

House Research Act Summary

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Article 1: Aids to Local Governments and Property Tax Refunds

Overview

Provides for increases in local government aid and county program aid, and reinstates local government aid for towns.

Increases the maximum homeowner property tax refund by 20 percent for most claimants, and by 25 percent for claimants with income under \$10,000. Also reduces the threshold percentage used to determine eligibility for the refund from 4 percent to 3 percent.

- 1 Homeowner property tax refund; maximum refund amount and threshold percentages.** Increases the maximum homeowner property tax refund, and reduces the maximum income threshold percentage used to determine eligibility for the refund from 4.0 percent to 3.0 percent.

The maximum amounts listed in statute applied to refunds based on taxes payable in 2002 and have been adjusted annually for inflation since then. The maximums proposed in this section for refunds based on taxes payable in 2008 would equal the amounts in the bill indexed from 2002 to 2008, so that the actual maximum refund would increase from \$1,740 in current law (the \$1,450 in statute indexed from 2002 to 2008) to \$2,180 (the \$1,820 in the bill indexed from 2002 to 2008). This represents an increase of approximately 25 percent for homeowners with household income under \$10,000, and of approximately 20 percent for homeowners with household income from \$10,000 to \$92,980, which is the maximum income eligible for refunds based on taxes payable in 2008.

This section also reduces the threshold percentages for homeowners with household income between about \$57,000 and \$92,980 to 3 percent. The threshold percentage is a “trigger” for refund eligibility. Homeowners with property taxes above the threshold percentage of their household income as specified in the table qualify for a refund. This will have the effect of making more homeowners in the affected income ranges eligible for refunds, and of increasing the amount of property taxes eligible for refund for homeowners who are already eligible. Under present law the threshold percentages for these income levels range from 3.2 to 4.0 percent.

Effective for refunds based on taxes payable in 2008.

- 2 Homeowner property tax refund.** For homeowner property taxes payable in 2009, re-sets the household income brackets and maximum refund amounts in statute to the levels in effect under section 0 for refunds payable in 2008. Also changes the terminology of the

table to specify the percentage of taxes in excess of the threshold that is paid to the homeowner as a refund, rather than as a “copayment” required of the homeowner. Thus, a copayment of 15 percent in section 0 is restructured as a refund of 85 percent in this section, with no effect on the amount of refund paid (i.e., under current law a homeowner with taxes over the threshold of \$100 has a copay of 15 percent and receives a refund of 85 percent; under the bill the statute would directly specify the refund percentage of 85 percent rather than listing the copay of 15 percent).

Effective for refunds based on taxes payable in 2009.

3 Homeowner property tax refunds; indexing. Provides for the new homeowner property tax refund income brackets and maximum amounts in section 0 to be indexed for inflation beginning with refunds payable in 2011 (in effect fixing the refund parameters at the levels in section 0 for refunds payable for 2009 and 2010). Provides for renter property tax refunds, which are not changed in this bill, to continue to be adjusted annually for inflation as under current law.

4 City aid base. Gives additional money to the following cities:

- an additional \$75,000 annually to the city of Newport for the years 2008 to 2013;
- a permanent increase of \$30,000 annually to the city of Taylors Falls;
- an additional \$30,000 in 2008 only to the city of Rockville;
- an additional \$80,000 annually to the city of Mahnomon;
- a permanent increase of \$100,000 annually to the city of Browns Valley; and
- a temporary increase of \$200,000 annually to the city of Crookston for the years 2008 through 2012.

Effective beginning with aids payable in 2008.

5 County transition aid. Makes the transition aid component of county program aid permanent at the 2007 level for aids payable in 2008 and thereafter. Provides for a one-time transition aid payment of \$250,000 to Pine County for aid payable in 2008.

6 Town LGA. Provides an LGA payment to towns beginning with aids payable in 2008. The aid for each town is equal to 0.225 cents per acre up to 50,000 acres. The payment per acre is adjusted based on (1) the ratio of agricultural to nonagricultural property in the town and (2) the square root of the town’s population. The total payments in pay 2008 are limited to \$5 million and the payment to each town is reduced proportionately if the limit is exceeded. The amount to be paid in 2009 and future years is increased for inflation under section 0.

7 City formula aid. Removes the taconite aid offset from the city LGA formula. Effective beginning with aids payable in 2008.

8 City aid distribution. Beginning with aids payable in 2009, the aid calculation is modified to reduce volatility in payments to individual cities. In 2009 each city’s aid will equal the sum of (1) its city aid base, (2) one-half of its formula aid in 2008, and (3) its share of the remaining appropriation distributed based on the 2009 formula factors. For aids payable in 2010 and thereafter, each city’s aid, prior to any limits on increases and decreases, is equal the sum of (1) its city aid base; its formula aid in the previous year before any limits, and its share of the remaining current appropriation distributed based on the current formula

factors.

The current limit on annual increases in aid to a city is increased from 10 percent of its previous year's levy to 30 percent for 2008 only to allow the increased appropriation to be distributed via the formula. The total decrease in aid to a city in any year is modified to equal:

- the lesser of \$15 per capita or 10 percent of the previous year's levy for cities with a population of 2,500 or more; and
- the lesser of \$15 per capita or 5 percent of its 2003 certified LGA for cities with a population less than 2,500.

Effective for aids payable in 2008 and thereafter.

9 Annual appropriation.

Subd. 2a. Cities. Increases the appropriation for city LGA in 2008 and thereafter by \$70 million, to \$555,052,000.

Subd. 2b. Counties. Increases the appropriation for the "need aid" component of county program aid (CPA) by \$6.5 million, to \$107 million, for aids payable in 2008, and to \$108 million for aids payable in 2009. Increases the appropriation for the "tax base equalization aid" component of CPA by \$6.5 million, to \$111.6 million for aids payable in 2008 and to \$112.6 for aids payable in 2009.

Subd. 2c. Towns. Provides for town aid of \$5.0 million for aids payable in 2008. This amount is adjusted for inflation beginning with aids payable in 2009, as provided in subdivision 5.

Subd. 5. Inflation adjustment. Provides for indexing of the county program aid appropriation level beginning with aids payable in 2010 and of the town aid appropriation level beginning with aids payable in 2009. The adjustment is equal to the increase in the implicit price deflator for state and local government purchases, subject to a minimum adjustment of 2.5 percent and a maximum adjustment of 5 percent.

10 Land utilization project land; payments. Increases in-lieu payments for land utilization project lands located in wildlife management areas from 75 cents to \$3 per acre, adjusted for inflation. Effective for payments in 2008 and thereafter.

11 Land utilization project land payments; distribution. Provides for the distribution of the increased payments under section 0 in the same proportions as the other natural resource lands that earn \$3 per acre.

12 Mahnomen County; county, city, school district, property tax reimbursement.

Subd. 1. Aid appropriation. Makes permanent the \$600,000 annual payments to the local governments affected by the petition to move a tribal casino in Mahnomen County into tax-exempt trust status. The original payments were for CY 2006 only. Payments under this provision are reduced for any voluntary payments made by the tribe in the previous calendar year. The distribution of the payments are as follows:

- \$450,000 to the county of Mahnomen;
- \$80,000 to the city of Mahnomen; and

- \$70,000 to the Independent School district No 432 - Mahanomen.

Subd. 2. School district tax base adjustments. Deletes this subdivision adjusting the Mahanomen school district tax base for aid calculation purposes in favor of the adjustment language contained in section 0.

- 13 Utility property; tax base adjustments for calculation of school district levies and aids.** Eliminates the one-year lag between when valuation changes occur and when they are reflected in school aid and levy formulas for valuation changes due to the change in utility valuation rules under Minnesota Rules, chapter 8100. Effective for aids and levies in fiscal years 2009 to 2011.
- 14 Utility property; tax base adjustments for calculation of county and city aids.** Eliminates the one-year lag between when valuation changes occur and when they are reflected in county and city aid formulas for valuation changes due to the change in utility valuation rules under Minnesota Rules, chapter 8100. Effective for aids payable in 2008 to 2010.
- 15 Mahanomen county, city and school district tax base adjustments.** Instructs the commissioner of revenue to reduce the tax bases used in aid calculation formulas for Mahanomen county, city and school district by the net tax capacity of the Shooting Star Casino, for as long as the property remains on the tax rolls. This has the effect of not counting the casino value in the tax base while the exemption of the casino is in legal dispute.
- 16 Grand Marais and Cook County fire aid.** Provides an extra payment of \$500,000 in each of FY 2008 and FY 2009 to Cook County and the city of Grand Marais for costs related to the Ham Lake fire of 2007. The money is split between the city and county based on each jurisdiction's relative share of eligible costs.
- 17 Study of aids to local governments.** A study group is created to examine the current system of aids to local governments and make recommendations on improvements to the system by December 15, 2008. Each chair of the Senate and House Tax Committees will appoint five members one legislator from each party and the remainder from local governments. In addition the Property Tax Division Chairs will serve as co-chairs of the study group.
- 18 Repealer.** Repeals section 290A.04, subdivision 2, the homeowner property tax refund schedule, which is replaced with a new schedule in section 0.

Article 2: Property Taxes

Overview

Provides a full or partial valuation exclusion for homesteads of disabled veterans with a disability rating of 70 percent or greater.

Reduces the class rate for the first tier of agricultural homestead property from 0.55 percent to 0.5 percent.

Authorizes a reduced property classification rate for qualifying nonprofit community service-oriented organizations (VFWs, American Legions, etc.).

Changes requirements for class 4d low-income apartment property, allowing more properties to qualify.

Requires the commissioner of revenue to undertake initiatives to improve public awareness of and participation in property tax refund programs; also requires notification of the property tax refund program be printed on the property tax statement in a large font.

Increases class rates on public utility personal property to offset the effect of new utility valuation rules.

Increases the market value eligible for the first-tier classification of class 1c homestead resorts from \$500,000 to \$600,000 and reduces the class rate from 0.55 percent to 0.5 percent.

Allows for joint truth-in-taxation public advertisements and hearings involving all taxing authorities within a county (Greater Minnesota only).

Requires a study of the fiscal disparities program.

- 1 Payment in lieu of taxes; towns that incorporate as a city.** Allows a town that received a payment in lieu of taxes in 2006 or thereafter, and subsequently incorporated as a city, to continue to receive any future year's allocations that would have been made to the town had it not incorporated, provided that the payments will terminate if the governing body of the city passes an ordinance that prohibits hunting within the boundaries of the city. Effective for aid payments made in 2007 and thereafter. Currently the city of Columbus (Anoka County) is the only city to qualify for this provision.
- 2 Retired employee health benefits.** Authorizes school districts located within the taconite tax relief area to levy for the health benefits for employees who retired before July 1, 1998, if a sunset clause is in effect for the current collective bargaining agreement. The total amount of the levy each year may not exceed \$600,000. Effective for taxes payable in 2008 and thereafter.
- 3 Sales ratio study.** Provides that when property is sold, and the purchaser changes its use in a way that would result in a classification change, the sales ratio study must take it into account as soon as practicable. A change in status from homestead to nonhomestead or nonhomestead to homestead is not a change in classification under this section. Effective the day following final enactment.
- 4 Rate adjustment; property tax change.** Requires the Public Utilities Commission to adjust regulated utility rates for any property tax changes due to the class rate changes made in this act for taxes payable in 2009 and subsequent years. The adjustments are to be made outside of a general rate case proceeding.

5 Modular homes used as models by dealers. (a) Exempts a modular home from property taxation if it is:

- owned by a modular home dealer and located on land owned or leased by the dealer;
- a single-family model home;
- used exclusively as a model and not available for sale;
- not permanently connected to any utilities except electricity; and
- situated on a temporary foundation.

(b) Provides that the exemption is for up to five assessment years provided that the modular home meets all of the criteria in (a). Requires the owner of the modular model home to notify the assessor within 60 days after it has been constructed or situated on the property and again if the home ceases to meet any of the criteria.

(c) Defines “modular home” as a building or structural unit that has been in whole or substantial part manufactured or constructed at an off-site location and assembled on-site as a single-family dwelling. Requires the modular home to comply with certain construction standards.

Effective for assessment year 2007 and thereafter. Provides that the five-year time period begins with the 2007 assessment for a modular home currently situated provided it meets all the criteria and the county assessor is notified within 90 days of day following final enactment.

6 Electric generation facility; personal property. (a) Provides a property tax exemption for attached machinery and personal property that is part of a simple-cycle combustion-turbine electric generation facility that exceeds 150 megawatts of installed capacity. The proposed facility will be built in the City of Elk River (Sherburne County). At the time of construction, the facility must:

- 1. utilize natural gas as a primary fuel;
- 2. be owned by an electric generation and transmission cooperative;
- 3. be located within one mile of an existing 16-inch natural gas pipeline and a 69-kilovolt and 230-kilovolt high-voltage electric transmission line;
- 4. be designed to provide peaking, emergency backup, or contingency services;
- 5. have received a certificate of need under 216B.243 demonstrating demand for its capacity; and
- 6. have received local approval from the governing bodies of the county and the city where the facility is to be located for the personal property exemption.

(b) Requires the construction of the facility to be commenced after January 1, 2008, and before January 1, 2012. The exemption does not include electric transmission lines and interconnections or gas pipelines appurtenant to the property or facility.

Effective for the 2007 assessment, payable in 2008, and thereafter.

7 Apprenticeship training facilities. Provides that all or a portion of a building used exclusively for a state-approved apprenticeship program through the Department of Labor and Industry is exempt if: (1) it is owned and operated by a nonprofit corporation, (2) the program participants receive no compensation, and (3) it is located in the Minneapolis-St. Paul standard metropolitan statistical area, or in a city of at least 10,000 population outside the Minneapolis-St. Paul standard metropolitan statistical area. The exemption does not include land.

Effective for property taxes payable in 2008 and thereafter.

8 Monosloped roofs. Exempts from property tax monosloped, single-pitched roofs installed over feedlot or manure storage areas. Effective for taxes levied in 2007, payable in 2008 and thereafter.

9 Certificate of value; requirement. Requires that the certificate of value include any proposed change in use of the property known to the person filing the certificate that could change the classification of the property. Also provides that property acquired as part of a like-kind exchange under section 1031 of the Internal Revenue Code must be indicated on the certificate. A certificate of value is filed when property is sold. It is the basis for the sales ratio study prepared by the Department of Revenue. It is used in equalization of values and in distribution of certain aids. Effective for certificates filed after June 30, 2007.

10 Agricultural use. Changes the qualification criteria for eligibility in the green acres program by providing that:

(1) in at least one of the three calendar years preceding the assessment year, either

(i) the total production income from the property must be at least five percent of the per acre agricultural value for the county where the property is located for the previous assessment year, multiplied by the number of acres in the parcel subject to green acres; or

(ii) the amount of total farm expenses shown on Schedule F of the property owner's federal income tax return must exceed 25 percent of the federal adjusted gross income of the owner for federal income tax purposes.

Defines "total production income" as gross income as reported for federal income tax purposes on Schedule F for the calendar year ending in the year preceding the assessment year, plus rental income from the property.

Under current law, the qualifications for eligibility are: either (i) 33-1/3 percent of family income must be derived from agricultural production, or (ii) the production income must be \$300 plus \$10 per tillable acre of the property.

Effective for taxes levied in 2008, payable in 2009 and thereafter. Property that qualified under the green acres program for the 2007 assessment (payable 2008) shall not be disqualified in any of the assessment years 2008 to 2012 because of a failure to meet the requirements of this section.

11 Agricultural value determination. (a) Requires the commissioner of revenue to develop a fair and uniform method of determining an agricultural value for each county that will be used

as the green acres agricultural value. Requires the commissioner to annually assign the resulting agricultural value to each county, and for that value to be used as the green acres agricultural value for the county.

(b) Provides that when property classified as agricultural is sold and the purchaser changes its use in a manner that results in a change of classification, and the sale price exceeds the agricultural value determined under paragraph (a), the assessor and the commissioner must review the sale, along with other appropriate sales information to determine if there are nonagricultural influences in the value. If it is determined that nonagricultural factors have affected the value, the resulting sales ratio shall be excluded from use in any study measuring agricultural value and applied to a study measuring market value.

Effective for taxes levied in 2009, payable in 2010 and thereafter.

12 Implementation of “green acres” program. Requires all county assessors to implement green acres to all eligible properties beginning no later than taxes levied in 2008, payable in 2009, and thereafter, unless the commissioner of revenue determines that a county is unable to comply with this requirement, in which case the county must implement it for the earliest assessment year determined by the commissioner to be feasible.

13 Green acres applications denied by county. Requires each county to forward all applications for participation in the green acres program that the county has denied for the 2007 and 2008 assessment years to the Department of Revenue, along with a list of property owners who requested an application and were denied. Requires the Department to compile a list of the denials along with the reasons for the denials and file an annual report by February 1, 2008, and February 1, 2009, with the chairs of the House and Senate Tax Committees.

Effective for applications filed after the day following final enactment.

14 Local option; homestead property. Extends the authority for a county to grant an abatement to property that has been *unintentionally or accidentally* destroyed if 50 percent or more of the structure is uninhabitable or unusable to property that has been damaged by arson or vandalism, if committed by someone other than the owner.

If the county board chooses to grant the abatement, it is based upon a ratio; the numerator of which is the number of months the structure was unoccupied or unusable, and the denominator of which is 12 months. The owner must make written application to the county. The abatement may be for taxes in the year of destruction and in the following year.

Effective for destruction that occurs in calendar year 2006 and thereafter

15 Agricultural homesteads; special provisions. Clarifies that the requirement to have at least 40 acres to qualify for the special agricultural homestead classification allows for adjustments made for undivided government lots and correctional 40’s. Also allows property consisting of at least 20 acres to qualify if used “exclusively and intensively” for raising or cultivating agricultural products. Effective for the 2007 assessment, taxes payable in 2008 and thereafter.

16 Relative homestead registration. Requires that if property is classified as relative homestead and compensation for rental of any part of the property is received for a period that exceeds one month during a calendar year, the recipient of the compensation must register the property with the city in which the property is located no later than 60 days after the initial rental period began. Each city is required to maintain a file of these property registrations, that would be open to the public, and to retain these registrations for one year after the date of filing. This section is effective July 1, 2007; applies only to property located in a city with a population over 25,000.

17 **Manufactured homes, sectional structures.** Provides that improvements constructed on property that is leased or rented as a site for a manufactured home, sectional structure, park trailer, or travel trailer is taxable only if its estimated market value exceeds \$1,000 (storage sheds, decks, etc.). Under current law these improvements are taxable if they exceed \$500 in market value. Effective for assessment year 2007, taxes payable in 2008 and thereafter.

18 **Requirement.** Reduces the percentage of units needed for a property to qualify for the 4d (low-income apartment) classification from 75 percent to 20 percent. Also allows low-income rental property that is receiving financial assistance from a local government (and whose units are subject to rent and income restrictions under the terms of those agreements) to qualify for the 4d classification. Under current law, properties must receive assistance from either the state of Minnesota or the federal government to qualify.

The class rate for 4d is 0.75 percent as compared to the regular apartment class rate of 1.25 percent of market value. However, as under current law, only the proportion of qualifying units to the total number of units in the building qualify as class 4d.

Effective for taxes levied in 2007, payable in 2008, and thereafter.

19 **Class 1 property (homesteads).**

Disabled homestead; class 1b. Increases the market value eligible for the 1b classification from \$32,000 to \$50,000. This class, which has a class rate of 0.45 percent, includes homestead property of persons who are blind and any person who is permanently and totally disabled. Language is stricken relating to homesteads of disabled veterans, which is obsolete due to the disabled veterans' market value exclusion in section 0.

Homestead resorts class 1c property. Increases the amount of market value eligible for the first-tier classification rate of class 1c homestead resort property from \$500,000 to \$600,000 and decreases the class rate of the first tier from 0.55 percent to 0.50 percent. Effective for taxes payable in 2008 and thereafter.

Resorts; definition. Defines a resort for purposes of this section, paragraph (c) that was part of a recommendation from a Department of Revenue task force required by the 2005 Legislature. Currently there is no definition in statute and one is desirable for uniformity. These changes are effective for assessment year 2008, taxes payable 2009 and thereafter.

20 **Class 2 property (agricultural).**

Agricultural homesteads. Reduces the class rate on the first tier of agricultural homesteads from 0.55 percent to 0.50 percent of market value. For taxes payable in 2007, the first tier of agricultural market value is \$690,000. For taxes payable in 2008, the first tier will be \$790,000. (This value increase is provided under current law.)

Effective for taxes payable in 2008 and thereafter.

Rural vacant land. Establishes a new rural vacant land classification that was recommended by a Department of Revenue task force. The new classification is intended to improve uniformity in valuing and classifying this type of rural land. The 2005 Legislature required the DOR to review this topic. The new subclass includes unplatted real estate, rural in character, that consists of at least ten acres, including land used for growing trees for timber, lumber, and wood products but not used for agricultural products. An ancillary nonresidential

structure (e.g., a hunting shack) does not disqualify the property from this classification. The establishment of this new subclass will aid assessors in classifying land more uniformly. Rural vacant land has a class rate of 1.0%, except that it has a class rate of 0.65% if it consists of less than 1,920 acres, is under a forest management plan, but is not enrolled in the sustainable forest resource management incentive program under chapter 290C.

Short rotation woody crops. Adds “short rotation woody crops” to the definition of agricultural products, making property used for this purpose eligible for agricultural classification.

