides the following:

- creates a definition of “capital project” for which revenues collected from a general local tax may be used;
- removes the expiration of the Sartell food and beverage tax; and
- authorizes general local sales taxes for Carlton County, Cloquet, Edina, Fergus Falls, Grand Rapids, Hermantown, Itasca County, Litchfield, Little Falls, Maple Grove, Mille Lacs County, Moorhead, Oakdale, St. Cloud, St. Peter, Staples, Wadena, Waite Park, and Warren.

Section	Description – Article 8: Local Taxes
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|----------|---|
| 1 | <p>Local resolution before application for authority.</p> <p>Creates a definition of “capital project” for which revenues collected from a general local tax made be used. These are the only projects that may be submitted to the legislature for approval of a local sales tax. A capital project includes:</p> <ul style="list-style-type: none">▪ a single building or structure, including associated infrastructure;▪ improvements within a single park or recreation area; or▪ a contiguous trail. <p>Effective for local sales tax proposals submitted after the day following final enactment.</p> |
| 2 | <p>City of Sartell; local taxes authorized.</p> <p>Removes the expiration date of the food and beverage tax imposed by the city of Sartell and amends the referendum requirement to allow the referendum to be held at a general or special election as determined by a resolution adopted by the city’s governing board.</p> <p>Effective the day following final enactment.</p> |

Section Description – Article 8: Local Taxes

3 Carlton County; local sales and use tax authorized.

Authorizes Carlton County to impose a 0.5 percent local sales tax to finance \$60 million plus associated bond costs for construction of a new building containing a law enforcement center, judicial center, and jail. Allows the county to issue up to \$60 million in bonds for the project without separate voter approval. The tax expires the earlier of 30 years or when allowed revenues are raised.

Effective upon the city complying with approval and notice requirements for special laws.

4 City of Cloquet; taxes authorized.

Authorizes the city of Cloquet to impose a 0.5 percent local sales tax to finance \$8,150,200 plus associated bond costs for the Pine Valley Regional Park Project and restoration of the Cloquet Ice Arena. Allows the city to issue up to \$8,150,200 in bonds for the projects without separate voter approval. The tax expires the earlier of ten years or when allowed revenues are raised.

Effective upon the city complying with approval and notice requirements for special laws.

5 City of Edina; taxes authorized.

Authorizes the city of Edina to impose a 0.5 percent local sales tax to finance \$39.3 million plus associated bond costs for development of Fred Richards Park and improvements to Braemar Park. Allows the city to issue up to \$39.3 million in bonds for the projects without separate voter approval. The tax expires the earlier of 19 years or when allowed revenues are raised.

Effective upon the city complying with approval and notice requirements for special laws.

6 City of Fergus Falls; taxes authorized.

Authorizes the city of Fergus Falls to impose a 0.5 percent local sales tax to finance \$13 million plus associated bond costs for construction of an aquatics center and the DeLagoon Improvement Project. Allows the city to issue up to \$13 million in bonds for the projects without separate voter approval. The tax expires the earlier of December 31, 2037, or when allowed revenues are raised.

Effective upon the city complying with approval and notice requirements for special laws.

Section Description – Article 8: Local Taxes

7 City of Grand Rapids; taxes authorized.

Authorizes the city of Grand Rapids to impose a 0.5 percent local sales tax to finance \$5.98 million plus associated bond costs for reconstruction and remodeling of the IRA Civic Center. Allows the city to issue up to \$5.98 million in bonds for the projects without separate voter approval. The tax expires the earlier of seven years or when allowed revenues are raised.

Effective upon the city complying with approval and notice requirements for special laws.

8 City of Hermantown; taxes authorized.

Allows the city of Hermantown to impose an additional 0.5 percent local sales tax to finance \$28 million plus associated bond costs for upgrades to the Hermantown Hockey Arena, construction of the Hermantown-Proctor trail, and improvements to Fichtner Park. Allows the city to issue up to \$28 million in bonds for the projects without separate voter approval. The tax expires the earlier of 20 years or when allowed revenues are raised.

Effective upon the city complying with approval and notice requirements for special laws.