Effective for assessment year 2007 and thereafter, payable in 2008 and thereafter.

21 Class 3 property (commercial-industrial-public utility).

Clause (2) increases the current class rate on personal property attached machinery of an electric generation system class rate from 2.0 percent to 2.5 percent for taxes payable in 2009 and 3.0 percent for taxes payable in 2010 and thereafter.

Clause (3). Increases the current class rate on the personal property of all transmission and distribution systems from the current class rate of 2.0 percent to 2.15 percent for taxes payable in 2009 and 2.25 percent for taxes payable in 2010 and thereafter. This includes systems that are part of a pipeline system transporting or distributing water, gas, crude oil or petroleum products, including attached machinery (item (i)); or that are part of an electric transmission or distribution system, including attached machinery (item (ii)). This includes transformers and substations.

No class rate changes are made to utility real property (i.e., land and structures).

22 Class 4 property (non-homestead residential and miscellaneous).

Community service-oriented organizations. Expands the 4c property classification to nonprofit community service-oriented organizations that make charitable contributions and donations at least equal to the organization’s previous year’s property taxes and that allow the property to be used for public and community meetings or events at no charge, as appropriate to the size of the facility. This portion of class 4c will have a class rate of 1.5 percent and be subject to the state general tax at the seasonal-recreational rate (see section 0), which is about half of the commercial-industrial tax rate. Under current law, this type of property is classified as commercial class 3a (the first \$150,000 market value has a rate of 1.5 percent, the market value over \$150,000 has a rate of 2 percent, and the property is subject to the state general tax at the commercial-industrial tax rate).

Under current law, real property up to a maximum of one acre that is owned by a nonprofit community service-oriented organization qualifies for class 4c if the property is not used for revenue producing activity for more than six days in the calendar year preceding the year of the assessment. This section leaves that option, but adds a second alternative to qualify.

This second option extends the maximum land size to 3 acres. The acreage is made larger primarily to allow for parking lots, ball fields, etc. Provides that an organization qualifies if it makes annual charitable contributions and donations at least equal to the organization’s previous year’s property taxes and it allows the property to be used, size permitting, for public and community meetings or events for no charge. The types of organizations that would be

affected by this change are the VFWs, American Legions, Knights of Columbus, etc.

Defines “charitable contributions and donations” as having the same meaning as the lawful gambling purposes under section 349.12, subdivision 25, excluding those purposes relating to the payment of taxes, assessments, fees, auditing costs and utility payments. The allowable contributions and donations include: contributions to scholarship funds for defraying the cost of education; contributions to an individual or family suffering from poverty, homelessness, physical or mental disability; contributions for treatment for delayed posttraumatic stress syndrome or for the education, treatment or prevention of compulsive gambling; contribution or expenditures on a public or private nonprofit educational institution; recreation, community, and athletic facilities and activities intended primarily for persons under the age of 21; contributions to members of military marching or color guard unit; etc.

Defines “property taxes” to exclude the state general tax.

Requires the organization to maintain records of its charitable contributions and donations and of public meetings and events held on the property, and to make them available upon request at any time to the assessor to ensure eligibility. Requires an organization meeting these requirements to file an application by May 1 on a form prescribed by the commissioner of revenue.

Effective for the 2007 assessment and thereafter, taxes payable in 2008 and thereafter. For the 2007 assessment year, the application deadline is extended to September 15, 2007.

Resorts definition. Provides the same definition of a “resort” under class 4c (commercial seasonal resorts) as in section 0 for class 1c homestead resorts, as recommended by a Department of Revenue task force. Effective beginning assessment year 2008, payable 2009.

23 Classification of unimproved property. Contains a technical change due to the new rural vacant land changes in section 0.

24 Homestead of a disabled veteran. (a) Provides a market value exclusion for property taxation purposes for the homestead of an honorably discharged veteran who has a military service-connected disability rating of 70 percent or higher, as determined by the United States Department of Veterans Affairs.

(b) This new benefit consists of two tiers:

- a \$150,000 market value exclusion, for a veteran with a service-connected disability rated at 70 percent to 100 percent; or
- a \$300,000 market value exclusion, for a veteran with a service-connected disability rated as being *total and permanent*.

(c) Upon the death of a veteran qualifying for exclusion because of a total and permanent disability, the market value exclusion carries over to the person’s spouse, if the spouse co-owns or inherits the home and permanently resides in the home.

(d) For an agricultural homestead, the market value exclusion applies to only the house, garage and surrounding one acre of land.

(e) Provides that property qualifying for valuation exclusion under this subdivision is not eligible for the market value credit.

(f) The property owner must apply to the assessor each year, unless the person's disability is rated as *total and permanent*.

Note: Only a 100 percent service-connected disability can be rated as *total and permanent* by the US/DVA. However, most 100 percent disability ratings are not designated as being *permanent*, leaving open the possibility of the VA downgrading the rating should the person happen to recover somewhat.

25 Certification of class 1B property. Provides that beginning October 1, 2007, any property owner seeking classification and assessment of the owner's homestead as class 1b property (i.e. blind and disabled homesteads) will apply to the county assessor rather than the commissioner of revenue. The commissioner shall prescribe the application form.

26 Definition of seasonal-recreational property; state general levy. Includes property which becomes eligible for the community-service organizations classification under the expanded eligibility criteria in section 0, in the definition of seasonal-recreational property for purposes of the state general tax (the state general tax rate for seasonal-recreational property is approximately one-half the rate for commercial-industrial property). Effective for taxes payable in 2008 and thereafter.

27 Joint public hearings; nonmetropolitan counties, cities, and school districts. (a) Allows the county to hold a joint public TnT hearing with the governing bodies of all of the taxing authorities located wholly or partially within the county that are required to hold a public hearing. States that the primary purpose of the joint hearing is for taxpayer efficiency by allowing taxpayers to come to a single public hearing to discuss the budgets and proposed levies of most of the taxing authorities that impact their property taxes.

(b) Provides that this joint public hearing applies only to counties located outside the seven metro-counties. If a city or school district is located partially within the seven metro counties, that taxing jurisdiction may participate in its nonmetropolitan county's joint hearing, at its own discretion.

(c) Provides that upon adoption of a resolution by the county board to hold a joint hearing, the county shall notify each city with a population over 500 and each school district that is located wholly or partially within the county of its intention to hold the joint hearing and ask each of the taxing authorities if they wish to participate. Participation is voluntary, but is in lieu of each authority's separate hearing and separate newspaper advertisement

(d) Provides that the joint hearing shall be held on the first Thursday in December. (That is the regularly scheduled date for counties to hold their initial hearing.) Additional hearings may be held if taxing authorities want them.

Provides that the county board shall obtain a meeting space to hold the hearing, preferably at a public building such as a courthouse, school, or community center, and be as centrally located in the county as possible.

The meeting shall be structured in the following general manner:

- 1. 30-60 minutes, discussion of county's budget and levy;

- 2. 30-60 minutes, discussion of city's budget and levy, each city's discussion must be held in separate room, preferably in same building;
- 3. 30-60 minutes, discussion of school district's levy, each school district's discussion must be held in separate room, preferably in same building;
- 4. the last 30 minutes, reassemble the joint meeting with all governing bodies to entertain any follow-up questions.

An attempt should be made to keep the total public hearing time within 3 hours.

(e) Requires a single newspaper advertisement for the county and any city or school district that is participating in the joint hearing. This advertisement is in lieu of the individual newspaper advertisement that is required in current law. The cost of the advertisement is apportioned between the taxing authorities.

Provides that the formal adopting of the taxing authority's levy must not be made at this joint hearing, but rather at one of the regularly scheduled meetings of the taxing authority's governing body. The amount of the levy subsequently adopted cannot exceed the amount disclosed to taxpayers at the joint public hearing.

Effective for hearings held in 2007 and thereafter.

28 Special taxing districts definition. Includes airport authorities created under section 360.0426 as special taxing districts for purposes of property taxation. Special taxing districts have the power to levy a property tax and certify the tax levy to the county auditor. Effective for taxes levied in 2007, payable in 2008, and thereafter.

29 Contents of tax statements. Deletes the requirement that each tax statement contain a line showing the property's share of the total amount of all state aids paid to taxing jurisdictions containing the property.

30 60 day rule; information. Clarifies the specific information that is required to be given to the county assessor in cases where a petitioner contests the valuation of income-producing property. It includes income and expense figures in the form of:

(1) year-end financial statements for the year prior to the assessment date,

(2) year-end financial statements for the year of the assessment date, and

(3) rent rolls on the assessment date including tenant name, lease start and end dates, option terms, base rent, square footage leased and vacant space, verified net rentable square footage of the building or buildings, and anticipated income in the form of proposed budgets.

This will make it easier for the petitioners to know what information must be provided to the county assessor no later than 60 days after the filing deadline.

Effective for petitions filed beginning July 1, 2007.

31 Class 3a property; confession of judgment. Increases the total market value from \$200,000 to \$500,000 for commercial/industrial (C/I) property to be eligible to enter into a confession of judgment. Under current law, owners of C/I property, with delinquent taxes, may enter into a confession of judgment with the county to set up a payment schedule to pay off the delinquent

taxes over a 5-year time period. This market value has not been increased for many years.

Effective for confessions of judgment entered into July 1, 2007, and thereafter.

- 32 **Delinquent taxes.** Allows partial payments to be made for payment of delinquent taxes. The manner in which they are credited is in the same order as under current law. Effective the day following final enactment.
- 33 **Property tax refund information in income tax instruction booklet.** Requires the commissioner of revenue to provide a reference to property tax refunds on the cover of the individual income tax instruction booklet. Also requires information on income eligibility and maximum refund amounts to be included in the instruction booklet. Effective the day following final enactment.
- 34 **Property tax statement.** Requires the front page of each property tax statement to contain a statement notifying the taxpayer of the availability of the property tax refund program, in a font larger than the predominant font of the statement.
- 35 **Sustainable forest incentive payments.** Guarantees that the sustainable forest incentive payment shall not be less than \$5 per acre. The formula in current law for determining the payment is based upon the *greater* of two different property tax calculations or \$1.50 per acre. Using that formula, the current payments are \$5.24 per acre. Effective for payments made in 2008 and thereafter
- 36 **Definition of municipality.** Includes “airport authority” in the definition of municipality for purposes of establishing airports.
- 37 **General powers; airport authorities.** Provides that an airport authority has all the powers granted a municipality.
- 38 **Creation of airport authorities; dissolution.**

Subdivision 1. Members; definition. Authorizes a city together with another city, county, town, or an Indian tribe to create an airport authority. “Airport authority” means a governmental entity created for the purposes of acquiring, establishing, constructing, maintaining, improving, and operating airports and other air navigation facilities

Subd. 2. Process to establish authority. Provides that a city that owns an airport by joint resolution with other willing governmental units may create an airport authority that is authorized to exercise its functions upon passage of a joint resolution by each of their governing bodies, including a proposed date for the authorities first meeting.

Subd. 3. Airport authority commission. Provides the powers of the airport authority are vested in the airport authority commissioners. The commission must have at least 5 commissioners. Each participating governmental unit shall be represented. The terms are three years, provided that initial terms are staggered so that only one-third of the terms expire each year.

Subd. 4. Appointment of commissioners. Provides the governmental body of each member governmental unit appoints a resident of that unit to be a commissioner.

Subd. 5. Compensation; meetings; officers. Provides that commissioners shall receive no compensation for services, but are entitled to receive expenses. A majority of commissioners of the authority constitutes a quorum for purposes of conducting business. The commission shall elect officers and may hire an executive director, and other permanent and temporary staff.

Subd. 6. Process to increase size of authority. Allows the airport authority to increase in size by adding additional governmental entities if each of the current entities

adopts a resolution agreeing to the size increase.

Subd. 7. Process to decrease size of authority. Allows the airport authority to decrease in size if each of the governmental entities and the current commissioners consent to change and make provisions for the retention or disposition of its assets and liabilities.

Subd. 8. Process to dissolve authority. Allows an airport authority to be dissolved after payment of all debts and adoption of a joint resolution of all governing bodies. Prior to dissolution, the property must be sold, transferred, or distributed as agreed upon, with any remaining funds distributed to the participating units in proportion to their relative shares of the most recent levy under section 360.0427.

39 Airport authorities; levy authority. Provides that in any year in which the airport authority imposes a property tax levy, the authority must certify to the auditor of the county where the airport is located (i.e., the home county) the amount to be levied, and that auditor will establish a uniform tax rate to be levied on all taxable property within the boundaries of the authority. Effective for taxes levied in 2007, payable in 2008 and thereafter.

40 Hardship assessment deferral; military persons. Extends the option to defer certain assessments to members of the National Guard and military reserves ordered into active service. Currently a county, city, or town, at its discretion may defer the payment of special assessment for any homestead property of seniors and disabled persons that it determines causes a hardship. This section adds National Guard and reserve members in active service to that authorization.

Effective the day following final enactment and applies to any special assessment for which payment is due on or after that date.

41 Street maintenance and lighting; Minneapolis. Amends a special law for the city of Minneapolis relating to street maintenance and lighting. Allows the city to pay all or part of the costs of construction and operation of streets and street lighting from city general revenue. Currently the law refers only to the maintenance of streets and street lighting be paid from general revenues.

42 Cook-Orr Hospital District. Eliminates the specific limitation on the amount of the levy that may be made by the Cook-Orr Hospital District. Makes that district's levy subject to the general law levy limitation that applies to other hospital districts. It also eliminates the restriction that the levy, other than the portion that is levied for ambulance service expenses, be used only for capital purposes and not for operating expenses. Local approval is required.

43 Cook County Hospital District. Modifies the levy authority of the Cook County Hospital District by eliminating the district's specific levy limitation in its special law. The limit was \$300,000 for taxes levied in 2002, increased in subsequent years by the lesser of: three percent or the amount of the increase in the Consumer Price Index. The district's levy will now be subject to the general law's hospital district levy limitation. Local approval is required.

44 Exchange of tax-forfeited land; private sale; Itasca County. Exempts certain lands in Itasca County that have been acquired through an exchange from the tax-forfeited land assurance fee. The proposed land sale is about \$6 million and the fee about \$180,000.

Tax forfeited land is subject to a three percent assurance fee at the time of sale. It is collected by the county auditor and sent to the State for deposit in the general fund. Historically, this fee/fund was established so that if any person had been awarded damages relating to a tax-forfeited transaction, the damages would be paid from the assurance fund.

Effective the day following final enactment.

45

Fiscal disparities study. Requires the commissioner of revenue to conduct a study of the metropolitan fiscal disparities program and make a report to the House and Senate tax committees by February 1, 2009. The study is to consider whether the fiscal disparities program is meeting the following goals, and what changes could be made in the furtherance of the goals:

- 1. Reducing the extent to which the property tax system encourages inefficient development patterns
- 2. Ensuring that the benefits of economic growth are shared throughout the region
- 3. Allowing taxing jurisdictions to deliver services in proportion to their tax effort
- 4. Compensating jurisdictions for low-tax-yield properties that provide regional benefits
- 5. Promoting a fair distribution of tax burdens across the region
- 6. Reducing economic losses from competition for commercial-industrial tax base.

Effective July 1, 2007 There is a \$150,000 appropriation for this study in Article 15, section 20(b)(i).

46

Participation in crime-free multi-housing program; Brooklyn Center pilot project. (a) Requires “qualifying property” under paragraph (b) located in Brooklyn Center to participate in a crime-free multi-housing program in order to receive the 4d property classification.

If the property is not certified within one year after its initial 4d classification, or does not annually maintain its program certification, the city shall notify the property owner that the property must be in compliance in order to maintain its 4d classification. If it is not in compliance within one year after receiving the notice, a second notice is issued and the owner has one year to comply. If the owner is still not in compliance, the Minnesota Housing Finance Agency (MHFA) shall be notified and the property shall be removed from the list of qualified 4d properties certified to the county assessor.

Once removed from the list, the property is not eligible for class 4d until the property owner complies with this subdivision. Certification to MHFA must be made by May 15th to be effective for taxes payable in the following year.

(b) Defines “qualifying property” as property that:

(1) is located in a city (i.e., Brooklyn Center) that offers a crime-free multi-housing program through its city police department;

(2) has police calls over the preceding two-year time period exceeding the average number of calls for multi-unit rental properties in the jurisdiction, adjusted for number of units, by at

least 25 percent;

(3) has received a request in writing from the police department that the owners or managers enroll in the crime-free program which has not been complied with within 60 days, or where the owner or manager failed to complete all three phases of the program within a specified time; and

(4) is determined by the governing body of the city to be qualifying property.

(c) Provides that calls for police or emergency assistance for medical needs or domestic abuse do not count toward the call limit in paragraph (b), clause (2).

(d) Requires property qualifying for 4d classification for taxes payable in 2007 to fulfill the requirements of this section by May 15, 2010.

Local approval is required.

- 47 Clair A. Nelson Memorial Forest; Lake County; temporary suspension of apportionment of tax-forfeited land proceeds.** Provides that upon approval of an affected political subdivision within Lake County, the Lake County Board may suspend the apportionment of the balance of net proceeds from the tax-forfeited lands within those subdivisions and retain those proceeds until Lake County is reimbursed for the purchase in 2006 of 6,085 acres of forest land named the Clair A. Nelson Memorial Forest. The amount is \$2,200,000 plus any interest costs incurred by the county.

Effective retroactively to January 1, 2006.

- 48 Lakeview Cemetery Association.**

Subd. 1. Authorization. Allows any two or more of the following municipalities to enter into a joint powers agreement to create the Lakeview Cemetery Association with the powers and duties of a cemetery association: the cities of Bovey, Calumet, Coleraine, Marble, and Taconite,, and the towns of Greenway, Iron Range, Lawrence, and Trout Lake.

Subd. 2. Additions; withdrawals. Allows any of the eligible municipalities that do not join the association initially to join later. Allows any cities or towns that are members of the association to withdraw from the association.

Subd. 3. Operation; tax levy. Allows the joint powers agreement to provide for a uniform tax rate to be levied against all taxable properties located within each participating city or town. The total combined levy from all participating cities and town cannot exceed \$200,000 per year. If levied, the tax is in addition to all other taxes on the property, including taxes permitted to be levied for cemetery purposes by the city or town and must be disregarded in the calculation of all other rate or per capita levy limitations imposed by law. The tax shall be collected by the Itasca County auditor/treasurer and paid directly to the Lakeview Cemetery Association.

Background. Laws 1994, chapter 587, article 9, section 8, allows the town of Iron Range and the cities of Coleraine and Bovey to levy a tax and make an appropriation not to exceed \$15,000 annually to the Lakeview Cemetery Association. The annual amount was increased to \$25,000 in the 2005 omnibus tax law, effective for taxes payable in 2006 and thereafter. That law will be repealed under this article, section 0, when the association initially levies

under this section.

Effective for taxes levied in 2007, payable in 2008 and thereafter.

- 49 Tax-forfeited land lease; Itasca County.** Permits the Itasca County auditor to lease tax-forfeited land to Minnesota Steel for a period of 20 years for use as a tailings basin and buffer area. The lease is renewable. Effective day following final enactment.
- 50 Ham Lake fire; property tax reduction; state reimbursement.**

Subdivision 1. Property tax reduction. Provides that an owner of property that was destroyed in the Ham Lake fire in 2007 may apply to the Cook County assessor to receive a reduction in the amount of taxes payable on the property for 2007 and 2008. The reduction must be granted if 50 percent or more of the homestead dwelling or nonhomestead structure as established by the county assessor, has been destroyed by the fire and related effects and the homestead is uninhabitable or the other structure is not useable. Reduces the tax liabilities for qualifying property for the second half of property taxes due in October 2007 and all property taxes due in 2008 to zero. If a taxpayer has paid any of the second half 2007 property taxes, they must be refunded. This reduction is in lieu of the homestead disaster credit under section 273.123.

Subd. 2. State reimbursement. Requires the Cook County Auditor to calculate the taxes payable in 2008 based on the assessment made on January 2, 2007, prior to granting the reduction provided in subdivision 1. The difference between the computed tax and the tax after the reduction, for both taxes payable in 2007 and 2008, shall be certified by the county auditor to the commissioner of revenue. Provides the commissioner shall make the payments to the auditor for settlement to the taxing jurisdictions containing the property for the second half of 2007 payments and for both 2008 payments in the same proportion that the ad valorem tax is distributed.

Subd. 3. Computation of credits. Provides that the property tax refund must be computed on the tax actually paid by the taxpayer.

Subd. 4. Appropriation. Appropriates \$500,000 from the general fund to the commissioner of revenue to make the payments required under this section. The amount remains available until June 30, 2009.

Effective the day following final enactment.

- 51 Improving public awareness and participation in property tax relief programs.** Provides that the commissioner of revenue, in consultation with county officials, shall make efforts to improve the public's awareness of and participation in the various property tax refund programs. Various options for improving public awareness (i.e., inserts in the property tax statement, more prominent and direct references to the tax relief programs on the statement, notification on the property tax statement envelopes or folders, etc.) are to be considered. Effective the day following final enactment.
- 52 Repealer.** (a) Repeals the section of the 1973 special law that requires the city of Minneapolis to include the prior year's assessments for street maintenance in the calculations of aggregate receipts for purposes of levy limits if the city pays for street maintenance out of general revenues. There are no general levy limits in effect at this time.

(b) Repeals the existing law governing the Lakeview Cemetery Association, effective when the Association first levies under the authority granted in section 0.

Article 3: Corporate Franchise Tax

Overview

This article makes two changes related to the foreign source income provisions of the corporate franchise tax (effective beginning for tax year 2008):

1. The qualifying rules for “foreign operating corporations” (FOCs) are modified to require the corporation to derive 80 percent of its income from active foreign sources. This replaces the present law test that largely focuses on where the property and payroll of the corporation are located.
2. Tax benefits accruing to FOCs and under the foreign royalty exclusion are denied to income from domestic sources, as defined under federal law, but the rate of exclusion for royalties is increased from 80 percent to 90 percent.

In addition, the article accelerates adoption of 100 percent sales apportionment, so that full sales apportionment will be effective for tax year 2011 (compared with 2014 under present law).

- 1 Definition of foreign operating corporations.** Modifies the FOC definition to require that the entity either (1) have a valid 936 election (these are corporations qualifying under federal tax rules that provide an incentive for operating in Puerto Rico and other U.S. possessions) or (2) derive 80 percent or more of its income from foreign sources, as defined by federal law, and be from the active conduct of a trade or business.

This replaces the present law definition of an FOC, which requires the entity (a domestic corporation that is part of a unitary group, one member of which is taxable in Minnesota) to:

- Have 80% or more of its average property and payroll outside of the U.S. (excluding Puerto Rico or possessions)
- Have \$1 million in foreign payroll and \$2 million in foreign property (the payroll requirement can also be satisfied by having \$1 million of foreign contract work done).

Effective date: tax year 2008

- 2 Additions for income for FOC operations.** Requires addition of the following items of income related to FOCs:

- Interest and intangible expenses paid to or incurred on behalf of an FOC by a member of the same unitary group – e.g., this would include payment of fees or royalties for the use of intangible properties held by the FOC, interest payments on loans made by the FOC to another member of the unitary group, payments made for the FOC, and so forth. The addition does not apply if the income is from foreign sources, as defined in federal law.
- Other interest and intangible income of an FOC (i.e., not paid to or received from a member of the unitary group) that is not from foreign sources, as defined by federal law.

- REIT (real estate investment trust) income of an FOC (it does not appear that the REIT needs to be a member of the unitary).
- Gains from the sale of U.S. real or personal property by the FOC.

These provisions are intended to prevent an FOC from receiving a tax benefit from domestic income from intangibles (e.g., intellectual property or financial transactions, such as loans), U.S. based capital gains, or REIT dividends. The law provides an FOC’s income is taxed as a “deemed dividend received” by the unitary group. This income qualifies for the 80 percent dividend received deduction. This section would deny that treatment to these categories of income. The income would instead be included in the income of the unitary business. However, the apportionment factors of the FOC would not be reflected on the combined report.

Also requires fines and penalties deducted from federal taxable income to be included in Minnesota taxable income

Effective date: tax year 2008

- 3 Foreign royalty subtraction.** Excludes domestic source income, as defined by federal law, from qualifying for the subtraction for foreign royalties and increases the rate of the subtraction from 80 percent to 90 percent. Present law provides recipients of royalty and similar payments from foreign corporations and FOCs a subtraction for 80 percent of these payments. The paying corporation must be part of the unitary business. Royalties often represent payments for use of intellectual property (patents, copyrights, trademarks, processes, and so forth) or similar payments. A typical situation would be a patent developed by the U.S. parent and licensed to a foreign subsidiary or FOC.

Effective date: tax year 2008

- 4 Sales apportionment.** Accelerates the adoption of single sales apportionment. The table compares the schedule under present law and the section.

Tax Year	Present Law	Proposed
2007	78%	78%
2008	81%	81%
2009	84%	84%
2010	87%	95%
2011	90%	100%
2012	93%	100%
2013	96%	100%
2014	100%	100%

Article 4: Individual Income Tax

Overview

Conforms Minnesota's income tax to federal changes enacted since May 18, 2006, for tax year 2007 only. The principal federal changes are:

1. deduction for higher education tuition expenses
1. deduction for teacher classroom expenses
1. allowance of IRA contributions by members of the military with income primarily from nontaxable combat pay
1. allowance of direct transfers to charities from traditional IRAs and Roth IRAs
2. exclusion of \$3,000 of distributions from governmental pension plans to pay qualified health insurance premiums for public safety retirees
3. various limits on charitable contributions
4. making permanent the increases in contribution limits to various retirement plans (IRAs, 401(k)s, and so forth) that were increased on a temporary basis in earlier federal laws (this article would conform for tax year 2007 only)
5. provides a new itemized deduction for mortgage insurance premiums
6. allows a one-time rollover to a health savings account, and reduces limitations on contributions to health savings accounts

Laws 2007, chapter 1, conformed to these items for tax year 2006 only. This article conforms for tax year 2007 only.

Clarifies that the income tax subtraction for out-of-state military service applies to National Guard service under Title 32 of the U.S. Code, and reinstates an individual income tax subtraction for national service education awards.

Increases the military service combat zone credit from \$59 per month to \$120 per month, effective for service after December 31, 2006.

Authorizes \$2 million in tax credits for investments in new bioscience and medical device technology businesses.

Eliminates the exclusion from taxable income for wages that were earned when the taxpayer was a Minnesota resident and received when the taxpayer was not a Minnesota resident.

Requires construction contractors to withhold 2 percent of payments to independent contractors who are individuals.

Requires inclusion of fines, fees, and penalties in taxable income.

- 1 Update of tax administration provisions.** Adopts federal tax administrative provisions made between May 18, 2006, and December 31, 2006, that Minnesota references for state tax administration purposes under chapter 289A. None of the three federal acts enacted since May 18, 2006, changed federal provisions that Minnesota provisions refer to in

chapter 289A.

Effective the day following final enactment.

- 2 **Information reporting.** Requires payers who federal law requires to file Form 1099 information for contractor payments with the IRS to also file a copy of the return with DOR. This applies if the payments either were made to a Minnesota resident or if the services were performed in the Minnesota. The commissioner may require the information to be filed electronically.

Present law gives the commissioner of revenue authority to require this information to be filed by notice and demand to the payer.

Effective beginning with tax year 2009.

- 3 **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 2007 only. Laws 2007, chapter 1 (H.F. 8), adopted these same changes but for tax year 2006 only. The three new federal laws and important changes were:

The Heroes Earned Retirement Opportunities Act, Public Law 109-227, enacted May 29, 2006, which allows military personnel to count tax-exempt combat pay as earned income for the purpose of qualifying to make tax deductible contributions to individual retirement accounts, effective retroactively to tax year 2004.

The Pension Protection Act of 2006, Public Law 109-280, enacted August 17, 2006, which made a large number of changes to federal provisions relating to employer-provided defined benefit or contribution plans, IRAs, and Keogh plans, and included a number of provisions relating to charitable contributions. Chief among the provisions effective in tax year 2007 are:

- authorizes 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 amount from adjusted gross income
- limits the charitable deduction of used household items and clothing to items in good used condition, and requires an appraisal for donations of items valued over \$500
- limits the deduction for charitable donations of taxidermy items to the cost of stuffing or mounting the animal
- disallows the deduction of fractional interests in personal property if the donor and receiving charity do not own the total interest in the property after the gift
- extends the ability of individuals to deduct cost plus 50 percent of market value over cost of the donation of food held as inventory
- extends the enhanced charitable contribution deduction for donations of books and computers to schools

- modifies the federal adjusted gross income limitation on charitable deductions for donations of qualified conservation easements to 50 percent (but coordinates this with the percentage limits on other charitable contributions) from the old 20 percent or 30 percent limit. The 50 percent limit is raised to 100 percent for farmers and ranchers (individuals with 50 percent of gross income from farming/ranching)
- tightens the restrictions on claiming a charitable deduction for façade easements on historic buildings
- limits the basis adjustment in S corporation stock when S corporations donate appreciated property to the tax basis of the property rather than the fair market value (this will reduce capital gain on later sales of the S corporation stock, compared with prior law)
- allows an annual exclusion of \$3,000 of distributions from governmental pension plans to pay qualified health insurance premiums for eligible public safety retirees
- makes various increases in the permitted annual contributions to retirement plans, such as IRAs, 401(k)s, 403(b), and 457 plans

The Tax Relief and Health Care Act of 2006, Public Law 109-432, enacted December 20, 2006, extended several expiring deductions, implemented new provisions related to health savings accounts, and provided a new itemized deduction for mortgage insurance premiums. Provisions effective for tax year 2007 include:

- extends the higher education tuition expense deduction of up to \$4,000
- extends the teacher classroom expense deduction of up to \$250
- extends the option for taxpayers to claim an itemized deduction for sales taxes rather than income taxes paid (Minnesota taxpayers will be unaffected by this, since present law requires any deducted sales tax to be added back in computing Minnesota tax)
- extends allowance of 15-year depreciation of restaurant buildings and leasehold improvements and accelerate depreciation for business property on Indian reservations
- extends the deduction for amounts contributed to Archer medical savings accounts
- extends expensing for brownfield cleanups
- allows advanced mine safety equipment purchased after December 20, 2006, and before December 31, 2008, to be expensed at up to 50 percent of its cost, with the remainder depreciated

- extends the enhanced deduction for donations of computers
- extends the election to include combat pay in earned income for purposes of claiming the federal earned income tax credit
- conforms on changes to health savings accounts that allow a one-time rollover of health reimbursement and flexible spending accounts to health savings accounts, and eliminates contributions limits corresponding to plan deductibles
- provides a new itemized deduction for mortgage insurance premiums

4 Additions to taxable income; individuals. Requires fines and penalties deducted from federal taxable income to be included in Minnesota taxable income for individuals.

5 Subtractions from taxable income; out-of-state military service of National Guard and national service education awards.

Out-of-state military service by National Guard. Clarifies that the 2005 enactment that exempts from state taxation a filer’s earnings for out-of-state military service applies to National Guard personnel in the same manner that it is currently being applied to other Military Reservists. Federal law defines the term *active duty* for military Reservists other than the National Guard in Title 10 of United States Code, but for National Guard personnel in Title 32 of federal code (in nearly identical language). This section clarifies that both of these federal definitions apply to the subtraction for active duty pay for service outside Minnesota and, thus, that National Guard members, like Reservists, qualify for this Minnesota tax deduction on all out-of-state military earnings. This would extend the subtraction to

- basic training at out-of-state military facilities
- special training and annual training at out-of-state military facilities
- Mexican border patrol duty

Effective retroactively, for tax year 2005 and thereafter.

National service education awards. Provides an individual income tax subtraction for national service education awards, also referred to as “YouthWorks” scholarships.

Background. An income tax subtraction was allowed for these awards for tax years 1997 through 2004. In 2005, this subtraction was repealed with the understanding that the scholarships were no longer being awarded, making the subtraction obsolete. While state funding for scholarships had been discontinued, it has been supplanted by federal funding, with the result that the subtraction was not obsolete. This section would reinstate the subtraction that was in effect from 1997 to 2004, effective for tax year 2007.

6 Update to other references to the Internal Revenue Code in chapter 290. Adopts federal changes to federal adjusted gross income used for computing individual alternative minimum tax and household income which is used to compute the dependent care and K-12 education credit for tax year 2007 only. Laws 2007, chapter 1 (H.F. 8), adopted these same changes for tax year 2006 only. The main changes to federal adjusted gross income are described in section 0.

7 Investment tax credit. Allows a 25-percent investment tax credit for qualifying taxpayers’

investments in qualifying new bioscience business ventures, with the maximum credit statewide limited to \$2 million. The credit applies to both the individual income tax and the corporate franchise tax. The credit is limited to the least of the following amounts:

- The liability for individual income or corporate franchise tax, including the alternative minimum taxes
- \$50,000 for an individual who is not part of a partnership
- \$30,000 for a C-corporation, or a pass-through entity (e.g., a partnership or S corporation) and a partner or shareholder is limited to \$50,000 for an individual partner or shareholder

Amounts in excess of tax liability are carryovers to the next 10 taxable years.

Qualified taxpayers are defined as accredited investors under SEC Regulation D who do not own 20 percent or more of the outstanding securities of the qualified business. Under Regulation D, accredited investors generally are high income and net worth individuals or entities with substantial assets.

Individuals and entities apply to the commissioner of the Department of Employment and Economic Development (DEED) for certification as qualifying taxpayers. DEED is to certify applicants on a first-come-first-served basis, and authorized to issue up to \$2 million of credit certificates.

Qualifying businesses are defined as meeting the following requirements:

- Its headquarters are in Minnesota.
- It has fewer than 25 employees and at least 51 percent of them are located in Minnesota.
- The business is engaged in manufacturing, processing or assembling biotechnology or medical device products, including products for use in agriculture, or biotechnology or medical device research and development, and is not engaged in real estate development, insurance, banking, retail or wholesale trade, professional services, construction, transportation, health care or similar.
- It has not been in operation for more than 10 consecutive years.
- It does not have more than \$1 million in annual gross sales.
- It has not received more than \$1 million in investments that qualify for the credit or more than \$2 million in private equity investment (regardless of whether they qualify for the credit).
- It cannot be an affiliate or subsidiary of business with more than 100 employees or gross annual sales of \$1 million or more.

Effective date: DEED would begin issuing credit certificates in tax year 2008.

- 8 Military service combat zone credit.** Increases the credit for military service in a combat zone or qualified hazardous duty area from \$59 per month to \$120 per month, effective for service after December 31, 2006. Eligible areas include the Arabian Peninsula Areas, the Kosovo area, Afghanistan, and supporting areas. The \$59 per month credit would continue to apply for service from September 11, 2001, through December 31, 2006.

Also allows the estate or heirs at law of a deceased member of the military to retroactively claim the credit for combat service that occurred before January 1, 2006. Current law allows only a surviving spouse or dependent to claim the credit on behalf of individuals who died before January 1, 2006, and only if the member of the military died as a result of combat zone activity. Current law also allows for the credit to be claimed on a deceased individual's final return for individuals who die on or after January 1, 2006. This change will allow the credit to be claimed for all combat zone service since September 11, 2001, by the estate or heirs at law of deceased members of the military who do not have a surviving spouse or dependent, and who died before January 1, 2006. Effective retroactively for tax years beginning after December 31, 2005.

- 9 Nondeductible payments; fines, fees, and penalties.** Adds a subdivision to section 290.10 that provides that amounts paid to a government entity, or to a specified nongovernmental entity associated with a violation of a law are not deductible business expenses whether characterized as fines, penalties, damages, restitution, legal fees or expenses. These payments are not deductible when paid under a criminal or civil court order, an administrative action, a plea agreement, or settlement agreement. Defines nongovernmental entity as an entity that exercises self-regulatory powers, including imposing sanctions, specifically

- ▶ a qualified board or exchange as defined under the Internal Revenue Code, such as a national securities exchange or a domestic board of trade or
- ▶ a nongovernment entity that performs an essential government function.

- 10 Wage income of Minnesota residents.** Eliminates the exclusion from taxable income for wages that were earned when the taxpayer was a Minnesota resident and received when the taxpayer was not a Minnesota resident. Under present law, an individual is not subject to Minnesota income tax on wages for work performed while a Minnesota resident that are not received until the individual is a resident of another state. Examples include:

- individuals on contract whose contracts provide for them to continue to be paid for some time period after they complete the work required under the contract,
- individuals who receive nonqualified deferred compensation, and
- individuals who receive stock options while performing work as a Minnesota resident, but do not exercise the options until they have moved to another state.

This section would not apply to individuals participating in qualified plans (such as a regular defined benefit pension, 401(k), 403(b), IRAs, and 457 plans) while Minnesota residents and making withdrawals once they are nonresidents, since federal law prohibits state taxation of withdrawals from these plans by nonresidents.

Effective beginning in tax year 2007.

11 Withholding; construction contractors. Requires construction contractors to withhold 2 percent of payments to individuals (other than employees) who perform contract work for them as Minnesota withholding tax, if total payments to the individual during the year exceed \$600. This requirement applies (based on North American Industry Classification System codes) to the following types of businesses engaged in the:

- Construction of buildings
- Heavy and civil engineering construction
- Specialty trade contractors

The requirement applies to payments that are subject to federal information reporting (IRS Form 1099). In applying the withholding tax, the individual is treated as an employee. Recipients must furnish the contractor with the names, addresses, and social security numbers. (Federal law imposes a similar requirement to permit 1099 information reporting.) Withholding would not apply to payments made to entities (corporations, partnerships, LLCs, and so forth).

Effective for payments made after December 31, 2007.

12 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. Laws 2007, chapter 1 (H.F. 8), adopted these same changes but for tax year 2006 only.

13 Federal update; estate tax. Changes the date through which Minnesota incorporates the federal estate tax from May 18, 2006, to December 31, 2006. Since there have not been any federal changes to the estate tax since the last update, this change does not have any substantive effect.

14 Audit and report; construction contractor withholding. Requires the commissioner to conduct a random sample audit of construction contracting withholding returns under section 0 and to report to the legislature by February 1, 2010, on the audit. The report must also include the total number and amount of withholding payments received under section 0, and the types of contractors making payments, grouped by specialty skills categories under the North American Industry Classification System codes.

Article 5: Sales and Use Tax

Overview

Increases the percent of tax subject to the June accelerated payment requirement.

Provides a number of small sales tax exemptions and refunds.

Prohibits local governments from spending money to promote seeking a local sales tax or hold a referendum to support imposition of a local sales tax for two and one-half years. The prohibition does not apply to existing local sales taxes or the taxes authorized in this bill. Allows the following local taxes:

1. Increases the Duluth food and beverage tax increase;
2. Modifies and expands local taxes in Cook County;
3. Expands the use of the existing Bemidji local sales tax;
4. Allows the city of Clearwater to impose a local sales tax, subject to voter approval;
5. Allows North Mankato to impose a new local sales tax, as already approved by voters;
6. Allows Proctor to expand the uses of its existing tax; and
7. Allows Winona a local sales tax if approved by the voters.

- 1 Sales and use tax (June accelerated payment).** Increases the percent of June sales and use tax receipts that must be paid by larger tax collectors in June from 78 percent to 85 percent. Effective beginning with June 2009 sales tax receipts.
- 2 Accelerated payment of June sales tax liability; penalty for underpayment.** Adjusts the “safe harbor” provision for estimating the amount of June receipts that must be remitted in June to reflect the percent increase in section 0.
- 3 Manufactured and modular housing.** Provides that sales of manufactured homes and modular housing sales shall be sourced to the site where the housing is first installed or erected for purposes of calculating sales taxes. Usually the manufacturer or dealer delivers this type of housing directly to the site and in those cases the sale is currently sourced to the site. This covers situations when a purchaser or contractor picks up the housing at the dealer’s location and transports it to the site. Effective for purchases made after June 30, 2007.
- 4 Capital equipment (wood products).** Provides an upfront capital equipment sales tax exemption for the wood products industry. Generally the tax must be paid at the time of the capital equipment purchase, and a refund applied for. Defines “wood products industry” to be paper, and pulp facilities, sawmills, and manufacturers of panel board and reconstituted wood products. Does not include logging, or factories that make wood cabinets, furniture, etc. Effective for sales after June 30, 2007.
- 5 Materials consumed in agricultural production.** Provides a sales tax exemption for interior crates, calf hutches, cow mats, and other minor items related to raising livestock. Effective for sales beginning after June 30, 2007.
- 6 Repair and replacement parts.** Expands the current sales tax exemption for farm repair and replacement equipment to include farm, aquaculture, and logging tires. Effective for sales beginning after June 30, 2007.

- 7 **Machinery, equipment, and fencing.** Expands a current sales tax exemption for fencing of cervidae (European red deer) to include fencing for all livestock. Effective for sales beginning after June 30, 2007.
- 8 **Commuter rail, engines and cars.** Provide a sales tax exemption for rail cars and engines used in a commuter rail service (NorthStar corridor). The exemption is administered as a refund to the owner the commuter rail line. The amount of the refund that can be paid in the 2008-2009 biennium is limited to \$2.734 million and \$666,000 in the next biennium.
- 9 **Regionwide public safety radio communication system; products and services.** Extends the current sales tax exemption for products and services for the construction, operation, maintenance, and enhancement of the backbone of the regionwide public safety radio communication system to the portion of the backbone located in Itasca County. Currently this exemption is available in the nine counties in the metropolitan area (Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, and Washington), the southeast district of the State Patrol, and Benton, Sherburne, Stearns, and Wright Counties in the central district of the State Patrol. Effective for purchases made after June 30, 2007.
- 10 **Construction materials for qualified low income housing projects.** Expands the existing sales tax exemption for low-income housing construction to include limited partnerships where the sole or managing general partner is a nonprofit corporation under Minnesota law that is a 501(c)(3) or 501(c)(4) corporation. Currently it applies to projects owned by a number of different entities but it only applies to projects owned by a limited partnership if the sole general partner is either (1) a public housing agency or housing and redevelopment authority of a political subdivision, or (2) an entity in a political subdivision exercising housing and redevelopment authority. There is a delayed effective date. Effective for sales made after June 30, 2009.
- 11 **Legal reference and data center facility.** Provides a sales tax exemption for building materials used in, and capital equipment incorporated into, a legal reference office and data center if (1) the center provides legal reference products and services, (2) the facility costs at least \$100 million, and (3) at least 8,300 persons are employed at the facility. The tax must be paid at the time of purchase and the Department of Employment and Economic Development shall certify that the last provision is met before the owner of the facility may apply for a refund of the tax. The Thomson-West facility is the only facility that qualifies.
- 12 **Tax collected.** Requires the tax be collected on items exempt from the sales tax in sections 0 and 0 and refunded upon application.
- 13 **Refund; eligible persons.** Requires that the owner of the commuter rail line or the legal and data center facility apply for the sales tax refunds allowed under section 0.
- 14 **Application; refund.** Requires that a contractor who purchases materials and equipment exempt from the sales tax under sections 0 and 0 provide the owner with the necessary information for applying for the refund.
- 15 **Authorization; scope (local sales taxes).** Prohibits political subdivisions for the next 2½ years from advertising, promoting, spending money or holding an election to support imposing a local sales tax. Does not apply to local sales taxes authorized by special law prior to January 1, 2008. The prohibition runs from June 1, 2007, through December 31, 2010.
- 16 **Exemptions (motor vehicles).** Allows a charitable organization that holds a Minnesota vehicle dealer license to give a motor vehicle to an individual without the transfer being subject to the motor vehicle sales tax provided that no monetary or other consideration is expected. The Greater Twin Cities United Way is currently the only organization that would qualify. Effective for sales and purchases after June 30, 2007.
- 17 **Duluth; food and beverage tax.** Allows the city of Duluth to increase its food and beverage tax from one and one-half percent to two and one-quarter percent. The increase

does not require voter approval. The extra three quarters of one percent tax must be used to help pay off the \$38 million in debt issued for building a new ice arena and related improvements to the Duluth Entertainment and Convention Center. This portion of the tax will expire when sufficient revenues are raised from this and other revenue sources to pay these bonds.