9 Itasca County; taxes authorized.

Authorizes Itasca County to impose a one percent local sales tax to finance \$75 million plus associated bond costs for the construction of a correctional facility and associated court facilities. Allows the county to issue up to \$75 million in bonds for the projects without separate voter approval. The tax expires the earlier of 30 years or when allowed revenues are raised.

Effective upon the city complying with approval and notice requirements for special laws.

10 City of Litchfield; taxes authorized.

Authorizes the city of Litchfield to impose a 0.5 percent local sales tax to finance \$10 million plus associated bond costs for construction of a community wellness and recreation center. Allows the city to issue up to \$10 million in bonds for the projects without separate voter approval. The tax expires the earlier of 20 years or when allowed revenues are raised.

Effective upon the city complying with approval and notice requirements for special laws.

Section Description – Article 8: Local Taxes

11 City of Little Falls; taxes authorized.

Authorizes the city of Little Falls to impose a 0.5 percent local sales tax to finance \$17 million plus associated bond costs for construction of a community recreational facility. Allows the city to issue up to \$17 million in bonds for the projects without separate voter approval. The tax expires the earlier of 30 years or when allowed revenues are raised.

Effective upon the city complying with approval and notice requirements for special laws.

12 City of Maple Grove; taxes authorized.

Authorizes the city of Maple Grove to impose a 0.5 percent local sales tax to finance \$90 million plus associated bond costs for expansion and renovation of the Maple Grove Community Center. Allows the city to issue up to \$90 million in bonds for the projects without separate voter approval. The tax expires the earlier of 20 years or when allowed revenues are raised.

Effective upon the city complying with approval and notice requirements for special laws.

13 County of Mille Lacs; local sales and use tax authorized.

Authorizes Mille Lacs County to impose a 0.5 percent local sales tax to finance \$10 million plus associated bond costs for construction of a public works building. Allows the county to issue up to \$10 million in bonds for the projects without separate voter approval. The tax expires the earlier of eight years or when allowed revenues are raised.

Effective upon the city complying with approval and notice requirements for special laws.

14 City of Moorhead; taxes authorized.

Authorizes the city of Moorhead to impose a 0.5 percent local sales tax to finance \$31.59 million plus associated bond costs for construction of a regional library and community center. Allows the city to issue up to \$31.59 million in bonds for the projects without separate voter approval. The tax expires the earlier of 22 years or when allowed revenues are raised.

Effective upon the city complying with approval and notice requirements for special laws.

Section Description – Article 8: Local Taxes

15 City of Oakdale; tax authorized.

Authorizes the city of Oakdale to impose a 0.5 percent local sales tax to finance \$37 million plus associated bond costs for construction of a new public works facility and expansion of the police department. Allows the city to issue up to \$37 million in bonds for the projects without separate voter approval. The tax expires the earlier of 25 years or when allowed revenues are raised.

Effective upon the city complying with approval and notice requirements for special laws.

16 City of St. Cloud; taxes authorized.

Allows the city of St. Cloud to impose a 0.5 percent local sales tax to finance \$21.1 million plus associated bond costs for expansion and improvements to the St. Cloud Municipal Athletic Complex. Allows the city to issue up to \$21.1 million in bonds for the projects without separate voter approval. The tax expires the earlier of five years or when allowed revenues are raised. This tax is in addition to the city's existing local sales tax of 0.5 percent imposed as part of the Central Minnesota Cities sales tax.

Effective upon the city complying with approval and notice requirements for special laws.

17 City of St. Peter; taxes authorized.

Authorizes the city of St. Peter to impose a 0.5 percent local sales tax to finance \$9.121 million plus associated bond costs for construction of a new fire station. Allows the city to issue up to \$9.121 million in bonds for the projects without separate voter approval. The tax expires the earlier of 40 years or when allowed revenues are raised.

Effective upon the city complying with approval and notice requirements for special laws.

18 City of Staples; local sales and use tax authorized.

Authorizes the city of Staples to impose a 0.5 percent local sales tax to finance \$1.6 million plus associated bond costs for renovation of the Staples Community Center. Allows the city to issue up to \$1.6 million in bonds for the projects without separate voter approval. The tax expires the earlier of 25 years or when allowed revenues are raised.

Effective upon the city complying with approval and notice requirements for special laws.