Revenues from the current tax are being used to repay \$8 million of bonds for capital improvements to the Duluth Entertainment and Convention Center and \$5 million for the Great Lakes Aquarium. Current law requires that this portion of the tax will be reduced from one and one-half to one percent when these debts are repaid.

- 18 **Lodging tax in Towns (Cook County).** Changes the allowed use of revenues generated by the existing two percent lodging tax imposed in the towns of Lutsen, Tofte, and Schroeder. Currently the revenues are used to retire the bonds for the Superior National Golf Course. Revenues from the county sales tax extended in section 0 will now be used to repay these bonds. The lodging tax will be used fund tourism promotion in the towns and a new Cook County Event and Visitors Bureau.
- 19 **Use of revenues (Cook County local sales tax).** Expands the uses for revenues from the existing county local sales tax to include financing (1) construction and improvement of a community center and related facilities, (2) construction and improvement of the Grand Marais pool, (3) construction and improvement of the Grand Marais public library; and (4) bond repayment on the Superior National golf course. The extension of the use of the tax requires voter approval in a special election held by December 31, 2007. Currently the revenues may only be used to repay \$6.2 million in bonds for the North Shore Hospital and the North Shore Care Center.
- 20 **Expiration of taxing authority (Cook County local sales tax).** Modifies the expiration date on the Cook county local sales tax. Currently the tax expires when revenues are sufficient to pay off the \$6.2 bonds for the North Shore Hospital and Care Center. The tax would now expire when the county determines that revenues are sufficient to pay for the bonds authorized in section 0.
- 21 **Bonds (Cook County local sales tax).** Allows Cook County to issue up to \$14 million in bonds for the additional projects authorized in section 0.
- 22 **Sales and use tax (Proctor local sales tax).** Updates a statutory cross-reference in the special law authorizing the Proctor local sales tax.
- 23 **Use of revenues (Proctor local sales tax).** Expands the uses for revenues from the existing city sales tax to pay for capital improvement projects for public utilities; bikeways and trails; and parks and recreation.
- 24 **Bonding authority (Proctor local sales tax).** Allows the city of Proctor to issue up to \$7.2 million in bonds without an election to finance the additional projects authorized in section 0.
- 25 **City of Bemidji.** Allows the city of Bemidji to expand the projects that it may fund from its existing local sales tax revenues to include a regional event center, based on voter approval received at the November 2006 general election. The revenues currently are earmarked for parks and trail within the city. The bill would allow the city to pay the city's share of constructing a regional events center, not to exceed \$40 million plus associated bond costs. It also allows the city to issue up to \$40 million in bonds for the project, based on the 2006 referendum. The tax would now expire at the earlier of (1) when bonds for both projects are paid off, or (2) when revenues sufficient to pay the \$9.8 million of bonds for the parks and trails have been raised, plus 30 years.
- 26 **City of Clearwater; taxes authorized.** Allows the city of Clearwater to impose a one-half

cent local sales and use tax to fund the listed projects.

Subd. 1. Sales and use tax. Authorizes the city to impose a one-half cent local sales tax, based on voter approval at the November 7, 2006, general election. States that the provisions of the statutes regarding local sales taxes will apply.

Subd. 2. Excise tax. Allows the city to impose a \$20 per vehicle excise tax on all motor vehicle sales made by dealers located within the city.

Subd. 3. Use of revenues. Allows the city to use revenue from the taxes imposed in subdivisions 2 and 3 to fund a pedestrian bridge and a community and recreation center.

Subd. 4. Bonding authority. Allows the city to issue up to \$12 million in bonds for the project listed in subdivision 3, based on the election approving the tax.

Subd. 5. Termination of taxes. Requires the taxes imposed under subdivisions 1 and 2 to terminate at the earlier of 20 years or when revenues first meet or exceed an amount equal to \$12 million plus any additional costs, including interest, related to the bond issuance. Allows the city to terminate the tax earlier if it so desires.

27

Cook county; lodging and admissions taxes. Allows Cook county to impose the following new county taxes:

- a one percent lodging tax; in addition to the three percent lodging tax allowed under general law; and
- up to a three percent amusement tax on admissions to places of amusement and recreation facilities and rental of recreation equipment.

Establishes a 14-member board of directors for a new Cook County Event Center and Visitors Bureau and dedicates revenues from these taxes to fund the Bureau. The taxes expire 10 years after the date they are first imposed.

28

City of North Mankato; taxes authorized. Allows the city of North Mankato to impose a one-half cent local sales and use tax to fund the listed projects.

Subd. 1. Sales and use tax. Authorizes the city to impose a one-half cent local sales tax, as already approved by voters at the 2006 general election. The statutes regarding local sales taxes will apply to the imposition, collection, and administration of the tax.

Subd. 2. Use of revenues. Allows the revenues collected from the taxes in subdivision 1, up to \$6 million plus associated bond costs, to be used for:

- the local share of the Trunk Highway 14/County State Aid Road Highway 41 interchange project;
- development of regional parks and hiking trails;
- expansion of the North Mankato Taylor library;
- riverfront development; and
- lake improvement projects.

Subd. 3. Bonding authority. Allows the city to issue up to \$6 million in bonds

for the projects listed in subdivision 2, based on the election approving the tax.

Subd. 4. Termination of taxes. Requires the tax imposed under subdivision 1 to expire when revenues raised first equals or exceeds \$6 million, plus associated bond costs.

29 Minnetonka water treatment facility. Provides a refund of sales tax paid on capital equipment incorporated into a water treatment facility for the city of Minnetonka. Applies to contractor as well as city purchases. The tax is required to be paid on the purchase and the city must apply for the refund. Effective for purchases before December 31, 2006.

30 City of Winona, taxes authorized. Allows the city of Winona to impose a one-half cent local sales and use tax to fund the listed projects.

Subd. 1. Sales and use tax. Authorizes the city to impose a one-half cent local sales tax, if approved by voters at a special election held before December 31, 2007. The statutes regarding local sales taxes will apply to the imposition, collection, and administration of the tax.

Subd. 2. Use of revenues. Allows the revenues collected from the taxes in subdivision 1 to be used for constructing a street connection from the city to Minnesota State Highways 61 and 43 to provide access for the city industrial park and a local hospital.

Subd. 3. Bonding authority. Allows the city to issue up to \$8 million in bonds to fund the project in subdivision 2, based on the voter approval required to impose the tax.

Subd. 4. Termination of taxes. Requires the tax imposed under subdivision 1 to expire at the earlier of (1) five years, or (2) when revenues raised are sufficient to pay for the authorized project plus associated bond costs. The city may choose to terminate the tax at an earlier time if it wishes.

31 Joint Legislative Subcommittee on Sales and Use Tax. Creates a joint legislative subcommittee on sales and use tax.

The subcommittee has the following duties:

- o examine the revenue productivity and equity implications of the current sales and use tax base and alternative tax bases;
- o examine the implications of demographic and economic trends for the future revenue adequacy of the current sales and use tax base;
- o examine the sales and use tax base, the exemptions, and the rate, and recommend to the legislature alternative tax structures to improve revenue stability and equity of tax imposition;
- o examine the tax burdens on individuals and businesses and recommend to the legislature alternative structures that would improve the horizontal and vertical equity of the tax burden;
- o examine the administrative and compliance burden of the taxes;

- o examine and report on broadening the sales and use tax base in conjunction with a lower rate and exemption for business inputs on the vertical equity of the taxes; and
- o file a report with the chairs and the ranking minority members of the committees on taxes in the senate and house of representatives no later than March 30, 2008.

The subcommittee will consist of ten members of the legislature as follows:

- o the chair of the senate tax committee plus four other senators, including at least one member of the minority party, appointed by the chair of the senate committee on taxes; and
- o the chair of the house tax committee plus four other representatives, including one member of the minority party, to be appointed by the chair of the house of representatives committee on taxes.

The subcommittee may request information from any state officer or agency.

The commissioner of revenue must prepare a report on changes needed in the current sales tax system to move it to a true tax on all final consumer consumption with no taxation of intermediate business inputs. The commissioner must consult with the chairs of the tax committees regarding direction of the study. The study must include:

- A listing of the changes needed to move to a final consumption tax along with the revenue impact of each change and any administrative and legal issues associated with each change;
- Any change in tax rate needed to keep the total changes revenue neutral; and
- The impacts of the changes in tax incidence associated with changes, along with possible rebates or refund mechanisms to reduce tax regressivity.

Article 6: Economic Development

Overview

This article makes several changes to the JOBZ program. It provides for release of tax and unemployment insurance data to the State Auditor to conduct JOBZ audits and requires taxpayers benefiting from JOBZ to annually report on the amount of the tax benefits received. The duration of JOBZ benefits is extended for new projects, so that new projects in qualifying areas can receive up to 11 years of tax incentives.

Grant programs are provided for historic rehabilitation projects, administered by the Minnesota Historical Society, and for investments in dairy facilities, administered by the Department of Agriculture.

The article includes a public financing package for Phase II of the Mall of America (MOA). Under this proposal, a metropolitan area wide levy will be imposed on the fiscal disparities tax base to help fund construction of the parking ramps for Phase II. This will impose a very low rate tax on all commercial-industrial property in the 7-county metropolitan area. In addition, the city of Bloomington may impose a citywide lodging tax and a variety of special taxes on the MOA development.

The article provides special incentives to the City of Fergus Falls to help develop new uses for the now vacant regional treatment center (RTC) campus. It allocates \$1.5 million for border city enterprise and development zones along the North Dakota border.

The article contains the annual TIF technical bill and allows TIF authorities to delay receiving increments from new TIF districts by up to four years. It also includes special law TIF provisions for:

1. The Thomson-West development in Eagan
2. Expansion of Minneapolis' housing replacement program by 200 parcels
3. Modification of Brooklyn Center's 1994 special law
4. The City of Burnsville to finance development of the Minnesota River Quadrant
5. The City of Fridley to finance a transit station for the Northstar commuter rail line
6. The City of New Brighton to assist in financing its Northwest Quadrant area.
7. Designating the city of Eyota as a small city for purposes of using economic development TIF.

- 1 **Dairy investment grant program.** Establishes a dairy investment grant program administered by the commissioner of agriculture. Under the program, the commission may make grants to dairy farmers of 10 percent of the first \$500,000 of qualifying expenditures. To qualify, a minimum of \$40,000 of qualifying expenditures must be made. The

maximum grant is \$50,000, which applies at the entity level (e.g., partnership or S corporation).

Qualifying expenditures include acquisition, construction or improvement of buildings or facilities for dairy animals, including:

- Freestall barns
- Watering facilities
- Feed storage and handling equipment
- Milking parlors
- Robotic equipment
- Scales
- Milk storage and cooling facilities
- Bulk tanks
- Manure pumping and storage facilities

Qualifying expenditures are limited to items that must be capitalized for income tax purposes. Grants can be made for expenditures during calendar year 2007 from the fiscal year 2008 appropriation and for calendar year 2008 for fiscal year 2009. Section 0 appropriates \$500,000 for this program for the biennium.

The program expires on June 20, 2010.

- 2 **JOBZ, prevailing wages.** Provides that receipt of JOBZ tax benefits for a project requires the payment of prevailing wage.
- 3 **Historic structure rehabilitation grants.** Authorizes the state preservation officer in the Minnesota Historical Society to award grants to rehabilitate certified historic structures, as defined for purposes of the federal rehabilitation tax credit. The officer is to give priority to applicants for projects that are unlikely to take place without grants. Section 0 appropriates \$3,073,000 for these grants. The Historical Society is to report to the legislative committees on economic development by February 1, 2009, on the economic impact of the grants.
- 4 **Unemployment insurance data; JOBZ audits.** Authorizes release of unemployment insurance data to the State Auditor to conduct audits of the JOBZ program.
- 5 **Tax data; JOBZ audits.** Requires the commissioner of revenue to disclose tax return data to the State Auditor for purposes of conducting JOBZ audits.
- 6 **JOBZ property tax exemption.** Extends the requirement that JOBZ properties pay school operating referenda levies to all of these levies. Present law subjects JOBZ properties to these levies, if the voters approved the levy before designation of the zone.
- 7 **Fergus Falls historical zone.** Exempts property located in the area of the former Regional Treatment Center (RTC) in Fergus Falls from the property tax. The exemption applies for 15 years after the date specified by the city's resolution designating the area. The

exemption is phased-out over the last three years of the designation as follows:

- 75% for third to last year
- 50% for second to last year
- 25% for the last year of designation.

- 8 Report on JOBZ benefits.** Requires each qualified business under the JOBZ program to report to the commissioner of revenue by October 15th of each year the tax benefits that it received under JOBZ for the previous year. If the report is not filed on time, the commissioner notifies the business that it must file within 60 days. The commissioner can extend this period for good cause. Failure to submit the report causes the business to lose its right to JOBZ tax benefits and triggers the requirement to repay the tax benefits for the previous two years.
- 9 Border city allocations.** 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.
- 10 TIF redevelopment districts.** Modifies the blight test under the tax increment financing (TIF) act by allowing the “coverage” part of the test to be met using improvements that were demolished or removed before certification of the district. Present law allows a development authority to finance or agree to the removal of substandard buildings before certification of the district and still use the building to meet the blight test, if certain conditions are met (3-year time period, city financing or development agreement, and resolution approval). This expands that special rule to allow the authority to satisfy the coverage portion of the blight test.
- 11 Renewal and renovation district blight test.** Adds a cross reference to allow authorities to use the special rule described in section 0 to qualify under the blight test for renewal and renovation districts.
- 12 TIF plan; election to delay increment receipt.** Authorizes the development authority to provide in the TIF plan (except for economic development districts) when the first increment for the district will be received. This cannot be delayed beyond four years after approval of the plan. Because there is typically a 2-year delay between approval of the TIF plan and collection of the first increment, this will usually allow a delay of up to two years. (In some instances, it may be shorter, depending upon the timing of the request for certification of the district and the construction or increases in property value.)
- 13 Housing districts; but-for finding.** Exempts all housing districts from the but-for test provision that requires a finding that the project will increase the district’s market value. Under present law, this exemption applies only to “qualified housing districts.” Section 0 repeals the definition of qualified housing districts.
- 14 Delay receipt; municipal approval.** Requires the municipality for the district (the city in which the district is located in most cases) to approve an election to delay receipt of the increment.
- 15 Excess increment.** Adds a cross reference that allows transfers of increments by pre-1979 districts to offset deficits in other districts to be subtracted before determining if the pre-1979 district has excess increments. (This confirms the intent underlying the deficit and

excess increment provisions.)

The section also authorizes the State Auditor to exempt a city from calculating and reporting the excess increment amounts for a district, if the district's budgeted uses of increment exceed the collected increments by 20 percent or more.

- 16 Parking facilities.** Clarifies that publicly owned parking facilities, including those ancillary to public parks and social and recreational facilities, may be financed with increment revenues. Present law could be construed to allow this only for private parking facilities. The change confirms the original intent and is retroactive to the original effective date of the language.
- 17 Housing districts.** Exempts all housing districts from the prohibition on including green acres and similar parcels in a district. Under present law, this exemption applies only to "qualified housing districts." Section 0 repeals the definition of qualified housing districts
- 18 Housing districts; non-housing uses.** Clarifies the restrictions on spending of increments from housing districts for non-housing related improvements. Present law limits the square footage for non-housing uses to 20 percent of the total square footage of the buildings receiving assistance. This section allows assistance to an addition to an existing building to be treated separately for purposes of this square footage test, if the addition is constructed more than 3 years after the original building. In addition, if the original building meets the square footage test, then the addition must not have been contemplated in the original TIF plan.
- 19 TIF in bioscience zones.** Modifies the special pooling rules for tax increment financing districts located in bioscience zones. Present law permits expenditures of these districts' increments on public infrastructure that is outside of the district, but within the zone. This section expands the exemption to include land acquisition and other redevelopment costs. These expenditures are treated as if they were made within the district.
- 20 Certification of original tax capacity.** Requires county auditors to certify original tax capacity within 30 days of receiving all of the information necessary to certify the appropriate parcels. This will eliminate the practice of one county to wait with certification until the tax capacity of the district actually increases in value. Apparently all of the other counties immediately certify the district and do not wait for a value increase to occur. Since some time limits under the TIF Act run from the date of certification, this results in uneven treatment across counties. This section also makes a conforming change in the provision relating to certifying original tax capacity to implement the provisions of sections 0 and 0.
- 21 Interfund loans.** Inserts two words in the statute that were inadvertently dropped when this subdivision was last amended to specify the appropriate interest rate.
- 22 Special taxing districts.** Exempts all housing districts from the requirement that available increments be transferred before using the special taxing authority to eliminate deficits. (No city has used this special taxing authority.)
- 23 JOBZ, duration extensions.** Extends the permitted time for JOBZ tax benefits to be 11 years, regardless of the zone duration: i.e., the year in which the business subsidy agreement is signed and 10 additional years. Present law limits the availability of these incentives to the duration of the zone. These zones were designated effective January 1, 2004, and have a 12-year duration. As result, the tax benefits will stop at the end of 2015. For example, a business signing a business subsidy agreement entitling it to JOBZ benefits in 2008, could qualify for 8 years of tax benefits (2008 through 2015). This section increases the entitlement to 11 years.

The extension of the duration limit does not apply:

- Business subsidy agreements executed before the section became effective or
- Relocations into a JOBZ, if the business received JOBZ benefits before the relocation.
- Businesses located in the 11-county Minneapolis-St. Paul area or in a city with a population of 50,000 or more or a city contiguous to such a city. This restriction does not apply a city on the state border (e.g., Duluth), but would apply to a city contiguous to it (e.g., Hermantown).

24 **JOBZ; notification and approval of relocations.** Requires a business that intends to relocate 25 or more full-time equivalent jobs from a location in Minnesota into a JOBZ to notify the commissioner of the Department of Employment and Economic Development (DEED), the local government (i.e., the city and county where the JOBZ is located), and the city and county where the current location of the business is. The city or county in which the business is located can, then, veto the relocation by passing a resolution within 60 days after receiving the notice. The resolution must identify one or more sites for the business to locate in the unit. These sites must:

- Be large enough
- Have appropriate transportation access
- Be served by public infrastructure (or the local governmental unit agrees to provide it)
- Be owned or controlled by the business, the local unit, or be for sale

The city or county may rescind the veto by passing a resolution.

25 **State Auditor; JOBZ audit authority.** Authorizes the State Auditor to request tax return information from the commissioner of revenue and wage information from the commissioner of DEED on JOBZ recipient taxpayers.

26 **Use of proceeds; fiscal disparities.** Technical section eliminating a cross-reference repealed in section 0.

27 **Fiscal disparities levy; Mall of America.** Increases the fiscal disparities levy for the Bloomington share of the area wide levy by an amount equal to the fiscal disparities tax paid by the Mall of America, Phases I and II. (This would likely be done with a one-year lag – e.g., the tax paid in 2008 would be added to the levy for taxes payable in 2009.) The Hennepin County auditor is directed to distribute the tax generated by this levy to Bloomington. The city must use the levy to finance the parking ramp for Phase II of the Mall of America.

The effect of this section is to impose a very low rate property tax on all commercial-industrial property in the Minneapolis-St. Paul metropolitan area and to pay the proceeds of the tax to the city of Bloomington for Phase II of the Mall of America.

28 **Area wide tax rate; fiscal disparities.** Technical section eliminating a cross-reference to a section repealed in section 0 and the addition of the new levy for the Mall of America in section 0.

29 **Certification of values; fiscal disparities.** Technical section eliminating a cross-reference to a section repealed in section 0 and the addition of the new levy for the Mall of America in section 0.

30 **Brooklyn Center; TIF.** Modifies a special law providing TIF authority for the city of

Brooklyn Center. Under this special law, 15 percent of the increments from the district are deposited in a housing development account. This section changes the name of the account to include “remediation.” This is consistent with section 0, which expands the permitted uses of the account to include remediation costs.