Section Description – Article 8: Local Taxes

19 City of Wadena; tax authorized.

Authorizes the city of Wadena to impose a 0.25 percent local sales tax to finance \$3 million plus associated bond costs for the Wadena Library Rehabilitation Project. Allows the city to issue up to \$3 million in bonds for the projects without separate voter approval. The tax expires the earlier of 20 years or when allowed revenues are raised.

Effective upon the city complying with approval and notice requirements for special laws.

20 City of Waite Park; taxes authorized.

Authorizes the city of Waite Park to impose a 0.5 percent local sales tax to finance \$27.5 million plus associated bond costs for construction of a public safety facility and regional trail connections. Allows the city to issue up to \$27.5 million in bonds for the projects without separate voter approval. The tax expires the earlier of 19 years or when allowed revenues are raised. This tax is in addition to the city's existing local sales tax of 0.5 percent imposed as part of the Central Minnesota Cities sales tax.

Effective upon the city complying with approval and notice requirements for special laws.

21 City of Warren; taxes authorized.

Authorizes the city of Warren to impose a 0.5 percent local sales tax to finance \$1.6 million plus associated bond costs for construction of a new child care facility. Allows the city to issue up to \$1.6 million in bonds for the projects without separate voter approval. The tax expires the earlier of 20 years or when allowed revenues are raised.

Effective upon the city complying with approval and notice requirements for special laws.

Article 9: Tax Increment Financing

This article contains provisions modifying general law surrounding tax increment financing such as:

- providing temporary flexibility of the use of unencumbered TIF increment;
- expanding the pooling rules to allow for expenditure of increment on certain housing projects;
- extending the five-year rule to eight years for redevelopment districts certified after December 31, 2017, through June 30, 2020; and

- providing a corresponding extension of the six-year rule.

Provides special tax increment financing authority to the cities of Bloomington, Burnsville, Minnetonka, Mountain Lake, Richfield, St. Louis Park, Wayzata, and Windom.

Section	Description – Article 9: Tax Increment Financing
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1	Temporary use of increment authorized.
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Allows unobligated increment to be used:

- 1) to provide improvements, loans, interest rate subsidies, or assistance in any form to private development consisting of construction or substantial rehabilitation of buildings and ancillary facilities, if doing so will create jobs, including construction jobs, the construction commences before December 31, 2025, and the construction would not have commenced prior to that date without the assistance; or
- 2) to make an equity investment that the authority determines is necessary to make construction of the development financially feasible.

Transfers of increment may only occur after a written spending plan is adopted following a public hearing. The authority to transfer increment expires on December 31, 2022. All transferred increment must be spent by December 31, 2025. Increment not spent by that date must be returned to the district. If the district has already decertified, the increment must be distributed to the city, county, and school district.

Effective for current unobligated increment the day following final enactment for any TIF district.

2	Expenditures outside district.
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Allows tax increment financing districts that have elected to increase pooling by ten percent to use the increment for owner-occupied housing meeting the requirements of a Housing TIF district, in addition to current law low-income rental housing.

Effective the day following final enactment.

3	Five-year rule.
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Extends the five-year rule by three years for a total of eight years for redevelopment districts that were certified after December 31, 2017, and before June 30, 2020.

Effective the day following final enactment.

Section Description – Article 9: Tax Increment Financing

4 Use of revenues for decertification.

Makes a corresponding change to the six-year rule for those districts whose five-year rule was extended under section 3.

Effective the day following final enactment.

5 Cities of Minnetonka, Richfield, and St. Louis Park; temporary transfer of increment authorized.

Authorizes the cities of Minnetonka, Richfield, and St. Louis Park to transfer increment accumulated for housing development under normal pooling authorizations, or through the additional ten percent allowance for housing purposes, to the city's affordable housing trust fund.

Increment transferred under this section may only be used to make grants, loans, and loan guarantees for the development, rehabilitation, or financing of housing, and to match other funds from federal, state, or private resources for housing projects.

The authority to make transfers under this section expires December 31, 2026, and transfers are subject to all reporting requirements. Lastly, requires a report to the legislature on the use of transferred increment, due by February 1, 2024, and 2026.