31 Brooklyn Center; permitted uses of increment. Allows the account to be used for environmental remediation and housing construction and clarifies that the housing purposes are only required to satisfy the requirement for standard housing districts, not qualified housing districts. (Other provisions of this article repeal the qualified housing district provisions.)

32 Brooklyn Center; account name. Changes a reference in the law to the account to be consistent with the name change in section 0.

33 Minneapolis; housing replacement projects; name change. Modifies the definition of the development authority for Minneapolis to include its successors and assigns. This reflects the reorganization of Minneapolis’ economic development function from the Minneapolis Community Development Agency to Community Planning and Economic Development.

34 Housing replacement district; Minneapolis’ parcel limit. Increases the parcel limit for Minneapolis’ housing replacement TIF district from 200 to 400.

35 International economic development zone study. Allows the commissioner of DEED to use \$250,000 of an appropriation for grants to businesses for a study to determine the economic viability of business plans for the international economic development zone.

36 Bloomington; MOA TIF. Authorizes the city of Bloomington to transfer eight parcels from Phase I MOA TIF district to the Phase II TIF district. This will extend the duration limit for collecting tax increments from these parcels by 3 years, since the Phase I district must be decertified in 2015 and the Phase II district in 2018.

Various special rules apply to this district:

- The original tax capacity of the Phase II district would be increased by \$10,490, reflecting the value of the parcels in the original tax capacity of the Phase I district.
- Increments from the Phase II district must be used for infrastructure costs (e.g., parking ramp and street improvements).
- The city and port authority must approve the modifications of the district by unanimous vote of all the members present at the meeting. The hearing must be held on a weeknight between 6 PM and 7 PM at night.
- The city must enter an agreement with the developer that the building will be built with American made steel (to the greatest extent practicable) and that prohibits including an auditorium or theater with more than 1,500 seats in the development.
- The project must be subject to a project labor agreement.
- A development agreement must require payment of a living wage (under the JOBZ standard) for full time employees at the facility. Seasonal and temporary employees are exempt, as well as employees of nonprofit organizations.

- The agreement also must provide for affordable access to the amusement areas of the facility.

37 **Bloomington local taxing authority.** Authorizes the city of Bloomington to impose several local taxes. Revenues from these taxes must be used to finance the parking structure for MOA. The authority includes:

- A general retail sales tax of up to 1 percent on the Mall of America (MOA) development
- A lodging tax of up to 1 percent anywhere in the city
- An admissions and recreation tax of up to 1 percent on the MOA development
- A food and beverage tax of up to 3 percent on the MOA development

38 **Burnsville TIF.** Authorizes the city of Burnsville to apply special TIF rules to districts located in a defined area of the city (the Northwest Quadrant). These districts would be allowed the following special rules:

- The city must make blight-like findings for 80 percent of the acreage of the project areas – i.e., peat, soils difficulties, landfills, quarries, floodways, or substandard structures are present on the property.
- The 5-year rule is extended to 10 years.
- Increments may be spent anywhere within the project area, subject to a limit that no more than 80 percent of the increments may be spent outside the area of the district.
- “Soils deficiency districts” could be created under special rules. For an area to qualify, 80 percent of the district must have unusual terrain or soil deficiencies where the cost of the soil related site preparation exceeds the fair market value of the land. (For example, if the land were worth \$1,000 – before doing the preparation work – the soil correction work would need to cost more than \$1,000.) Increments from a soil deficiency district would be limited to paying for land acquisition, soil correction, public infrastructure directly caused by the soil deficiencies, and administrative costs.
- Use of increments is prohibited for landfill closure or installing infrastructure on the Burnsville Amphitheater site.

The authority to approve districts under the special law expires 12/31/2027.

39 **Eagan; TIF authority.** Authorizes the city of Eagan to establish economic development TIF districts for the Thomson-West expansion in a designated area of the city.

Special rules. Sets out the special rules that apply to these TIF districts:

- Increments may be used for facilities other than manufacturing, warehousing,

and research and development, as required by general law.

- Increments spent for parking, wetland mitigation, sewer, water, and street improvements within the defined area are not subject to the general law pooling restrictions (i.e., the limits on the percentage of increment that may be spent outside of the district from which they were collected).

Authority to establish districts under this section expires on December 31, 2008.

- 40 **Eyota TIF.** Provides that the city of Eyota qualifies as a “small city” under the TIF act without regard to the mileage restrictions under general law. General law requires a city to be located 10 miles or more from the nearest border of a city with a population of 10,000 or more to qualify as a “small city.”

Background information. Qualifying as a “small city” under the TIF Act enables the city to use economic development TIF districts for small commercial developments – i.e., retail, office space, and similar developments. These developments cannot exceed 15,000 square feet. However, the city can do multiple districts, if each development is separately owned. Economic development districts can be used at any location, i.e., they are not restricted to difficult to develop parcels containing “blight.” Cities that do not qualify as “small cities” may only use economic development TIF districts for more “footloose” type industries – e.g., manufacturing, research and development, and warehousing.

- 41 **City of Fridley; TIF district.** Authorizes the city of Fridley or its housing and redevelopment authority to establish a redevelopment district in a defined area of the city. This “Northstar Transit Station District” would be subject to a series of exceptions to the general law:

- Although the district would be treated as a redevelopment district with a 25-year duration limit, it would not be required to satisfy the “blight test” and would not be restricted to using its revenues to “correct blight” but could also be used to develop the transit station.
- The 5-year rule does not apply to the district.

In addition, this section grants three other Fridley TIF districts an exemption from the general law pooling rules to allow use of their increments to finance the transit station.

- 42 **New Brighton TIF.** Allows the city of New Brighton to spend tax increment revenues from a TIF district on activities in the Northwest Quadrant project area without regard to the pooling and 5-year rules. (This area was designated by special legislation passed in 1998.) These expenditures must be used to “facilitate” cleanup of hazardous substances, but are not limited to the permitted expenditures of hazardous substance districts. Effective upon approval by the city.

- 43 **2008 Republican National Convention; Guaranty.** Appropriates \$39 million of general fund money in the cash flow account to the commissioner of finance to support a guarantee by the Host Committee to raise its share of expenses for the 2008 Republican National Convention in St. Paul. If amounts are paid out, repayment is required and is credited to the cash flow account.

- 44 **Appropriation; Fergus Falls.** Appropriates \$200,000 for each year of the biennium DEED grants to the city of Fergus Falls to market and promote development and reuse of the RTC campus site.

- 45 Appropriation; dairy investment grants.** Appropriates \$300,000 for FY 2008 and \$200,000 for FY 2009 for the dairy investment grant program established in section 0. Three percent of the appropriation may be used for administrative expenses.
- 46 Appropriation; Minnesota Historical Society.** Appropriates \$3,073,000 from the general fund for FY 2008 to Minnesota Historical Society for the historic rehabilitation grant program established under section 0. Up to \$40,000 of this may be used for the cost of administering the grant program.
- 47 Repealer.** Repeals the following laws:
- A 1998 special law permitting the city of Burnsville to establish a TIF district. The bill requires the increments from this district to be returned to the county for distribution as excess increments.
 - The definition of qualified housing districts. The article eliminates this category of districts and allows all housing districts to qualify for the treatment that applied to these districts.
 - The provision requiring the city of Bloomington to make additional payments to the fiscal disparities pool over a ten-year period from 2009 to 2018 as repayment for additional distributions received from 1988 to 1999.

Article 7: Public Finance

Overview

This article contains provisions from the annual bill sponsored by the Minnesota Institute of Public Finance. It makes a number of changes in the laws governing the powers of local governments to incur debt for projects and to invest public funds, including:

1. Authorizes issuing debt for town and county subordinate service districts.
2. Authorizes the Metropolitan Council to issue \$33.6 million of debt for transit improvements.
3. Authorizes cities, counties, and school districts to establish trusts for the payment of post-employment health benefits required to be recognized by the accounting standards (GASB 45).
4. Increases debt limits: the net debt limit for cities, counties, and towns is increased from 2 percent to 3 percent of taxable market value and the limit for county capital improvement (CIP) bonds is increased from 0.5367 to 0.12.
5. Provides that voter-approved city and county bonds will be levied against net tax capacity, rather than referendum market value.
6. Authorizes the issuance of debt in anticipation of the receipt of federal grants for transportation projects (often referred to as GARVEE bonds; acronym derived from “Grant Anticipation Revenue Vehicles”).
7. Expands the area of operation of the Hennepin County housing and redevelopment authority (HRA) to include the entire county.
8. Makes the authority to issue capital notes for computer software permanent.
9. Provides special law authority to the Town of Crane Lake and the City of Winsted to issue debt for projects.

1 Collateral requirement for bank deposits of public funds. Reduces the required collateral for deposits of government funds in banks when the amount exceeds federal deposit insurance amounts. Present law requires the financial institution to post collateral equal to the amount of the deposit and accrued interest over the amount of federal insurance. This section repeals the requirement to post collateral for accrued interest. When interest is paid and credited to the account, collateral would need to be posted.

2 School district certificates of indebtedness and capital notes. Increases the maximum maturity of school district’s capital notes and certificates indebtedness from five years to ten years. The 2005 Legislature increased the maximum maturity for the comparable obligations of cities and counties to ten years.

3 Tax base for referendum approved bonds. Provides levies to pay bonds, approved by the voters after June 30, 2007, will be imposed on net tax capacity, rather than referendum market value.

4 Time of notice. Expands the default notice statute’s permitted period of time to publish the notice from 14 days to 30 days.

- 5 **Subordinate service districts; definitions.** Divides the definition of “subordinate service district” definition section into two separate definitions for: (1) special services and (2) subordinate service district.
- 6 **Authority to create subordinate service district.** Authorizes town boards to create subordinate service district by resolution. Present law allows these districts to be created only by petition of affected property owners. The section requires the notice of public hearing and the resolution to specify the special services and the territorial boundaries of the district and to be published at least 14 days before the hearing.
- 7 **Subordinate service district financing.** Authorizes the issuance of bonds to pay for capital improvements for the districts. These bonds are to be payable primarily out of service charges, special assessments, and district taxes, but may be general obligations of the town.
- These bonds would be exempt from net debt limits and the referendum requirement.
- 8 **Petition for removal of subordinate service districts.** Modifies the statute allowing for petitions (by 75 percent of property owners) to terminate a subordinate service district so that the rates, charges and taxes remain in place as long as they are necessary to pay the outstanding bonds (authorized by section 0).
- 9 **County capital notes for software.** Makes the authority of counties to issue capital notes to purchase software permanent. This authority expires July 1, 2007, under present law.
- 10 **County CIP bonds; maximum amount.** Increases the limit on county capital improvement plan (CIP) bonds from 0.0567 percent of taxable market value to 0.12 percent. The special limit for Ramsey County (0.06455 percent) is repealed, allowing the county to qualify for the new 0.12 percent limit. CIP bonds may be issued without holding a referendum, but they are subject to a reverse referendum requirement.
- 11 **County subordinate service district; authority to issue bonds.** Authorizes counties to issue subordinate service district bonds under provisions similar to those for towns in sections 0 and 0.
- 12 **Hennepin county capital notes.** Increases the maximum maturity of capital notes under the law for Hennepin County statute from five years to ten years and authorizes issuance of capital notes for computer software. These changes make the Hennepin County law consistent with the general law that applies to the capital notes of other counties.
- 13 **Hennepin county HRA area of operations.** Provides that the area of operation of the Hennepin County HRA is anywhere in the county. This reverses the general law provision that excludes a city with an HRA created before 1971 from a county HRA’s area of operations. This affects the cities of Hopkins, Minneapolis, Robbinsdale, and St. Louis Park. Individual municipal HRAs still must approve county HRA projects.
- 14 **Hennepin county HRA area of operations.** Eliminates language that prohibits the Hennepin county HRA from exercising its powers in a city with an HRA created before 1971. This is consistent with the change in section 0.
- 15 **Charter city capital notes for software.** Makes the authority of home rule cities to issue capital notes to purchase software permanent. This authority expires on July 1, 2007, under present law.
- 16 **Statutory city capital notes for software.** Makes the authority of statutory cities to issue capital notes to purchase software permanent. This authority expires on July 1, 2007, under present law.
- 17 **Definition of city; municipal gas agencies.** Expands the definition of “city” under the municipal gas agency law to include cities located outside of Minnesota. This is a consistent with a similar change made to the electric utility agency law in 2006.

Trust for post-employment benefits.

Subdivision 1. Authorization; establishment. Allows a public entity with actuarial liability for post-employment benefits to establish a trust to pay those benefits. Defines “post-employment benefits” to mean benefits that give rise to a liability under the Governmental Accounting Standards Board Statement 45 (“GASB 45”). Defines “trust” by reference to federal tax code.

Subd. 2. Purpose of trust. Permits the trust to be revocable or irrevocable.

Subd. 3. Trust administrator. Permits the trust administrator to be the public employees retirement association (PERA), a bank, or an insurance company.

Subd. 4. Account maintenance. Requires the trust administrator to set up a separate account for each political subdivision or public entity. Permits the trust administrator to charge maintenance fees. Requires electronic reporting to the Office of State Auditor of information on investments and returns comparable to those required of public pension funds. This requirement does not apply until FY 2011.

Subd. 5. Investment. Specifies allowable investments by each of the authorized trust administrators.

Subd. 6. Limit on deposit. Limits deposits in the trust to the actuarially determined liabilities.

Subd. 7. Withdrawal of funds and termination of account. Specifies terms for withdrawal of funds and termination of an account for revocable trusts and irrevocable trusts. A public entity may withdraw funds from a revocable trust only to pay benefits unless changes in law or actuarially determined liability occur that result in more money in the trust than is needed. The public entity may withdraw funds from an irrevocable trust only to pay post-employment benefits or when the political subdivision’s actuarial liability for the benefits is satisfied.

Subd. 8. Status of irrevocable trust. Provides that the trust fund money is not subject to the public entity’s creditor claims.

Effective date: Effective immediately for entities with post-employment benefit actuarial liability and for other entities on July 1, 2008.

19 Metropolitan Council obligations. Authorizes the Metropolitan Council to issue up to \$33.6 million of bonds or other debt instruments to fund the regional transit master plan and transit capital improvements. Applies in the seven metropolitan counties and is effective the day following final enactment.

20 Met Council; GARVEE financing. Authorizes the metropolitan council to use the grant anticipation financing for transportation authorized in section 0.

21 Net debt; post-employment benefit bonds. Exempts from the net debt limits bonds issued to fund post-employment benefits (bonds issued under the authority in section 0).

22 Bonding authority for retiree health benefits. Authorizes a municipality (city, county, town, or school district) to issue bonds to fund actuarial liabilities to pay post-employment benefits. “Post-employment benefits” are benefits that create liability under the Governmental Accounting Standards Board Statement 45 (“GASB 45”).

23 Grant anticipation financing for transportation projects. Authorizes cities and counties to borrow in anticipation of the receipt of federal transportation grants by issuing bonds (GARVEE bonds). This includes the ability to borrow on behalf of a state agency that is to receive those grants (i.e., the state agency would pledge to pay over the grant money to the

city or county that issued the GARVEE bonds). The proceeds of the bonds would be used to finance the transportation projects for which the grants will be received (as well as debt service, issuance costs, and funding a reserve).

The bonds can be issued as either revenue bonds or general obligations. The maximum annual debt service for revenue bonds cannot exceed two-thirds of the estimated grants for the year (put another way, the estimated grant payments must be at least 150 percent of the debt service). For general obligation bonds, the estimated annual grant amounts cannot exceed 110 percent of the debt service (or debt service is limited to about 91% of the estimated grant).

Issuance of the bonds is done under the chapter 475 rules, but they are not subject to voter approval and they are not included in net debt limits.

- 24 Net debt limit.** Increases the general net debt limit for counties, towns, and cities (except first class cities) from 2 percent to 3 percent.
- 25 Referendum approval; post-employment benefit bonds.** Exempts bonds issued under the authority in section 0 to fund post-employment benefits from the referendum requirement.
- 26 Street reconstruction bonds.** Modifies the requirement that street reconstruction bonds be authorized by a unanimous vote of all the city council members so that only those members present at the meeting need to approve. This section also makes a technical or clarifying change in the required description of the project (i.e., it is to be only the portion of the street reconstruction to be financed, not the entire street).
- 27 Validation.** Validates trust funds for post-employment health benefits created before June 6, 2006, under a provision of the federal tax code. Requires funds in a validated trust or account to be invested as provided in this bill and for the trust or account to be brought into compliance with this bill by January 1, 2008.
- 28 Crane Lake, certificates of indebtedness.** Permits the town board of the town of Crane Lake (St. Louis County) to issue up to \$225,000 in certificates of indebtedness to pay for land in an exchange with the United States Forest Service. Exempts the debt from town debt limits. Permits the certificates to be paid back over 30 years. Requires the town to levy to repay the certificates.
- 29 City of Winsted; bonding authority.** Authorizes the city of Winsted to issue up to \$4.9 million in local general obligation bonds without a referendum, and outside the net debt limits, for a city hall/community center/police station, for park improvements, and related public improvements.

Article 8: Minerals

Overview

This article:

1. Authorizes the Iron Range Resources and Rehabilitation Board and the economic protection trust fund to purchase forest lands in the taconite assistance area.
2. Provides for a distribution of three cents per ton to school districts in the immediate vicinity of each taconite facility for building maintenance and repairs and an additional 2.5 cents per ton for all school districts in the tax relief area.
3. Provides for a distribution of two cents per ton for higher education programs for students attending an education institution located in the taconite assistance area.
4. Provides for a distribution from the taconite production tax to the city of Virginia for connecting and replacing certain sewer and water lines.
5. Eliminates the taconite aid offset in determining school aid.
6. Imposes the aggregate tax on nonmetallic materials removed from taconite mines, with the proceeds distributed to the taconite environmental protection fund.

- 1 Commercial-industrial property.** Provides that ore docks and power plants located at taconite facilities that section 6 subjects to property taxation are included in the definition of “commercial industrial” property tax base for purposes of the range fiscal disparities program.
- 2 Range fiscal disparity tax base.** Provides that the value of ore docks and power plants located at taconite facilities that section 6 subjects to property taxation are included in the commercial industrial property tax base used in the range fiscal disparities program.
- 3 Forest trust.** Authorizes the Commissioner of the Iron Range Resources and Rehabilitation, with approval of a majority of the board, to purchase forest lands in the taconite assistance area. These forest lands must be held in trust for the benefit of the citizens of the area as the Iron Range Miners’ Memorial Forest. The lands are to be managed and developed for recreation and economic development uses. Income derived from these lands is deposited into an Iron Range Miners’ Memorial Forest account. Funds may be expended from the account upon approval of a majority of the members of the board. The board may also transfer money in the account into the corpus of the Douglas J. Johnson economic protection trust fund. Property acquired, and income derived, under the provisions of this section are exempt from taxation by the state or its political subdivision. Effective day following final enactment.
- 4 Iron Range Higher Education Committee; membership.** Changes the membership of the Iron Range Higher Education Committee. Provides that the two members of the IRRR that are on the committee are appointed by the chair, not the commissioner. Also adds the President of the Northeast Higher Education District to the committee.
- 5 Tax exemption; initial years direct reduction ore.** Provides that the tax exemption for a new plant’s commercial production in the initial years applies only to plants if all

environmental permits have been obtained and construction begun before July 1, 2008.

- 6 **Ore docks subject to property tax.** Eliminates the property tax exemption for power plants and ore docks located at a taconite production facility. Effective for taxes payable in 2008 and thereafter.
- 7 **Towns; production tax distribution.** Allocates three cents per taxable ton for per capita distributions to towns that are entirely located within the taconite tax relief area. Effective for distributions beginning in 2008.
- 8 **School district allocation.** Allocates an additional three cents per taxable ton from each production facility for building maintenance and repairs to be distributed to the school district that is in the immediate vicinity of the facility. Specifies the school districts that receive the distributions for each of the facilities. Also provides that an additional 2.5 cents per taxable ton is distributed to all school districts in the tax relief area. Effective for distributions beginning in 2008.
- 9 **Counties.** Modifies to which funds the county production tax proceeds are to be allocated. Continues the current amount of 26.05 cents per taxable ton, but changes how the money must be spent by increasing by 5 cents per ton the distribution amount into the county road and bridge fund, and decreasing by 5 cents per ton the amount for general fund purposes. Makes a minor change in distribution relating to a power plant located in a county other than where the mine is locate. Effective for distributions in 2008 and thereafter.
- 10 **Property tax relief account.** Decreases the amount distributed to the property tax relief fund from 33.9 cents per taxable ton to 30.9 per taxable ton. Effective for 2008 and thereafter.
- 11 **Iron Range higher education account.** Allocates two cents per taxable ton to an Iron Range higher education account to be used for higher education programs conducted at education institution located in the taconite assistance area. The Iron Range higher education committee and the IRRRB must approve all expenditures from the account. Effective for production in 2008, distributions in 2009 and thereafter.
- 12 **Douglas J. Johnson economic protection trust fund.** Authorizes use of the Douglas J. Johnson economic protection fund to purchase forest land in the taconite assistance area to be held as a public trust for the benefit of the area. These lands may be used for recreation and for economic development purposes, including timber sales and gravel and other mineral removal.
- 13 **Iron Range Memorial Forest.** Authorizes the IRRRB, with approval of a majority of the board, to expend money from the principal of the Douglas J. Johnson fund to purchase forest land, which must be held in trust for the benefit of the citizens of the taconite assistance area as the Iron Range Miner' Memorial Forest. Effective the day following final enactment.
- 14 **Grant and loan fund.** Provides that the remainder of the 2008 distribution (the first \$2,000,000 has already statutorily been set-aside for certain road and bridge work in St. Louis County), must be paid to St. Louis County for a grant to the City of Virginia for connecting and replacing certain sewer and water lines. Effective the day following final enactment.
- 15 **Public works; local economic development fund.** Provides that interest earned on 2007 allocation for the Central Iron Range Sanitary Sewer District from the public works and local economic development fund, accrues to the sewer district, rather than St. Louis County, which is the fiscal agent for the recipients. It also provides for distribution of ten cents per ton to the IRRRB for deposit in a new Highway 1 Corridor Account to be distributed to any of the cities of Babbitt, Cook, Ely, or Tower, for economic development projects approved by the IRRRB. These distributions would also accrue interest.
- 16 **Aggregate materials; definitions.** Provides that taconite tailings, crushed rock, and

architectural or dimension stone and dimension granite removed from taconite mines are included in the definition of aggregate materials and subject to the aggregate production tax.

- 17 **Aggregate production tax remittance.** Requires the proceeds of the production tax on materials removed from taconite mines to be remitted to the Commissioner of IRRR and deposited in the Taconite Area Environmental Protection Fund.
- 18 **Aggregate production tax.** Adds a cross reference to the distribution of the regular (nonmetallic) aggregate production tax to clarify its distribution is not affected by the expanded definition of “aggregate material.”
- 19 **Town of Scambler; aggregate tax.** Authorizes the town of Scambler in Otter Tail County to impose an aggregate materials tax if the county does not impose a tax on aggregate materials and approves the imposition of the tax. The town retains the proceeds of the tax and must use them for the purposes for which aggregate material taxes are now dedicated. If Otter Tail County imposes an aggregate tax, the tax imposed by the town of Scambler under this section is repealed. Requires local approval.
- 20 **IRRB; appropriation to retire Mesabi East School bonds.** Appropriates annually beginning with taxes payable in 2008 through taxes payable in 2017, from the taconite production tax revenues to the taconite environmental protection fund and the Douglas J. Johnson fund, in equal shares, an amount of \$500,000 per year.

All revenue received under this section must be used to retire Mesabi East School District No. 2711 bonds of \$9,000,000 issued in September 2006 and \$6,250,000 issued in March 2007. Payments are made to the school district on March 1. Effective day following final enactment.

- 21 **Appropriation; Department of Education.** Appropriates \$1,041,000 from the general fund to the Department of Education for fiscal year 2009 for the elimination of the offset against general education aid for school district taconite production tax distributions.
- 22 **Repealer.** Repeals the school aid offset for the taconite production tax proceeds paid to school districts.

Article 9: Special Taxes

Overview

The article authorizes Anoka, Dakota, and Saint Louis counties to impose mortgage and deed taxes, and extends the sunset on the similar taxes in Hennepin and Ramsey counties by five years. It also increases the percent of tax that is due under June accelerated payment from 78 percent to 85 percent for the tobacco excise taxes and the alcoholic beverage excise taxes. Northwest Airline’s exemption from the petrofund surcharge is extended for two years. The percent of gasoline tax attributed to fuel for use in all-terrain vehicles is increased from 15-hundredths of one percent to 27-hundredths of one percent.

- 1 **Estate tax auditing authority.** Authorizes the commissioner of revenue to determine the value of property for estate tax purposes independently of the amount accepted for federal purposes. This authority does not apply to values of estates that were subject to a federal audit.
- 2 **All-terrain vehicle percent of gasoline tax.** Increases the percent of gasoline tax attributed to purchase of fuel for use in all-terrain vehicles from 15-hundredths of one percent to 27-hundredths of one percent. Effective for gasoline fuel tax received after June 30, 2008.
- 3 **June accelerated payment; tobacco excise.** Increases the percentage of estimated June

liability required to be paid from 78 percent to 85 percent for the cigarette excise tax and the tobacco products tax.

- 4 **Forfeited cigarettes.** Requires the commissioner of revenue to destroy unstamped cigarettes and tobacco products on which the excise tax has not been paid, unless they are used to enforce criminal provisions of federal or state law.

Under present law, the commissioner can take any of the following three actions with regard to the contraband cigarettes or tobacco products:

- Deliver to DHS for use in state institutions
- Sell at a public auction
- Destroy the property

The section retains the commissioner's authority to sell other types of contraband (e.g., vending machines, vehicles, and so forth) recovered for nonpayment of excise tax.

- 5 **June accelerated payment; alcohol excise taxes.** Increases the percentage of estimated June liability required to be paid from 78 percent to 85 percent for the liquor, wine, and beer excise taxes.

- 6 **Insurance premiums tax; exemption.** Exempts state employee group life insurance premiums from the insurance premiums tax, if the premiums are paid to a company domiciled in a state that exempts these premiums from its premiums tax. This will allow a Minnesota domiciled company selling this insurance in a state with an exemption to avoid that state's retaliatory tax.

- 7 **Hennepin county deed and mortgage tax; 5-year extension.** Extends the expiration date for the Hennepin County mortgage registry tax (MRT) and deed tax from January 1, 2008, to January 1, 2013.

- 8 **Ramsey county environmental response fund.** Eliminates the authority of Ramsey County to administer its environmental response fund (funded with the MRT and deed tax) as a regional rail authority. This makes the tax consistent with the proposed funds for St. Louis, Dakota, and Anoka counties in sections 0, 0, and 0.

- 9 **Ramsey county environmental response fund; permitted uses.** Eliminates the authority of Ramsey County to use its fund for economic development, recreation, housing, transportation, or rail traffic.

- 10 **Ramsey county deed and mortgage tax; 5-year extension.** Extends the expiration date for the Ramsey County MRT and deed tax from January 1, 2008, to January 1, 2013.

- 11 **St. Louis County deed and mortgage tax.**

Subd. 1. Authority to impose; rate. Authorizes St. Louis County to impose a MRT and deed tax, each at rates of 0.0001.

Subd. 2. General law provisions apply. Provides that the taxes apply to the same base as the state mortgage registry and deed taxes under chapter 287, except that the rate is the rate specified in subdivision 1, "St. Louis County" is substituted for "the state," and the revenue is deposited as provided in subdivision 3.

Subd. 3. Deposit of revenues. Requires all revenue from the tax to be deposited in the county's environmental response fund under section 0.

12

St. Louis County Environmental Response Fund.

Subd. 1. Creation. Creates an environmental response fund. The taxes imposed by section 0 are deposited in this fund and the county board administers the fund as either a county board or a housing and redevelopment authority.

Subd. 2. Uses of fund. Requires the fund to be used for the following purposes:

- (1) acquiring through purchase or condemnation property polluted or contaminated with hazardous substances;
- (2) paying the costs associated with indemnifying an entity taking title to property from liability arising out of ownership, remediation, or use of the property,
- (3) paying the costs of remediating the acquired property; or
- (4) paying the costs associated with remediating property which is polluted or contaminated with hazardous substances.

Subd. 3. Matching funds. Requires the county to seek matching funds from contamination cleanup funds administered by DEED, the Metropolitan Council, the federal government, private sector, and any other source.

Subd. 4. Bonds. Allows the county to pledge the proceeds from the taxes under section 1 to bonds issued under this chapter and chapters 398A, 462, 469, and 475.

Subd. 5. Land sales. Allows property acquired under this section to be resold at fair market value. Sale proceeds are deposited in the environmental response fund.

13

Dakota County deed and mortgage tax.

Subd. 1. Authority to impose; rate. Authorizes Dakota County to impose a MRT and deed tax, each at rates of 0.0001.

Subd. 2. General law provisions apply. Provides that the taxes apply to the same base as the state mortgage registry and deed taxes under chapter 287, except that the rate is the rate specified in subdivision 1, “Dakota County” is substituted for “the state,” and the revenue is deposited as provided in subdivision 3.

Subd. 3. Deposit of revenues. Requires all revenue from the tax to be deposited in the county’s environmental response fund under section 0.

14

Dakota County Environmental Response Fund.

Subd. 1. Creation. Creates an environmental response fund. The taxes imposed by section 0 are deposited in this fund and the county board administers the fund either as a county board or as a housing and redevelopment authority.

Subd. 2. Uses of fund. Requires the fund to be used for the following purposes:

- (1) acquiring through purchase or condemnation property polluted or contaminated with hazardous substances;
- (2) paying the costs associated with indemnifying an entity taking title to property from liability arising out of ownership, remediation, or use of the property,
- (3) paying the costs of remediating the acquired property; or
- (4) paying the costs associated with remediating property which is polluted or contaminated with hazardous substances.

Subd. 3. Matching funds. Requires the county to seek matching funds from contamination cleanup funds administered by DEED, the Metropolitan Council, the federal government, private sector, and any other source.

Subd. 4. Bonds. Allows the county to pledge the proceeds from the taxes under section 1 to bonds issued under this chapter and chapters 398A, 462, 469, and 475.

Subd. 5. Land sales. Allows property acquired under this section to be resold at fair market value. Sale proceeds are deposited in the environmental response fund..

15 Anoka County deed and mortgage tax.

Subd. 1. Authority to impose; rate. Authorizes Anoka County to impose a MRT and deed tax, each at rates of 0.0001.

Subd. 2. General law provisions apply. Provides that the taxes apply to the same base as the state mortgage registry and deed taxes under chapter 287, except that the rate is the rate specified in subdivision 1, “Anoka County” must be substituted for “the state,” and the revenue must be deposited as provided for in subdivision 3.

Subd. 3. Deposit of revenues. Requires all revenue from the tax to be deposited in the county’s environmental response fund under section 0.

16 Anoka County Environmental Response Fund.

Subd. 1. Creation. Creates an environmental response fund. The taxes imposed by section 0 are deposited in this fund and the county board administers the fund either as a county board or as a housing and redevelopment authority.

Subd. 2. Uses of fund. Requires the fund to be used for the following purposes:

- (1) acquiring through purchase or condemnation property polluted or contaminated with hazardous substances;
- (2) paying the costs associated with indemnifying an entity taking title to property from liability arising out of ownership, remediation, or use of the property,
- (3) paying the costs of remediating the acquired property; or
- (4) paying the costs associated with remediating property which is polluted or contaminated with hazardous substances.

Subd. 3. Matching funds. Requires the county to seek matching funds from contamination cleanup funds administered by DEED, the Metropolitan Council, the federal government, private sector, and any other source.

Subd. 4. Bonds. Allows the county to pledge the proceeds from the taxes under section 1 to bonds issued under this section and chapters 398A, 462, 469, and 475.

Subd. 5. Land sales. Allows property acquired under this section to be resold at fair market value. Sale proceeds are deposited in the environmental response fund.

Subd. 6. DOT assistance. Requires the commissioner of transportation to collaborate with the county and any affected municipality by providing technical assistance and support in cleaning up a contaminated site related to a trunk highway or railroad improvement.

17 Northwest Airlines Petrofund Exemption. Extends for two years (through July 1, 2009) the NWA exemption from the petrofund motor fuels surcharge.

Article 10: Department Income and Franchise Taxes

Overview

This article makes various changes recommended by the Department of Revenue. The more significant changes:

1. Require employers to submit W-2 filings electronically (employers with more than 100 employees in 2007, 25 in 2008, and 10 in 2009 and following years)
2. Require certain mutual fund companies with Minnesota companies to file 1099 returns with the department
3. Require individuals to provide their date of birth on their income tax return
4. Impose penalties for failure to provide identification numbers of shareholders or partners, failure of tax preparers to provide their tax preparer identification number, and modifies the penalty for negligence in filing property tax refund returns
5. Provide uniform language for the various income tax provisions subject to annual indexing for inflation

- 1 **Uniform indexing language; revenue recapture threshold.** Clarifies that the income threshold at which an individual is subject to revenue recapture is indexed for inflation using the same base year and the same method of rounding the threshold to the nearest \$10 as are various income tax provisions. Under current law this income threshold is indexed annually for inflation; this change simply provides that it will be indexed using 2000 as the base year, and will ensure that the indexed amount is rounded the same way as are other indexed items. Effective for tax years beginning after December 31, 2006.
- 2 **Date of birth.** Requires that individuals provide their date of birth on their individual income tax returns. Effective beginning with tax year 2007 returns.
- 3 **Electronic filing of withholding tax returns.** Requires employers who are required to withhold Minnesota individual income taxes for more than 100 of their employees to submit their Minnesota W-2 filings to the commissioner by electronic means. Effective for wages paid in tax year 2007. Decreases the 100 employee threshold to 25 for tax year 2008, and to 10 for tax year 2009 and following years.
- 4 **1099 returns required of mutual funds paying federally tax-exempt interest dividends.** Requires mutual funds that pay federally tax exempt dividends to Minnesota residents to file a copy of the 1099 return currently sent to the shareholders of the fund to the commissioner by March 15th of the year following the year the dividends were paid. Current law allows the commissioner to demand copies of 1099 returns after which the mutual fund has 60 days to provide the returns without penalty. Effective for tax years beginning after December 31, 2006.
- 5 **1099 returns from mutual funds; obsolete reference.** Deletes a reference to the time period in which a mutual fund paying federally tax-exempt interest dividends must file 1099 returns with the commissioner if the commissioner demands the returns; under section 0 these funds will be required to routinely file 1099s with the commissioner, making this reference unnecessary. Effective for tax years beginning after December 31, 2006.

- 6 Penalty; failure to provide identification number for partner or shareholder.** Imposes a \$50 penalty for each time a partnership or S corporation provides an incorrect tax identification number of an owner the entity reports in their Minnesota return, if the partnership or S corporation was previously notified by the commissioner that the number is incorrect. Effective for returns filed after December 31, 2007.
- 7 Penalty; negligence in filing a property tax refund return.** Changes the penalty for negligence in filing a property tax refund return from one based on 10 percent of the property tax refund allowed to a penalty of 10 percent of the claimed amount that is not allowed. Effective for property tax refund claims filed on or after July 1, 2007.
- 8 Cross-reference in the tax shelter disclosure penalty.** Corrects a cross-reference in the statute that provides a penalty for understating reportable transactions in the tax shelter disclosure statute. The current language references an abatement by the commissioner, but references a section of statute that does not relate to abatement of a disclosure penalty. The corrected reference is to two paragraphs that provide abatements applicable to tax shelter transactions. Effective the day following final enactment.
- 9 Penalty; tax preparers failing to include preparer number.** Requires tax preparers who prepare Minnesota individual income tax returns to provide their federal preparer number on Minnesota individual income tax returns. Imposes a \$50 penalty for each instance of failure to provide the number on a return. Effective for returns prepared for tax years beginning after December 31, 2006.
- 10 Subtractions from taxable income; individuals.** Clarifies that the subtractions for in-state and out-of-state military pay apply only to the extent the pay is included in federal taxable income.
- 11 Additions to taxable income; corporations.** Eliminates the addition for amortization amounts allowed under federal law for pollution control facilities placed in service before tax year 1987. The addition and subtraction were necessary because Minnesota did not conform to the accelerated amortization schedule allowed at the federal level for facilities placed in service before 1987. Section 0 strikes the corresponding subtraction for amortization amounts for these facilities allowed at the state level, and section 0 allows a one-time subtraction in tax year 2007 for the remaining state amortization deductions.
- 12 Subtractions from taxable income; corporate franchise tax.** Makes four changes:
- Work opportunity credit.** Changes a reference to the former “federal jobs credit” to the current “work opportunity credit,” following the change in the Internal Revenue Code.
- Pollution control facilities.** Strikes the subtraction for amortization amounts allowed at the state level for pollution control facilities placed in service before tax year 1987.
- Environmental tax refunds.** Strikes the obsolete subtraction for federal environmental tax refunds. The federal environmental tax was repealed in 1997, and the corresponding addition to Minnesota taxable income was repealed in 2005.
- Subpart F income subtraction.** Conforms to federal law on the subpart F income deferral rules, eliminating the special subtraction for this income when recognized for federal purposes.
- 13 Bovine testing credit.** Provides that bovine testing credit is only allowed in taxable years in which the federal government requires tuberculosis testing of Minnesota cattle. Effective for tax years beginning after December 31, 2007.
- 14 Uniform indexing language; dependent care credit phaseout.** Clarifies that the income threshold for the dependent care credit phaseout is indexed for inflation using the same

base year and the same method of rounding the threshold to the nearest \$10 as are other income tax provisions. Under current law this income threshold is indexed annually for inflation; this change simply provides that it will be indexed using 2000 as the base year, and will ensure that the indexed amount is rounded the same way as are other indexed items. Effective for tax years beginning after December 31, 2006.

- 15 Uniform indexing language; working family credit earned income amounts and phaseout threshold.** Clarifies that the maximum earned income amounts and the income thresholds for the working family credit phaseout are indexed for inflation using the same base year and the same method of rounding the amounts to the nearest \$10 as are other income tax provisions. Under current law the maximum amounts and income thresholds are indexed annually for inflation; this change simply provides that they will be indexed using 2000 as the base year, and will ensure that the indexed amounts and thresholds are rounded the same way as are other indexed items. Effective for tax years beginning after December 31, 2006.
- 16 Uniform indexing language; alternative minimum tax exemption amounts.** Clarifies that the alternative minimum tax exemption amounts are indexed for inflation using the same base year and the same method of rounding the amounts to the nearest \$10 as are other income tax provisions. Under current law the exemption amounts are indexed annually for inflation; this change simply provides that they will be indexed using 2000 as the base year, and will ensure that the indexed amounts are rounded the same way as are other indexed items. Effective for tax years beginning after December 31, 2006.
- 17 Corporate alternative minimum tax.** Corrects cross-references in the corporate AMT's definition of taxable income.
- 18 Corporate franchise tax; cross-reference correction.** Corrects a cross-reference to the definition of the deposits ratio used to apportion certain types of bank income. This definition previously appeared in section 290.191, subdivision 7; when that subdivision was repealed the definition was moved to subdivision 6, paragraph (n). Effective the day following final enactment.
- 19 Definition of dependent for property tax refund.** Strikes obsolete language in the property tax refund chapter definition of "dependent" that relates to support provided by welfare. The test for dependency is no longer whether the taxpayer provides more than 50 percent of support but whether the individual provides more than 50 percent of their own support. Effective for property tax refunds based on rents paid after December 31, 2006, and for property tax payable after December 31, 2007.
- 20 Valuation of assets for estate tax.** Allows the commissioner to challenge an estate's valuation of assets included in an estate rather than being bound by valuations accepted by the Internal Revenue Service. This provision will allow the commissioner to challenge valuations of estates with values above the Minnesota's exemption amount, but below the federal exemption. Effective retroactively for estates of decedents dying after December 31, 2005.
- 21 Transition; pollution control facilities amortization.** Allows a one-time tax year 2007 subtraction for outstanding amortization on pollution control facilities placed in service before tax year 1987 to replace the addition and subtraction that sections 0 and 0 eliminate.

Article 11: Department Sales and Use Taxes

Overview

Makes a number of language changes to comply with the Streamlined Sales and Use Tax Agreement (SSTA) without changing the tax status of the items. The major SSTA changes include:

1. Changing the definitions of telecommunication services and related services
2. Clarifying the treatment of bundled transactions
3. Eliminating the separate gross receipts tax on fur clothing and subjecting fur clothing to the sales tax
4. Adding language to continue the exemption fro kidney dialysis equipment

Makes a number of other miscellaneous changes.

1 Bad debt loss. Requires a claimant to file a sales tax refund claim for a bad debt loss by the later of

- ▶ 3 1/2 years from the date the bad debt was written off as uncollectible on the taxpayers' books and records and was either eligible to be deducted for federal income tax purposes or would have been eligible if the taxpayer had been required to file a federal income tax return, or
- ▶ one year from the due date the federal income tax return was timely filed claiming the bad debt loss.

Also provides that any payments on previously claimed bad debts must be first applied proportionally to the taxable price of the property or service. Effective the date following final enactment.

2 Border city zone refunds (interest). Provides that interest on border city zone refunds is computed from 90 days after the refund claim is filed with the commissioner. Currently interest is computed from the date the claim is filed with the commissioner. Effective for refund claims filed on or after July 1, 2007.

3 Penalty for failure to properly complete sales and use tax return. Provides that the penalty for failing to report applies to all types of local sales taxes that are filed on this form, not just to the general local sales taxes. The other taxes include local liquor, restaurant, and liquor taxes. Effective for returns filed after June 30, 2007.

4 Penalty for failure to report liquor taxes. Provides a \$500 penalty on a liquor distributor for failing to file to file the required annual report listing the amount of liquor sold in the previous year to liquor retailers. The fine is increased to \$1,000 if the failure to report is intentional. Effective the day after final enactment and will first apply to the 2007 calendar year report, filed by February 28, 2008.

5 Sale and purchase. Explicitly includes in the definition of taxable sales the items currently taxable under the existing definition of telecommunication services. The state needs to modify the telecommunications definition to conform to the Streamlined Sales Tax Agreement (SSTA) definition and these changes preserve the current tax base. The items included are:

- ▶ telecommunication services for guests at lodging facilities;
- ▶ ancillary services associated with telecommunication services;
- ▶ cable television services;
- ▶ direct satellite services; and
- ▶ ring tones.

Effective for sales and purchases made on or after January 1, 2008.

Modifies the taxation of third party delivery of aggregate to tax delivery of all aggregate, except for aggregate used in road construction. Effective for sales after June 30, 2007.