Effective upon local approval and compliance with filing requirements for special laws.

6 City of Bloomington; American Boulevard.

Authorizes the creation of a redevelopment district in the city of Bloomington comprised of specified parcels, and provides the following special rules:

- the district is deemed to meet the statutorily required blight findings for establishing a redevelopment district;
- increment generated is not required to be spent on correction of blight conditions; and
- allows increment to be spent on certain utility infrastructure located within the project area, but outside of the district's area.

Effective upon local approval and compliance with filing requirements for special laws.

7 City of Bloomington; 98th and Aldrich.

Authorizes the creation of a redevelopment district in the city of Bloomington comprised of specified parcels, and provides the following special rules:

Section Description – Article 9: Tax Increment Financing

- the district is deemed to meet the statutorily required blight findings for establishing a redevelopment district; and
- increment generated is not required to be spent on correction of blight conditions.

Effective upon local approval and compliance with filing requirements for special laws.

8 City of Burnsville; Burnsville Center Mall.

Authorizes the city of Burnsville to create redevelopment TIF districts within the limited area of the Burnsville Center mall and adjacent rights of way. Under this provision, the following special rules apply to any TIF district created:

- the district is deemed to meet the statutorily required blight findings for establishing a redevelopment district; and
- increment generated is not required to be spent on correction of blight conditions.

Effective upon local approval and compliance with filing requirements for special laws.

9 City of Mountain Lake; TIF District No. 1-8; five-year rule extension.

Extends the five-year rule to ten years for TIF District No. 1-8 in the city of Mountain Lake. Also makes a corresponding extension of the requirement that in the district's sixth year, increment be spent to pay debts for timely decertification.

Effective upon local approval and compliance with filing requirements for special laws.

10 City of Wayzata; TIF District No. 6; expenditures allowed.

Authorizes the city of Wayzata to spend increment generated by TIF District No. 6 on construction of a lakefront pedestrian walkway and public access infrastructure related to the Panoway on Wayzata Bay project. This section will allow the expenditure of increment for this project to be considered an in-district expenditure.

Effective upon local approval and compliance with filing requirements for special laws.

11 City of Windom; TIF District No. 1-22; five-year rule extension; duration extension.

Extends, by five years, both the five-year rule and the district's duration, for TIF District No. 1-22. Includes conforming change to the six-year rule.

Section	Description – Article 9: Tax Increment Financing
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	Effective upon local approval and compliance with filing requirements for special laws.
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Article 10: Public Finance

This article modifies a number of provisions relating to municipal finance.

Section	Description – Article 10: Public Finance
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1	Allocation; termination.
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	Allows counties to use funds generated by county transportation sales taxes for payment of capital costs of construction buildings and other facilities used for maintaining transportation or transit projects.
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2	Exercising powers of a municipal power agency.
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	Allows municipal gas agencies to engage in electric prepayment transactions.
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3	All other powers.
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	Renumbers existing subdivision due to the change in section 2.
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4	Installment; lease purchase; city, county, town, school.
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	Clarifies that installment contracts that local governments use to purchase real or personal property are not to be included in the calculation of the local government's net debt if the amount is under \$1 million.
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5	Interest rate.
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	Deletes outdated and confusing terminology relating to the interest rate of municipal debt.
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6	Street reconstruction and bituminous overlays.
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	Allows municipalities to use street reconstruction bond proceeds to construct bicycle lanes, sidewalks, and paths that are incidental to street reconstruction. This provision aligns the statute with current practice.
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7	Advertisement.
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	Deletes outdated and confusing terminology relating to the interest rate of municipal debt.
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Section	Description – Article 10: Public Finance
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8	Escrow account securities.
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	Updates the list of permissible investments for escrow accounts for refunding bonds to reflect the consolidation of various banks into the Farm Credit System and provides examples of permitted securities.
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9	Repealer.
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	Repeals overlapping and contradictory language regarding the sale of port authority property.
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Article 11: Miscellaneous

Article 11 contains miscellaneous tax policy changes, including:

- Establishing a legislative Tax Expenditure Review Commission.
- Requiring contractors with access to federal tax information (FTI) to undergo background checks.
- Changes to the production tax and solid waste management tax.
- Increasing the budget reserve amount.
- Appropriations to the Department of Revenue, Legislative Coordinating Commission, and City of Biwabik.