Also clarifies that the current inclusion of exterminating services in the list of services subject to sales tax includes pest control services. Effective for sales and purchases made on or after June 30, 2007.

6 Retail sale (price). Modifies the definition of retail sales to reflect changes in SSTA related to bundled transactions and telecommunications without modifying the current state sales tax base. States that a bundled transaction is taxable if one or more products in the bundle are taxable. Provides an exception for the treatment of bundled transactions that include telecommunications, internet access, or audio or video programming. In those transactions the sale can be split and the tax applied to the taxable products only if the business maintains records in the ordinary course of business, and not just for tax purposes, that identifies the appropriate split. Effective for sales and purchases on or after January 1, 2008.

7 Sales price. Makes clarifying changes to the definition of sales price to comply with SSTA.

Delivery charges. Provides that when a delivery includes taxable and tax-exempt goods, the portion of the delivery charge subject to tax is the percentage allocated to the taxable property, with the allocation based either on sales price or weight. Effective the day after final enactment.

Consideration received by seller from third parties. Includes consideration received by the seller from third parties in the taxable sales price if all of the following three conditions are met:

- ▶ the seller actually receives consideration from a third party, and it is related to a discount on the sale;
- ▶ the seller is obligated to pass along the discount to the buyer;
- ▶ the amount of consideration is fixed and determined at the time of sale;

and one of the following criteria is also met:

- ▶ the buyer gives the seller a coupon for a discount, and a third party will compensate the seller for the coupon amount;
- ▶ the buyer is a member of a group entitled to a discount; or
- ▶ the discount is identified as a third-party discount on the invoice.

Effective for sales and purchases made on or after January 1, 2008.

- 8 **Tangible personal property.** Removes a reference to “prepaid calling cards” from the definition of tangible personal property since these sales are now part of prepaid calling services listed under section 0. This change is necessary to comply with the SSTA, and does not change the tax treatment of prepaid calling services. Effective for sales and purchases made on or after January 1, 2008.
- 9 **Telecommunication services.** Modifies the definition of telecommunication services to comply with the SSTA. Services that are removed from the definition of telecommunications services will still be subject to sales tax under new definitions provided elsewhere in this article. Effective for sales and purchases made on or after January 1, 2008.
- 10 **Bundled transaction.** Adopts the new definition of “bundled transaction” from the SSTA. A “bundled transaction” means two or more otherwise distinct products sold for one non-itemized price. The products cannot include real property or services to real property. Paragraph (d) provides a list of transactions that would not be considered taxable bundled transaction using a “true object” test; a “de minimus” test; and for transactions involving food and medicine a “50%” test. Effective for sales and purchases made on or after January 1, 2008.
- 11 **Ancillary services; definition.** Defines “ancillary services” as services related to telecommunications services. These include
- ▶ conference bridging,
 - ▶ detailed telecommunications billing,
 - ▶ directory assistance,
 - ▶ vertical service, and
 - ▶ voice mail service

Under current law these are taxed as part of “telecommunications services.” Under these changes they will continue to be taxed as ancillary services under section 0. These changes are required for Minnesota to comply with the SSTA. Effective for sales and purchases made on or after January 1, 2008.

- 12 **Conference bridging service; definition.** Provides a definition of “conference bridging services” used in the definition of ancillary services in section 0. Conference bridging services are subject to the sales tax under current law as a telecommunication service. The change is necessary in order for Minnesota to remain in compliance with the SSTA but these services will remain subject to the sales tax. Effective for sales and purchases made on or after January 1, 2008.
- 13 **Detailed telecommunications billing service; definition.** Provides a definition of “detailed telecommunications billing service” used in the definition of ancillary services in section 0. Detailed telecommunications billing services are subject to the sales tax under current law as a telecommunication service. The change is necessary in order for Minnesota to remain in compliance with the SSTA but these services will remain subject to the sales tax. Effective for sales and purchases made on or after January 1, 2008.
- 14 **Directory assistance; definition.** Provides a definition of “directory assistance” used in the definition of ancillary services in section 0. Directory assistance is subject to the sales tax under current law as a telecommunication service. The change is necessary in order for Minnesota to remain in compliance with the SSTA but these services will remain subject to the sales tax. Effective for sales and purchases made on or after January 1, 2008.
- 15 **Vertical service; definition.** Provides a definition of “vertical service” used in the

definition of ancillary services in section 0. Vertical service is subject to the sales tax under current law as a telecommunication service. The change is necessary in order for Minnesota to remain in compliance with the SSTA but these services will remain subject to the sales tax. Effective for sales and purchases made on or after January 1, 2008.

16 **Voice mail service; definition.** Provides a definition of “voice mail service” used in the definition of ancillary services in section 0. Voice mail service is subject to the sales tax under current law as a telecommunication service. The change is necessary in order for Minnesota to remain in compliance with the SSTA but these services will remain subject to the sales tax. Effective for sales and purchases made on or after January 1, 2008.

17 **Ring tones; definition.** Provides a definition of “ring tones.” Ring tones are subject to the sales tax under current law as a telecommunication service. In order for Minnesota to remain in compliance with the SSTA, ring tones are removed from the definition of telecommunication services, but added to the list services subject to sales tax under section 0. Effective the day following final enactment.

18 **Fur clothing.** Adopts the new SSTA definition of fur clothing. This allows the state to eliminate the gross receipt tax on fur clothing in section 39 and return to taxing it under the general sales tax. Effective for sales and purchases made after June 30, 2007.

19 **Use of tangible personal property or taxable services.** Provides that if (1) a “bundled transaction” is not taxable because it meets one of the tests in section 0, paragraph (d), and (2) the portion of the price attributable to a taxable item is \$100 or more, then a use tax is imposed on that part of the purchase price. Effective for sales and purchases made on or after January 1, 2008.

20 **Presumption of tax; burden of proof.** Relieves the seller of liability for sales tax if

- ▶ the seller obtains an exemption certificate from the purchaser at the time of the sale or within 90 days of the sale or
- ▶ if the seller has not obtained an exemption certificate within the 90 days provided and receives a request for substantiation from the commissioner, the seller has an additional 120 days to either obtain an exemption certificate from the purchaser, or to prove by other means that the transaction was not subject to tax.

Under present law, the seller must obtain an exemption certificate from the purchaser at the time of the sale, and must provide the certificate to the commissioner within 60 days of a request for substantiation. The change in this section conforms to the SSTA. Effective for sales and purchases made on or after January 1, 2008.

21 **Defined telecommunications service sourcing.** Provides that “prepaid wireless calling service” is subject to the same sourcing requirements as are prepaid calling services. This is required for Minnesota to be in compliance with the SSTA. Effective for sales and purchases made on or after January 1, 2008.

22 **Postpaid calling service; definition.** Clarifies that the definition of “postpaid calling service” does not include prepaid wireless calling services. Effective for sales and purchases made on or after January 1, 2008.

23 **Prepaid calling service; definition.** Clarifies that prepaid calling service is a telecommunications service. Effective the day following final enactment.

24 **Prepaid wireless calling service; definition.** Provide a definition of “prepaid wireless calling service.” This service is defined as a telecommunications service, which means that it will remain subject to sales tax. Effective for sales and purchases made on or after January 1, 2008.

- 25 **Ancillary services; sourcing.** Provides that ancillary services are sourced to the customer's place of primary use. "Ancillary services" are defined in section 0 as conference bridging, detailed telecommunications billing, directory assistance, vertical service, and voice mail service. Effective for sales and purchases made on or after January 1, 2008.
- 26 **Drugs; medical devices.** States that the sale of kidney dialysis equipment is exempt from the sales tax. This codifies current practice and is required because of changes in the definition of durable medical equipment in the Streamlined Sales Tax Agreement (SSTA) that were adopted August 29, 2006. Effective the day after final enactment.
- 27 **Clothing.** Removes fur clothing from the general clothing exemption. Fur clothing as defined in section 0 will be subject to the sales tax. Effective for sales made on or after July 21, 2007.
- 28 **Baby products; definition.** Adds "breast pumps" to the list of baby products that are exempt from sales tax. Previously, the Department of Revenue interpreted durable medical equipment to include breast pumps, but is no longer allowed this interpretation under the SSTA. This change has the effect of retaining the current tax exemption for breast pumps. Effective for sales and purchases made on or after the day following final enactment.
- 29 **Advertising materials.** Provides that the sales tax exemption for advertising materials that are mailed or transferred outside the state for use solely outside the state includes all types of shipping materials including boxes, tubes, labels, or cartons. Currently the exemption only applies to mailing and reply envelopes and cards. Also clarifies that materials having a primary purpose other than advertising do not qualify as advertising materials and are not exempt. Effective the day following final enactment.
- 30 **Packing materials.** Clarifies that the exemption for packing materials only applies to materials that remain with the customer of a for-hire carrier and does not apply to equipment that is owned or used by the for-hire carrier. Also clarifies that the exemption only applies if the ultimate destination of the goods is outside Minnesota and if the packing materials are not later returned to Minnesota. The exemption does not apply to tools, pads, or equipment owned or leased by the for-hire carrier. Effective for sales and purchases made after June 30, 2007.
- 31 **Telecommunications, cable television and direct satellite service equipment.** Adds machinery and equipment used by a cable television or direct satellite service provider primarily for the purpose of providing cable television or direct satellite services that are to be sold at retail to the sales tax exemption for telecommunications equipment. Under current law, this equipment is included in the definition of telecommunication services; section 0 removes these items from that definition, in order for Minnesota to remain in compliance with the SSTA. This section maintains the exemption for cable television and direct satellite equipment as in current law. Effective for sales and purchases made on or after January 1, 2008.
- 32 **Materials consumed in agricultural production.** Modifies the language regarding the exemption of fuels used in agricultural production to include all fuels used for heating, cooling, and lighting of facilities for housing agricultural animals. This reflects the department's most recent interpretation of this exemption. Effective the day after final enactment.
- 33 **Hospital and nonprofit units.** Provides that the exemption for hospitals and outpatient surgical centers applies to an entity that is composed of a licensed nonprofit hospital and a nonprofit unit if the nonprofit unit would have qualified as an organization exempt from the sales tax, and the items purchased would have qualified for the exemption. Effective the day following final enactment.
- 34 **Private communication services for state lottery.** Maintains the tax exemption for

private communication services purchased by an agent acting on behalf of the state lottery. Under present law, the term “telecommunication services” specifically excludes private communication services for the state lottery; section 0 removes these items from that definition, in order for Minnesota to remain in compliance with the SSTA. This section maintains the exemption for private communication services for the state lottery as in current law. Effective for sales and purchases made on or after January 1, 2008.

- 35 **Fully completed exemption certificate.** Conforms the elements of a fully completed sales tax exemption certificate to the requirements of the SSTA. Also adds a subdivision to clarify that a purchaser is required to update exemption certificates used by the purchaser, including blanket exemption certificates, when the purchaser’s information changes. Effective the day following final enactment.
- 36 **Liquor reporting requirements, penalty.** Imposes the duty on persons who sell liquor to a liquor retailer to file an annual informational report or be subject to the penalty imposed in section 0. Effective the day after final enactment.
- 37 **Payment of tax (motor carriers).** Provides that when interstate motor carriers compute their use tax under a motor carrier direct pay permit, the sales price may be reduced only by taxes that are directly imposed upon the carrier and that are separately stated on the billing or invoice given to the purchaser. Effective the day following final enactment.
- 38 **Ordinary course of business (motor vehicle resale exemption).** Clarifies that the exemption from the motor vehicle sales tax for vehicles purchased for resale applies to motor vehicles purchased solely for resale in the ordinary course of business by licensed dealers and is not limited to vehicles bearing dealer plates. If the vehicle is not held solely for resale and is put to use by the dealer, the dealer’s purchase of the vehicle would be subject to tax. Effective the day following final enactment.
- 39 **Sales tax exemption (interest on border city zone refunds).** Provides that interest on border city zone refunds of sales tax will be computed from 90 days after the refund claim is filed with the commissioner. Under present law interest is computed from the date the claim is filed with the commissioner. Effective for refund claims filed on or after July 1, 2007.
- 40 **Fur tax payments.** Provides transition language to collect the last payments of the gross receipt tax on fur clothing that is now replaced with the sales tax on fur clothing. Effective for sales made prior to July 1, 2007.
- 41 **Repealer.** Paragraph (a) repeals Minnesota Statutes, section 295.60; which is the gross receipts tax on fur clothing. This tax is no longer necessary since fur clothing will now be subject to the general sales tax. Effective for sales and purchases on or after July 1, 2007.

Paragraph (b) repeals Minnesota Statutes, section 297A.61, subdivision 20, which is a definition of “prepaid telephone calling card” made unnecessary by other changes in this article to telecommunications services taxation. Effective for sales and purchases made on or after January 1, 2008.

Paragraph (c) repeals Minnesota Statutes, section 297A.668, subdivision 6, which provided for multiple points of use sourcing for a digital good, service or electronically delivered computer software, which will now be sourced under section 297A.668. Effective the day following final enactment.

Paragraph (d) repeals Minnesota Statutes, section 297A.67, subdivision 22, which provides an exemption for property brought into Minnesota by persons who were nonresidents of Minnesota immediately prior to bringing the property into Minnesota for personal use. The exemption is not needed since Minnesota Statutes, section 297A.63 only imposes the use

tax on a person who has purchased property for use, storage, distribution or consumption in Minnesota. Effective the day following final enactment.

Article 12: Department Property Taxes and Aids

Overview

Department of Revenue technical and administrative changes. The major changes include:

1. recodification of airflight property tax provisions
2. changes related to assessors and the board of assessor.

1 Airflight property tax recodification; definition of flight property recodification.

Expands the definition of taxable flight property to clarify that it includes computers and computer software used to operate, control or regulate the aircraft. Effective the day following final enactment.

2 Airflight property tax recodification; assessment of flight property. Clarifies that taxable flight property includes flight property owned by, leased by, or otherwise available to a company. Effective the day following final enactment.

3 Airflight property tax recodification; reports by companies. Adds the July 1 deadline for the airline company annual reports; this is the date currently fixed by the commissioner under the discretionary authority in this subdivision. Also strikes a late-filing penalty which is recodified in section 0, subdivision 1. Effective for reports due in 2007 for airflight taxes payable in 2008, and thereafter.

4 Airflight property tax recodification; lien. Strikes references to taxes collected by the commissioner of revenue; the airflight property tax is credited to the state airports fund and collection decisions are made by the aeronautics division of the Minnesota department of transportation rather than the commissioner of revenue. Effective January 2, 2007, for airflight property taxes payable in 2008 and thereafter.

5 Airflight property tax recodification; penalties. Recodifies the late-filing penalty which was stricken in section 0, and adds three new penalties to the airflight property tax:

- ▶ a penalty for repeated instances of late filing equal to 10 percent of the tax eventually assessed;
- ▶ a penalty for a frivolous annual report equal to 25 percent of the tax eventually assessed; and,
- ▶ a penalty for fraudulent annual reports equal to 50 percent of the tax eventually assessed.

All penalties are added to the tax and collected along with the tax. Effective for annual reports due on or after July 1, 2007.

6 Airflight property tax recodification; investigation powers. Applies the commissioner's general examination and investigation powers to the airflight property tax. Effective January 2, 2007, for taxes payable in 2008 and thereafter.

7 Airflight property tax recodification; class rates. Clarifies that the reduced class rate applicable to Stage 3 "quiet" aircraft also applies to Stage 4 aircraft, which must meet even more stringent noise-attenuation standards. Effective January 2, 2007, for taxes payable in 2008 and thereafter.

- 8 **Airflight property tax recodification; appeals.** Clarifies that the notices of net tax capacity and of tax that the commissioner is required to issue to airline companies are “orders” of the commissioner that may be appealed to Tax Court. Effective for taxes payable in 2008, and thereafter.
- 9 **Purpose and powers of board of assessors.** Strikes the words “establish” and “conduct” from the list of Board of Assessors’ duties with regard to training courses because the board does not establish or conduct training courses.
- 10 **Board of assessors; definition.** Defines “board” to mean “Board of Assessors” for the sections of statute dealing with the board of assessors.
- 11 **Composition of the board.** Updates various outdated references in the section of statute describing the membership of the board of assessors. Deletes an obsolete reference to the Minnesota Association of Assessors, which no longer exists. Clarifies that a member of the board who is no longer engaged in the capacity for which he or she was nominated to the board is disqualified from membership on the board. Deletes a reference to the secretary and adds a reference to the vice chair.
- 12 **Basis for license revocation.** Replaces a provision allowing the Board of Assessors to refuse or revoke a license for “unprofessional conduct” with a provision that allows the Board to refuse or revoke a license for failure to comply with the Code of Conduct and Ethics for Licensed Minnesota Assessors.
- 13 **Prohibited activity.** Replaces specific references to “an assessor,” “deputy assessor,” “assistant assessor,” or “appraiser” with the more generic “a licensed assessor,” because all of the other designations are licensed assessors.
- 14 **Charges for courses, examinations, and materials.** Strikes references to fees for course challenge examinations and retests of board-sponsored educational costs because the board does not conduct these courses or retests.
- 15 **Disposition of assets; definition of “board.”** Changes a reference from “Board of Assessors” to “board,” since section 0 defined the term “board” to mean “Board of Assessors” for a range of sections of statute.
- 16 **Training courses.** Makes technical changes reflecting the fact that the board reviews and approves but does not establish training courses and also to expand the list of entities offering training courses that the board reviews and approves.
- 17 **Rules.** Directs the board to “adopt” rather than “establish” rules, strikes requirements that the board administer examinations, and adds review language for revocation or refusal to grant licenses. This incorporates language from section 270.41, subdivision 4, which is being repealed in section 0 and resolves inconsistencies between the two sections.
- 18 **Licensure of qualified persons.** Updates technical language and requires licensure to be as provided in rules adopted by the board.
- 19 **Employment of licensed assessors.** Strikes language that is being moved to chapter 273, requiring counties or local districts to pay the cost of training courses (moved to section 0) and allowing cities or towns 90 days from the date of incorporation to employ a licensed assessor (moved to section 0) because these provisions do not relate to the board’s licensing function, and will be coded closer to similar provisions in chapter 273. Strikes a sentence stating if the governing body of a township or city fails to employ an assessor, the assessment is made by the county assessor since this is already provided for in chapter 273.
- 20 **Certificates of real estate value.** Along with section 0, provides that a married person who is not an owner of record and who is signing a deed or other conveyance instrument along with their spouse solely because of the statutory requirement that spouses sign certain conveyances, is not a grantor for the purpose of the certificate of real estate value and is not required to provide their social security number. Effective for certificates filed on or after July 1, 2007.

- 21 **Airflight property tax recodification.** Authorizes the commissioner to abate penalties under the airflight property tax if a company was late in submitting its annual report for reasonable cause or if the company is located in a presidentially declared disaster area.
- 22 **JOBZ property tax exemption.** Requires that businesses that first become eligible for JOBZ property tax exemptions for payable 2008 and later years must notify the assessor by July 1 of the assessment year in which they first become eligible in order to receive the property tax exemption.
- 23 **Certificates of real estate value.** Along with section 0, provides that a married person who is not an owner of record and who is signing a deed or other conveyance instrument along with their spouse solely because of the statutory requirement that spouses sign certain conveyances, is not a grantor for the purpose of the certificate of real estate value and is not required to provide their social security number. Effective for certificates filed on or after July 1, 2007.
- 24 **Cities and townships; employment of licensed assessors.** Adds language allowing cities or towns 90 days from the date of incorporation to employ a licensed assessor; this language is stricken from chapter 270 in section 0, and is recoded in this section in chapter 273, closer to similar provisions. Also makes minor grammatical changes.
- 25 **County or local assessing district to assume cost of training.** Adds language requiring counties and local districts to pay the cost of training courses; this language is stricken from chapter 270 in section 0, and is recoded in this section in chapter 273, closer to similar provisions. Also makes minor grammatical changes.
- 26 **Green acres.** Strikes inoperative transitional provisions for corporate entities. Effective the day following final enactment.
- 27 **Valuation reduction for property subject to a conservation easement.** Replaces the requirement that property subject to a conservation easement is entitled to a reduced valuation with language that permits property subject to an easement to receive a reduction. This would allow the assessor to determine the value of the property subject to the easement. This section is effective the day following final enactment.
- 28 **Valuation of real property; electronic notification.** Permits assessors to provide valuation notices in electronic format instead of on paper or by ordinary mail if requested in writing by the property owner. Effective for notices required in 2008 and thereafter.
- 29 **Reassessment of damaged homesteads.** Replaces references to property tax assessments for “January 1” with references to assessments for the assessment year. Since New Year’s Day is a state holiday, the assessments do not take place “as of” that date. Effective the day following final enactment.
- 30 **Computation of local tax rates.** Replaces references to valuation as of January 1, which is a state holiday, with references to valuation as of January 2nd, in providing for local tax rate computation when there are reassessments due to damage from a disaster or emergency. Effective the day following final enactment.
- 31 **Homesteads.** Clarifies that homestead applications must contain the social security numbers of each occupying spouse of an owner or owner’s relative. Also strikes obsolete language relating to the homestead application. Effective the day following final enactment.
- 32 **Disparity reduction credit.** Clarifies that the population parameters for the bordering cities in the other states are based on the 1980 census. Effective retroactively for taxes payable in 2001 and thereafter.
- 33 **Utility values are recommended rather than ordered values; pipelines.** Clarifies that values of pipelines listed and assessed by the commissioner shall be provided by order to the city or county assessor. Section 0 states that all values not required by statute to be listed and assessed by the commissioner of revenue are recommended values. This section

is effective the day following final enactment.