Section	Description – Article 11: Miscellaneous
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1	Requirement for new or renewed tax expenditures.
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	Requires any bill creating a new tax expenditure or extending an expiring tax expenditure to sunset after eight years.
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	Effective for the 2022 legislative session.
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2	Director; staff.
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	Requires the Legislative Budget Office (LBO) to provide technical and professional assistance to the Tax Expenditure Review Commission established in section 3 of the bill.
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3	Tax Expenditure Review Commission.
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	Subd. 1. Establishment. Establishes a Tax Expenditure Review Commission to review Minnesota's tax expenditures, and evaluate their effectiveness and fiscal impact.
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Section Description – Article 11: Miscellaneous

Subd. 2. Definitions. Defines the terms “significant tax expenditure,” “tax,” and “tax expenditure” by cross-reference to the definitions in section 6 of the bill.

Subd. 3. Membership. Establishes the membership for the commission:

- Four senators; two appointed by each of the senate majority and minority leaders.
- Four representatives; two appointed by each of the house speaker and minority leader.
- The commissioner of revenue or the commissioner’s designee.

Subd. 4. Duties. Establishes the duties for the commission. During the first three years after the commission is established, it must complete an initial review of the state’s tax expenditures to identify purpose statements and metrics for evaluating each expenditure.

After the period of initial review, the commission must review and evaluate Minnesota’s tax expenditures on a regular, rotating basis. The schedule must ensure that each expenditure is evaluated at least once every ten years. The schedule may group expenditures by policy area or constituency, but must evaluate a similar number of expenditures from each tax type each year. The commission may opt to exclude from review a tax expenditure that is adopted by reference to federal law.

Before December 1 of each year the commission issues a report reviewing an expenditure, it must hold a public hearing on the expenditure.

Subd. 5. Components of review. Describes the process for evaluating a tax expenditure. At a minimum, the commission must:

- Estimate the revenue lost due to a tax expenditure.
- Identify the purpose of the expenditure.
- Estimate the measurable impacts and efficiency of the tax expenditure.
- Compare the effectiveness of the expenditure with a direct expenditure.
- Identify potential modifications to the tax expenditure to increase its efficiency or effectiveness.
- Estimate the amount by which the relevant tax rate could be reduced if the expenditure were repealed.
- Estimate the incidence of significant tax expenditures.
- Consider the cumulative fiscal impacts of other state and federal taxes providing benefits to taxpayers for similar activities.

Section Description – Article 11: Miscellaneous

- Recommend whether the expenditure be continued, repealed or modified.

The commission may omit components of the review that are not feasible.

Subd. 6. Department of Revenue; research support. Requires the DOR research department to provide research support to the commission.

Subd. 7. Report to legislature. Requires the commission to submit a report to the legislature by December 15 of each year. Requires the legislative tax committees to hold a public hearing on the report during the regular legislative session in the year following the submission of the report.

Subd. 8. Terms; vacancies. Establishes two-year terms for the commission, and provides rules for filing vacancies.

Subd. 9. Officers. Requires the commission to elect a chair and vice-chair as presiding officers. The chair and vice-chair must not be from the same chamber.

Subd. 10. Staff. Requires LBO to provide professional and technical assistance to the commission, including assistance with the annual report.

Subd. 11. Expenses. Requires commission and staff to be reimbursed for expenses, in accordance with Legislative Coordinating Commission (LCC) policies.

4 Additional revenues; priority.

Increases the budget reserve amount to \$2,377,399,000.

Effective July 1, 2021.

5 Private nonprofit hospital.

Requires a private nonprofit hospital that leases its building from the city or county in which it is located to annually provide DOR with a copy of its lease agreement.

6 Background check; access to federal tax information.

Adds a subdivision to the section of law concerning independent contractors hired by the Department of Revenue. Provides that individuals performing services for contractors are subject to section 18.

Effective date: day following final enactment.

Section Description – Article 11: Miscellaneous

7 Tax Expenditure Review Commission disclosure.

Requires DOR to disclose to the commission the data that is required in subdivision 6 of section 3.

8 DOR tax expenditure budget due date.

Changes the due date for the DOR Tax Expenditure budget from February 1 to November 1 of each even-numbered year.

9 Tax expenditure budget contents.

Requires the DOR tax expenditure budget to include three new items:

- Purpose statements for tax expenditures identified in the enacting legislation or by the Tax Expenditure Review Commission.
- The incidence of significant sales and income tax expenditures.
- The revenue-neutral amount by which the relevant tax rate could be reduced if the expenditure were repealed.

10 Tax expenditure budget definitions.

Defines the following terms:

- “Business tax credit” means a credit against the corporate franchise tax claimed by a C corporation, or a credit against the individual income tax claimed by a pass-through entity.
- “Pass-through entity” means a partnership, limited liability corporation, or S corporation.
- “Significant tax expenditure” means a tax expenditure, excluding expenditures that: (1) are incorporated into state law by a federal definition of income; (2) result in a revenue reduction of less than \$10 million per biennium; or (3) are business tax credits.
- “Tax pyramiding” means imposing sales taxes on intermediate business-to-business transactions.

The bill includes language removing provisions used to mitigate tax pyramiding from the definition of tax expenditure. This would mean that sales tax provisions that mitigate pyramiding would no longer be included in the tax expenditure report, and would no longer be subject to the rules in section 3.192 for bills establishing tax expenditures.

Section Description – Article 11: Miscellaneous

- 11 DOR tax incidence report due date.**
Changes the due date for the Department of Revenue tax incidence report from March 1 of each odd-numbered year to March 1, 2024, and each even-numbered year thereafter.
- 12 Rate.**
Clarifies that the solid waste tax for construction debris and industrial waste is 60 cents per cubic yard and that the PCA must determine and publish weight-to-volume conversion schedules.

Effective date: July 1, 2021.
- 13 Self-haulers.**
Modifies the solid waste tax rate for self-haulers generating construction debris to match the rate for commercial generators, which is 60 cents per cubic yard. Also makes the same clarifying change for self-hauler generated industrial waste that is made in section 12.

Effective date: July 1, 2021.
- 14 Merchantable iron ore concentrate.**
Expands the types of iron ore bearing material that are subject to the production tax to include lump ore.

Effective for taxes payable in 2022 and thereafter.
- 15 Imposed; calculation.**
Expands the types of iron ore bearing material that are subject to the production tax to include lump ore.

Effective for taxes payable in 2022 and thereafter.
- 16 State aid amount; appropriation.**
Delays until 2024 the inclusion of lump ore in the calculation of the amount of state aid paid into the product tax. Under current law, the state contributes to the production tax 22 cents per taxable ton of iron ore concentrates in each production year. Lump ore would not be included in this calculation until distribution year 2024.

Effective the day following final enactment.

Section Description – Article 11: Miscellaneous

17 Definition.

Expands the types of iron ore bearing material that are subject to the production tax to include lump ore.

Effective for taxes payable in 2022 and thereafter.

18 Background check; access to federal tax information.

Requires state agencies whose employees or contractors access federal tax information to be fingerprinted for and undergo national criminal history background checks, in compliance with federal law and IRS guidance.

Subd. 1. Definitions. Defines the following terms for this section: “federal tax information”; “IRS publication 1075”; “national criminal history record information”; and “requesting agency.” A “requesting agency” means the state agencies listed in the definition

Subd. 2. National criminal history record information check. Requires a requesting agency to get fingerprints from agency employees and others who will have access to federal tax information for purposes of a criminal background check.

Subd. 3. Fingerprint submission and written statement of understanding. Requires individuals subject to this section to provide fingerprints for purposes of a background check as well as a written statement of understanding regarding the background check.

Subd. 4. Bureau of Criminal Apprehension requirements. Requires the Bureau of Criminal Apprehension (BCA) to perform the background check and provide results to the requesting agency.

Subd. 5. Classification of data. Classifies as private all data related to background checks under this section. Prohibits requesting agencies from further disseminating the results of a background check.

Effective date: day following enactment.