- 34 **Utility values are recommended rather than ordered values; transmission lines.** Clarifies that values transmission lines listed and assessed by the commissioner shall be provided by order to the city or county assessor. Section 0 states that all values not required by statute to be listed and assessed by the commissioner of revenue are recommended values. This section is effective the day following final enactment.
- 35 **Utility values are recommended rather than ordered values; electric light, etc.** Clarifies that values listed and assessed by the commissioner shall be provided by order to the city or county assessor (electric light, power, gas, water, etc.). Section 0 states that all values not required by statute to be listed and assessed by the commissioner of revenue are recommended values. This section is effective the day following final enactment.
- 36 **Utility values are recommended rather than ordered values.** Adds a new section 273.3711 that references each of the specific utility property not required by statute to be listed and assessed by the commissioner of revenue are recommended values. This section is effective the day following final enactment.
- 37 **Prohibit members of local boards from acting on their own appeals.** Prohibits a local board member from participating in any actions of the board that result in market value adjustments or classification changes to property owned by the board member, or the member's spouse, parent, stepparent, child, stepchild, grandparent, grandchild, brother, sister, uncle, aunt, nephew or niece, or to property in which a board member has a financial interest. This section is effective the day following final enactment.
- 38 **Prohibit members of county boards from acting on their own appeals.** Prohibits a county board member from participating in any actions of the board that result in market value adjustments or classification changes to property owned by the board member, or the member's spouse, parent, stepparent, child, stepchild, grandparent, grandchild, brother, sister, uncle, aunt, nephew or niece, or to property in which a board member has a financial interest. This section is effective the day following final enactment.
- 39 **Training; county boards of appeal and equalization.** Extends the current training requirements that apply to local boards to county boards of appeal. Requires the Department of Revenue to develop a handbook detailing procedures, responsibilities, and requirements for county boards of appeal and equalization by January 9, 2009. Counties that conduct county boards of appeal and equalization meetings will need to provide proof to the commissioner by December 1, 2009, and each year thereafter, that they are in compliance and that there was a quorum of voting members at each meeting. Counties that are out of compliance would be required to appoint a special board of equalization. This section is effective the day following final enactment.
- 40 **Notice of proposed property taxes; electronic form.** Allows the treasurer to send the proposed notice (TnT) in electronic form or by electronic mail instead of on paper or by ordinary mail, upon written request by the taxpayer. Effective for notices required in 2007, payable in 2008 and thereafter.
- 41 **Public advertisements.** Allows the commissioner to prescribe alternate language for the Truth-In-Taxation public advertisements. Requires the commissioner to provide a copy of the prescribed advertisements to the chairs of the House and Senate tax committees at least two weeks before November 29 each year. Effective for advertisements in 2007 and thereafter for proposed taxes payable in 2008 and thereafter.
- 42 **Notification by newly organized special taxing districts.** Requires that newly organized special taxing districts and special taxing districts organized in a prior year that have not previously certified a levy to the county auditor, to notify the auditor by July 1 in order to certify a tax levy that year. Effective for taxes payable in 2008 and thereafter.
- 43 **Electronic property tax statements.** Allows a county to send out property tax statements

by electronic means instead of billing, upon written request by the owner of the property or the owner's agent. Effective for tax statements for taxes payable in 2008 and thereafter.

- 44 **Partial payments of property taxes.** Provides uniform treatment for partial payments of either property tax installments or for the full amount due for the year. The prescribed treatment is that the payment (a) must be applied to the oldest unpaid installment or year first, and (b) must be applied first to penalty or interest if the payment is less than the full amount due for that installment or year. Effective for payments made on or after the day following final enactment.
- 45 **Partial payments of property taxes.** Provides uniform treatment for partial payments of either property tax installments or for the full amount due for the year. The prescribed treatment is that the payment (a) must be applied to the oldest unpaid installment or year first, and (b) must be applied first to penalty or interest if the payment is less than the full amount due for that installment or year. Effective for payments made on or after the day following final enactment.
- 46 **Senior citizen property tax deferral program; eligibility.** Prohibits individuals who are owners of a life estate or who are purchasing the homestead under a contract for deed from participating in the senior deferral program. In these situations the lien imposed for the deferred amount could be subordinate to other claims when the property is sold.
- 47 **Auxiliary forests.** Adds owners of land previously covered by an auxiliary forest contract to the definition of claimant and adds cross references to the auxiliary forest provisions which currently provide that certain land previously covered by an auxiliary forest contract is automatically eligible for inclusion in the Sustainable Forest Incentive program. Those owners would be required to notify the commissioner of revenue in writing of the expiration of the auxiliary forest contract. Requires the owners to file an application by August 15 in order to receive a payment by October 1 of that same year. Effective the day following final enactment.
- 48 **Sustainable forest act appeals.** Provides the cross reference to the new section containing the appeal procedure. Effective the day following final enactment.
- 49 **Annual certification.** Clarifies that the one-year waiting period in order to receive a payment only applies to the person who filed the first application to enroll the land in the Sustainable Forest Incentive program. Effective the day following final enactment.
- 50 **Sustainable forest act appeals.** Provides the cross reference to the new section containing the appeal procedure. Effective the day following final enactment.
- 51 **Sustainable forest act appeals.** Provides an administrative procedure for appeals which is similar to those used for other tax appeals. Effective the day following final enactment.
- 52 **Repealer.** (a) Repeals section 270.073 dealing with airflight property taxes. It is replaced by references to Minnesota Statutes, sections 270C.31 and 270C.32. Effective January 2, 2007, for taxes payable in 2008 and thereafter.

Paragraph (b) repeals

- Section 270.41, subdivision 4; the language is moved to Minnesota Statutes, section 270.47.
- Section 270.43 (members of the board receive no compensation but do receive expenses) that conflicts with Minnesota Statutes, section 270.42 (compensation of members shall be as provided in Minnesota Statutes, sections 214.07 to 214.09). Minnesota Statutes, section 214.09 states that board members shall be paid a per diem of \$55 plus expenses. The board's practice is to follow section

214.09.

- Section 270.51 because it is an obsolete transitional provision.
- Section 270.52 that deals with the cost of making assessments; now dealt with in chapter 273.
- Section 270.53 is obsolete transitional provision.

Effective the day following final enactment.

Article 13: Department Special Taxes

Overview

This article makes various changes recommended by the Department of Revenue to the insurance premiums tax, the deed tax, the MinnesotaCare tax, and the cigarette and tobacco products use taxes. The more significant changes:

6. Clarify the treatment of nonresident pharmacies under the MinnesotaCare tax
7. Reduce the de minimis exemption for tobacco products use tax and clarify the exemption for the cigarette tax
8. Modify the insurance premiums tax underpayment penalty and impose a new penalty for failure to file an insurance premiums tax return

- 1 **Insurance premiums tax; deficit assessments.** Replaces a general reference to “past or future” premium taxes with the statutory reference authorizing the joint underwriting association offset to the insurance premiums tax. Effective for tax returns due on or after January 1, 2008.
- 2 **Insurance premiums tax; reciprocal or inter-insurance contract.** Deletes a reference to the insurance premiums tax being in lieu of all other taxes. Effective the day following final enactment.
- 3 **Deed tax; exemption for redeeming debtors.** Clarifies when the deed tax exemption for a debtor who redeems at a mortgage or lien foreclosure sale applies. Current law describes the exempt party as the “lienee,” but that term has undergone a change in usage in recent years. Clarifies that the exemption applies if the person who owned the property, or an assignee, heir, personal representative, or successor redeems the property. Effective the day following final enactment.
- 4 **Deed tax; conveyances to governmental subdivisions for public use.** Provides that the deed tax is \$1.65 on conveyances without monetary consideration of tax-forfeited land to governmental subdivisions for authorized public uses and redevelopment purposes. Effective the day following final enactment.
- 5 **MinnesotaCare tax; drugs from nonresident pharmacies.** Clarifies that a person who receives drugs from a nonresident pharmacy is not subject to tax. A law enacted in 2005 exempted purchases by individuals for personal consumption from the use tax. An individual who receives prescription drugs for resale or use in Minnesota, other than from a wholesale drug distributor who is subject to tax, remains subject to the use tax. Effective the day following final enactment.

- 6 **Use tax collection; nonresident pharmacies.** Clarifies that nonresident pharmacies are not required to collect the use tax. Since individuals who purchase drugs for their own use are not required to pay the use tax, this section will exempt nonresident pharmacies from collecting the tax. Effective the day following final enactment.
- 7 **Pharmacy refund.** Provides that the refund claimed by pharmacies for amounts paid for drugs delivered outside of Minnesota will be applied against the health care provider tax. Under current law, the refund is applied against the pharmacy tax under subdivision 1b, which has been repealed. Effective the day following final enactment.
- 8 **Tobacco products use tax.** Reduces the exemption from the tobacco products use tax from \$100 to \$50 for products the consumer carries into the state. Effective for the possession, use, or storage of tobacco products on or after July 1, 2007.
- 9 **Cigarette consumer use tax.** Imposes a consumer use tax on cigarettes if the cigarette sales tax has not been paid. Provides that the tax does not apply to purchases of 200 or fewer cigarettes per month that were carried into the state by the consumer. Effective for cigarettes purchased on or after July 1, 2007.
- 10 **Insurance policies surcharge.** Clarifies that none of the insurance policy surcharges are subject to the retaliatory tax. Effective July 1, 2007, and applies to policies written or renewed on or after July 1, 2007.
- 11 **Exemptions; fire insurance premiums.** Clarifies that mutual property and casualty companies eligible to elect a one-half of one percent fire premiums surcharge rather than the typical fire premium surcharge must remit the total surcharge collected. Also provides a timeline for eligible companies to elect the alternate surcharge. The requirement for certain insurers to make an election before July 1, 2007, is effective the day following final enactment; the rest of this section is effective July 1, 2007, and applies to insurance policies written or renewed on or after that date.
- 12 **Joint underwriting association offset.** Requires the joint underwriting offset to be used against premium tax liability beginning in the year the offset is received. Any remaining offset is carried forward and used against liability in later tax years. This is the same treatment provided for guarantee association assessment offsets. Effective for tax returns due on or after January 1, 2008.
- 13 **Insurance premiums tax underpayment penalty.** Changes the definition of “tax” used to calculate the underpayment of installment penalty to include the retaliatory tax and certain credits if used. Effective for tax returns due on or after January 1, 2008.

Article 14: Department Miscellaneous

Overview

This article:

1. Amends laws governing debt collection by the debt collection division in the Department of Revenue
2. Requires publication of the names of tax preparers subject to penalty for willfully understating tax or overstating refunds (does not apply to preparers who are challenging penalties)
3. Makes various other miscellaneous changes recommended by the Department

- 1 **Duties.** Changes the law governing debt collection by the debt collection division in the

Department of Revenue to refer to debts referred for collection under chapter 16D, rather than to debts owed the state.

- 2 **Agency participation.** Requires referring agencies to refer debts to the commissioner by electronic means. Provides that before a debt is 121 days past due, a referring agency may refer the debt to the commissioner at any time after it becomes delinquent and uncontested and the debtor has no further administrative appeal. (Maintains the current law, under which a referring agency must refer the debt to the commissioner when it becomes 121 days past due.)
- 3 **Computation.** Provides that when a debt is referred the amount of collection costs is 17 percent of the debt. Strikes current law, which provides that the amount is 15 percent, or 25 percent if certain enforced collection action is necessary.
- 4 **Adjustment of rate.** Provides for the commissioner of revenue, rather than finance, to determine the rate of collection costs. Provides a maximum of 25 percent of the debt, striking current law, which says the rate of collection costs when a debt is first referred cannot exceed three-fifths of a maximum.
- 5 **Tax refunds not subject to attachment or garnishment.** Amends Minnesota Statutes, chapter 270C, by adding a new section 270C.435, to technically clarify longstanding administrative procedure that tax refunds are not assignable or subject to attachment, garnishment or other legal process except as provided by law. Effective the day following final enactment.
- 6 **Publication of tax preparers who knowingly file false returns.** Requires the commissioner to publish the name of tax preparers who have been assessed over \$1,000 of penalties for willfully prepared Minnesota returns that understate the Minnesota tax or overstate a claimed refund. Does not apply to preparers who are challenging the penalty assessment. Effective for penalties on returns filed after December 31, 2007.
- 7 **Liability imposed.** Makes taxes imposed under chapters 295 (MinnesotaCare tax), 296A (motor fuels tax), 297A (sales and use tax), 297F (cigarette and tobacco tax), 297G (alcoholic beverage tax) and sections 290.92 (income tax withholding) and 297E.02 (lawful gambling taxes) subject to applicable penalties in current law for nonpayment.
- 8 **Period of limitations.** Amends the law dealing with tax liens to provide that a notice of lien filed by the commissioner of revenue at the Office of Secretary of State may be transcribed to any county within 10 years after the date of its filing, but the transcription does not extend the period during which the lien is enforceable.
- 9 **State reimbursement of supplemental firefighter benefits.** Provides that the commissioner of revenue will transmit the state reimbursement of supplemental firefighter benefits to the applicable municipality instead of directly to the relief association. The municipality is then responsible for either timely transmitting the payment to the relief association or for delaying the payment until the association has filed its required financial report. This conforms these payments to the process currently required by statute for the other state aid payments for police and fire pensions that are paid by the commissioner. Effective for aid payments in 2007 and thereafter.

Article 15: Miscellaneous

Overview

Increases the amount in the budget reserve account by \$150 million.

Creates a 30-member task force to make recommendations on runway safety and airport zoning at Minneapolis-St. Paul International Airport.

Eliminates the \$25.6 million cap on mutual fund filing fees.

Creates a special account to reduce volatility in state revenue flows due to expected shifts in the timing of capital gains realizations because of the 2010 sunset of the preferential federal tax rates. Present federal law provides that the maximum tax rate on most long-term capital gains will rise from 15 percent to 20 percent, effective for tax year 2011.

Establishes new priorities for additional revenues in the economic forecast for the \$22.3 million for the 21st Century Minerals Fund, and for the tax volatility reduction account.

Requires the Department of Revenue to maintain toll-free taxpayers assistance telephone service, and to annually award taxpayer assistance grants by October 1st and to notify past grant recipients when grant applications will be accepted.

Appropriates money for St. Paul River Centre debt payments and for a grant for bioscience research facilities in Austin.

Repeals the statute requiring tax rebate recommendations.

- 1 **Local impact notes; administrative rulemaking.** Eliminates the requirement to produce local impact notes for administrative rules.
- 2 **Local impact notes.** Eliminates a reference to rulemaking rendered obsolete by section 0.
- 3 **Biennial compilation of local impact notes.** Limits the requirement to produce a biennial compilation of local impact notes to those that are “key.” The commissioner of finance may consult with legislative fiscal staff to determine which notes meet this requirement.
- 4 **Class B state mandate reports.** Eliminates language stating the purpose for forwarding copies of class B state mandate reports to the legislature.
- 5 **Forecast parameters.** Requires the budget forecast parameters for expenditure estimates to include the effect of inflation. This does not apply to debt service or programs that already include inflation in their forecasts.
- 6 **Forecast variable.** Requires the commissioner of finance, in setting forecast parameters, to consult with designated legislative committee chairs in determining the rate of inflation to use. This section also changes references from the Senate Committee on State Government Finance to the Finance Committee.
- 7 **Price of government.** Removes requirement that the commissioner of revenue report to the legislature on the local government units that exceeded established revenue targets under the price of government law.
- 8 **Budget reserve.** Transfers \$150 million to the budget reserve account on July 1, 2007.
- 9 **Additional revenues; priorities.** Modifies the accounts and purposes for which the commissioner of finance is to allocate positive unrestricted general fund balances, by:
 - increasing the amount required for the budget reserve from \$653 million to \$803

million

- adding as third priority, \$22.3 million to the Minnesota minerals 21st century fund
- adding as fourth priority for unrestricted balances in the current biennium the tax volatility reduction account proposed in section 0, until the balance in that account reaches the amount designated for transfer

Strikes provisions to increase the school aid payment schedule to 90 percent and to reduce the property tax recognition shift, since these two priorities have been met, and strikes a cross reference made obsolete by repeal of the rebate plan in section 0.

Adds a new requirement that positive unrestricted general fund balances for the next biennium are transferred to the tax volatility reduction account on the first day of the next biennium, until that account reaches the amount designated for transfer.

10

Tax volatility reduction account. Creates a tax volatility reduction account in the general fund. Directs the commissioner of finance to include in each economic forecast, beginning with the November 2007 forecast, an estimate of state revenue gain or loss because taxpayers increase (or decrease) realizations of capital gains in anticipation of changes in federal tax rates for capital gains income. Directs the commissioner to designate for transfer to the account state revenue gains expected as a result of federal rate changes, and to transfer from the account and into the general fund the amount, to the extent available, needed to offset state revenue losses. Amount designated for transfer to the tax volatility reduction account will be transferred as positive general fund balances become available under section 0.

Background. The current maximum federal tax rates on capital gains income are 15 percent for most taxpayers and 0 percent for lower-income taxpayers. Absent federal legislation, in tax year 2011 these rates will expire and federal tax rates on capital gains income will revert to the previous maximum rates of 20 percent and 10 percent.

The November 2006 and February 2007 economic forecasts assume that taxpayers will sell assets sooner than they otherwise would have to avoid paying the higher tax rates scheduled to be in effect starting in tax year 2011. This assumption is based on experience with the response to past federal changes in tax rates for capital gains income (e.g., in 1986-87, when the maximum rate increased from 20 percent to 28 percent).

If the federal government acts to make permanent the preferential rates for capital gains income before they expire at the end of 2010, the additional state revenue for fiscal year 2011 would be removed from the forecast, and the decreased state revenue for fiscal year 2012 would also be removed (once fiscal year 2012 is within the forecast window).

If the federal government extends the preferential rates for capital gains income, the additional revenue in fiscal 2011 and the decreased revenue in fiscal 2012 shift into the future.

11

Registration or notice filing fee. Removes the \$25.6 million annual limit on total securities registration fees collected from mutual fund companies. Under current law, total amounts collected above \$25.6 million per year are returned to the companies as rebates on a pro rata basis. The section of current law amended here was repealed effective August 1,

2007, in 2006 legislation.

- 12 Registration or notice filing fee.** Makes a change to conform to section 0. The current law amended here becomes effective August 1, 2007, based on its 2006 enactment.
- 13 Revenue recapture.** Authorizes cities and a private nonprofit hospital that leases its building from the city in which it is located to use revenue recapture for all debts.
- 14 Revenue recapture; priority for claims.** Reorders the priority for revenue recapture claims so that claims by hospitals and ambulance services have fourth priority after restitution claims and before general debts (e.g., state agencies and other city debts), the lowest priority.
- 15 Toll-free taxpayer assistance telephone service.** Requires the commissioner of revenue to maintain toll-free taxpayer assistance telephone service for calls from within Minnesota. [Note: this provision was enacted in the State Government Finance Law, chapter 148, article 2, section 48]
- 16 Taxpayer assistance grants timing and notification.** Requires the commissioner to complete the process of making grants to nonprofit organizations to provide taxpayer assistance services by October 1st of each year, so that organizations receiving grants can adequately plan to host sites for the coming income tax filing season. Also requires the commissioner to directly notify past grant recipients each year when the grant process begins. [Note: this provision was enacted in the State Government Finance Law, chapter 148, article 2, section 49]
- 17 Runway safety and airport zoning task force.** Establishes an advisory tax force on runway safety and airport zoning to make recommendations for safety practices at Minneapolis-St. Paul International Airport. The task force consists of 14 voting members (all members of the legislature), and 16 nonvoting members (from aviation-related federal, and state agencies, cities near the airport, the Airlines Pilots Association, the Air Transport Association, and the Minnesota Business Aviation Association). Requires the task force to report to the legislature by February 15, 2008, and provides for per diem payments to public members of the task force. Appropriates \$100,000 for administrative expenses and the cost of preparing the report.
- 18 Voss data update.** Requires the commissioner of revenue to update the “Voss database,” a data set that links income tax and property tax data for homeowners.
- 19 Financial management.** Provides that any unrestricted balance in the general fund on June 30, 2007, remains in the general fund rather than being transferred to the tax relief account.
- 20 Appropriation; administration.** Appropriates \$510,000 in fiscal year 2008 to the commissioner of revenue for administration of the act, including:
- ▶ \$150,000 for the fiscal disparities study in article 2;
 - ▶ \$73,000 in for administering section 1099 reporting requirements in article 4;
 - ▶ \$87,000 for the sales tax report required under article 5; and
 - ▶ \$200,000 for the Voss database update in this article.

These are all one-time appropriations.

Also appropriates \$100,000 in fiscal year 2008 to the commissioner of DEED for a grant to the city of Austin for costs related to the construction of bioscience research facilities to conduct cancer research collaboratively with the Mayo Clinic.

- 21 River Centre debt service appropriation.** Appropriates \$2 million to pay the city of St. Paul’s debt costs for the River Centre for FY2010.
- 22 Repealer.** Repeals the rebate requirement statute, which requires the governor to

recommend a tax rebate when a surplus of specified size occurs after the November forecast in an even-numbered year or the February forecast in an odd-numbered year.