19 Distribution transfer; City of Biwabik street and highway improvements.

Directs St. Louis County to transfer \$1,500,000 from a 2006 appropriation to the city of Biwabik for certain street and highway projects. Any remaining unspent money from the 2006 appropriation shall be retained by St. Louis County for road improvements.

Section	Description – Article 11: Miscellaneous
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Effective the day following final enactment.

20 Appropriations; tax expenditure review.

Appropriates funds to the LCC and DOR to establish the review commission established in the article. The LCC appropriation is \$36,000 in fiscal year 2022 and \$628,000 in fiscal year 2023. The base for the appropriation is \$607,000 in FY 2024 and \$658,000 in FY 2025. The appropriation to DOR is \$148,000 in fiscal year 2023.

21 Administrative appropriation.

Appropriates \$3,000,000 from the general fund to DOR in FY 2022 to administer the act. The appropriation is available in until June 30, 2023. The base for the appropriation is \$1,000,000 in FY 2024 and \$0 in FY 2025.

Article 12: Department of Revenue Policy and Technical: Individual Income and Corporate Franchise Taxes

This article makes a number of policy and technical changes related to individual income and corporate franchise taxes.

Section	Description – Article 12: DOR Policy and Technical: Individual Income and Corporate Franchise Taxes
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1 Composite income tax returns for nonresident partners, shareholders, and beneficiaries.

Clarifies that the taxable income computed for purposes of composite returns includes the modifications for foreign income.

Effective retroactively for taxable years beginning after December 31, 2015.

2, 4 – Withholding.

11, 13 Amends withholding statutes to refer to withholding exemptions as withholding allowances consistent with conforming federal law. Also amends the states withholding rules so that withholding allowances are based on newly codified state definitions for the standard deduction (including the additional amount for the blind and seniors), dependent exemption, and itemized deductions. Provides the commissioner with discretion to adjust withholding.

Effective for taxable years after December 31, 2020.

Section	Description – Article 12: DOR Policy and Technical: Individual Income and Corporate Franchise Taxes
3	<p>Inflation adjustment.</p> <p>Removes superfluous language regarding the rounding of the inflation adjustment.</p> <p>Effective the day following final enactment.</p>
12	<p>Miscellaneous withholding arrangements.</p> <p>Requires that a financial institution withhold Minnesota income tax on any periodic payment or nonperiodic distribution for Minnesota residents, unless the Minnesota resident requests that the financial institution not withhold.</p> <p>Effective for payments and distributions made after December 31, 2021.</p>
14	<p>Special limited adjustment.</p> <p>Clarifies that the special limited adjustment applies to individuals, estates, and trusts.</p> <p>Effective retroactively for taxable years beginning after December 31, 2017, and before January 1, 2019.</p>

Article 13: Department of Revenue Policy and Technical: Property Taxes and Local Government Aids

This article makes a number of changes related to property taxes.

Section	Description – Article 13: DOR Policy and Technical: Property Taxes and Local Government Aids
1	<p>Board of Assessors reports.</p> <p>Combines separate reports to the governor and the legislature into a single report containing the same information required under current law.</p> <p>Effective for reports issued in 2022 and thereafter.</p>
2	<p>Board of Assessors fees.</p> <p>Removes the fee for record retention by the Board of Assessors.</p> <p>Effective the day following final enactment.</p>

Section	Description – Article 13: DOR Policy and Technical: Property Taxes and Local Government Aids
3 – 4	<p>Definitions.</p> <p>Clarifies that the construction date of a wind energy conversion system, or a solar energy generating system, is not altered if the system is replaced, repaired, or otherwise maintained or altered.</p> <p>Effective the day following final enactment.</p>
5	<p>Notification of tax.</p> <p>Allows the commissioner to correct clerical errors until December 31.</p> <p>Effective the day following final enactment.</p>
6	<p>Assessor powers and duties.</p> <p>Clarifies that the “powers and duties” performed by a city assessor in a county having a city of the first class are the powers and duties identified in section 273.061, subd. 8.</p> <p>Effective the day following final enactment.</p>
7	<p>Assessor education.</p> <p>Specifies that licensed assessors must complete 30 hours of education on Minnesota laws, assessment administration, and administrative procedures, which may be spread out over every four-year licensing cycle, rather than mandating completion of a single weeklong course on these topics.</p> <p>Effective retroactively for the four-year licensing period starting on July 1, 2020, and thereafter.</p>
8, 9, 11	<p>Lake Vermillion-Soudan Underground Mine State Park PILT.</p> <p>Amends payment in-lieu of taxes (PILT) references to include a cross-reference to the Lake Vermilion-Soudan Underground Mine State Park PILT statute.</p> <p>Effective the day following final enactment.</p>
10	<p>Exemptions.</p> <p>Allows an exemption for mortgage loans made under a low or moderate income housing program if the assignee of the mortgage is a governmental agency. Currently, the governmental agency must be listed as the mortgagee for the exemption to apply.</p>

Section	Description – Article 13: DOR Policy and Technical: Property Taxes and Local Government Aids
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Effective for mortgages recorded after June 30, 2021.

Article 14: Department of Revenue Policy and Technical: Sales and Use Taxes

This article makes a number of changes related to sales taxes.

Section	Description – Article 14: DOR Policy and Technical: Sales and Use Taxes
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1 Accelerated tax payments.

Technical change to match the June accelerated sales tax payment percentages in two paragraphs of section 289A.20, subd. 4.

Effective the day following final enactment.

2 Liquor gross receipts tax.

Clarifies that a liquor retailer may collect the liquor gross receipts tax from the purchaser and the tax is excluded from sales price for purposes of sales tax if separately stated on the receipt given to the purchaser.

Effective the day following final enactment.

3 Marketplace provider liability.

Clarifies that marketplace provider is deemed to be the retailer or seller for all retail sales the marketplace provider facilitates.

Effective the day following final enactment.

4 Repealer.

Repeals existing rules requiring local units of government whose tax is administered by DOR to pay for new computer system development costs.

Effective the day following final enactment.

Article 15: Department of Revenue Policy and Technical: Special Taxes

This article makes a number of changes related to the motor fuels and cigarette and tobacco taxes.

Section	Description – Article 15: DOR Policy and Technical: Special Taxes
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| 1 | <p>Special fuel dealers.</p> <p>Clarifies that “fuel dealer” refers to “special fuel dealer” as defined in section 296A.01, subd. 47.</p> <p>Effective the day following final enactment.</p> |
| 2, 7 | <p>Refusal to issue or renew; revocation.</p> <p>Adds convictions for any crimes involving tobacco products to the list of reasons the commissioner must not issue or renew a license under chapter 297F.</p> <p>Effective the day following final enactment.</p> |
| 3, 6 | <p>Accelerated tax payments.</p> <p>Reorganizes sections 297F.09, subd. 10 and 297G.09, subd. 9 for readability and clarity. Removes references to calendar year 2020 since the relevant time periods for 2020 have already passed.</p> <p>Effective for estimated payments required to be made after the date following final enactment.</p> |
| 4 | <p>Retailer and subjobber to preserve purchase invoices.</p> <p>Requires cigarette and tobacco product retailers and subjobbers to preserve a legible copy of each purchase invoice for one year from the date of the invoice or as long as the cigarette or tobacco product listed on the invoice is available for sale or in their possession, whichever period is longer.</p> <p>Effective for all cigarette and tobacco products available for sale or in a retailer or subjobber’s possession after December 31, 2021.</p> |
| 5 | <p>Sufficiency of notice.</p> <p>Deletes unnecessary language in section 297F.17, subd. 1.</p> <p>Effective for notices of tax assessment issued after the date of final enactment.</p> |

Article 16: Department of Revenue Policy and Technical: Miscellaneous

This article makes changes related to the inflator for the property tax refund and tax preparers.

Section	Description – Article 16: DOR Policy and Technical: Miscellaneous
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| 1 | <p>Adjustment; definition; period; rounding.</p> <p>Corrects the statutory year calculation of inflation for the property tax refund chapter.</p> <p>Effective retroactively for property tax refunds based on property taxes payable in 2020, and rent paid in 2019.</p> |
| 2 | <p>Paid preparer; depositing client refunds.</p> <p>Clarifies that a paid tax preparer may not take control or ownership of a client's tax refund regardless of the manner in which the refund is paid.</p> <p>Effective the day following final enactment.</p> |



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