

House Research Act Summary

CHAPTER: 154

SESSION: 2008 Regular Session

TOPIC: Tax Omnibus Bill

Date: March 27, 2008
Karen Baker, 651-296-8959
Steve Hinze, 651-296-8956
Pat Dalton, 651-296-7434
Nina Manzi, 651-296-5204

Analyst: Joel Michael, 651-296-5057

This publication can be made available in alternative formats upon request. Please call 651-296-6753 (voice); or the Minnesota State Relay Service at 1-800-627-3529 (TTY) for assistance. Summaries are also available on our website at: www.house.mn/hrd.

Table of Contents

		<u>Act</u>
Article 1: Aids to Local Governments	3	2
Article 2: Property Taxes	4	11
Article 3: Income Taxes	12	48
Article 4: Federal Update	15	60
Article 5: Sales and Use Tax	20	70
Article 6: June Accelerated Tax Payments	21	73
Article 7: Special Taxes	21	75
Article 8: Minerals	22	79
Article 9: Economic Development	25	95

<u>Article 10: Public Finance</u>	29	116
<u>Article 11: Department Income and Franchise Taxes</u>	33	136
<u>Article 12: Department Sales and Use Taxes</u>	35	157
<u>Article 13: Department Property Taxes</u>	41	186
<u>Article 14: Department Special Taxes</u>	47	225
<u>Article 15: Department Miscellaneous</u>	48	230
<u>Article 16: Miscellaneous</u>	49	234

Article 1: Aids to Local Governments

Overview

Changes the LGA program to reduce city aid volatility and eliminate the taconite aid offset.

Provides additional aid and makes tax base adjustments to local governments affected by the removal of the Shooting Star Casino from the tax rolls.

Makes tax base adjustments to phase in changes due to the revaluation of utility property.

1 City aid base. Increases the “grandfathered” aid portion of LGA to the following cities:

- an extra \$80,000 annually to the city of Mahanomen;
- an extra \$75,000 per year to the city of Newport from 2009-2014;
- an extra \$30,000 annually to Taylor’s Falls; and
- an extra \$30,000 in 2009 only to Rockville.

Effective beginning with aids payable in 2009.

2 City formula aid. Removes the taconite aid offset from the city LGA formula. Effective beginning with aids payable in 2009.

3 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 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 2009 and thereafter.

4 Mahanomen County; county, city, school district, property tax reimbursement.

Subd. 1. Aid appropriation. Makes permanent, beginning in CY 2008, the \$600,000 annual payments to the local governments affected by the petition to move a tribal casino in Mahanomen County into tax-exempt trust status. The original

payments were for CY 2006 only. 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 - Mahnomen.

Subd. 2. School district tax base adjustments. Deletes this subdivision adjusting the Mahnomen school district tax base for aid calculation purposes in favor of the adjustment language contained in section 5.

- 5 Mahnomen county, city and school district tax base adjustments.** Instructs the commissioner of revenue to reduce the tax bases used in aid calculation formulas for Mahnomen 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. Effective beginning with aids and levies payable in 2009.
- 6 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 2010 and 2011.
- 7 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 2009 and 2010.

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.

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.

Reduces the class rate and increases the valuation threshold for the first-tier of homestead resort properties.

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

- 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

retroactively 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 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 from nonhomestead to homestead is not a change in classification under this section. Effective the day following final enactment.

3 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 2008 and thereafter. Provides that the five-year time period begins with the 2008 assessment for a modular home currently situated provided it meets all the criteria and the county assessor is notified within 90 days of the day following final enactment.

4 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 7,500 population outside the Minneapolis-St. Paul standard metropolitan statistical area. The exemption does not include land. Effective for property taxes payable in 2009 and thereafter.

5 Monosloped roofs. Exempts from property tax monosloped, single-pitched roofs installed over feedlot or manure storage areas. Effective for assessment year 2008, taxes payable in 2009 and thereafter.

6 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 and is used in equalization of values and in distribution of certain aids. Effective for certificates filed after June 30, 2008.

- 7 **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. Effective for the 2008 assessment, taxes payable in 2009 and thereafter.
- 8 **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 31 days 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, 2008; applies only to property located in a city with a population over 25,000.
- 9 **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 2008, taxes payable in 2009 and thereafter.
- 10 **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 provides that low-income rental property receiving financial assistance from a local government (and whose units are subject to rent and income restrictions under the terms of those agreements) qualify for the 4d classification. Under current law, these properties can receive the assistance only 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 in the building to the total number of units will qualify as class 4d.

Effective for taxes payable in 2009 and thereafter.

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

(b) 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.

(c) Resorts; definition; class rate and tier change. Defines a resort for purposes of this section, based on a recommendation from a Department of Revenue task force.

Homestead resorts tier structure and class rate. Increases the amount of market value qualifying for the first-tier class rate of class 1c property (homestead resorts) from \$500,000 to \$600,000. Reduces the class rate for the first-tier of class 1c property from 0.55% to 0.5%.

The changes in paragraph (b) are effective for taxes payable in 2009 and thereafter. The changes in paragraph (c) are effective for taxes payable in 2010 and thereafter.

- 12 Class 2.** Decreases the class rate from 1.0 percent to 0.65 percent on certain unplatted property (e.g. rural land used for growing trees for lumber, timber, etc), that consists of no less than ten acres and no more than 1920 acres and is being managed under a forest management plan that meets the requirements of chapter 290C (the sustainable forest resource management incentive program) but is not enrolled in the program. Provides that the owner must apply to the assessor annually to receive the reduced class rate and provide the information required by the assessor to verify that the property qualifies for the reduced class rate.

Effective for taxes payable in 2009 and thereafter.

- 13 Class 4 property (nonhomestead residential and miscellaneous).**

Community service-oriented organizations. Expands the 4c property classification to include 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. Defines "property taxes" to exclude the state general tax.

Effective for the 2008 assessment and thereafter, taxes payable in 2009 and thereafter. For the 2008 assessment year, the application deadline is extended to September 1, 2008.

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 2009, payable 2010.

- 14 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:

- \$150,000 market value exclusion, for a veteran with a service-connected disability rated at 70 percent to 100 percent; or
- \$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.

Effective for assessment year 2008, taxes payable in 2009, and thereafter.

- 15 Certification of class 1B property.** Provides that beginning October 1, 2008, 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.
- 16 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 2009 and thereafter.
- 17 Joint public hearings; nonmetropolitan counties, cities, and school districts.** (a) Allows the county to hold a joint public hearing in taxation (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.

(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, the 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, and 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 (which 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.

Provides a general structure and timetable for the meeting, and provides that the county shall attempt 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 for each taxing authority 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 by each of the authorities cannot exceed the amount disclosed to taxpayers at the joint public hearing.

Effective for hearings held in 2008 and thereafter.

- 18 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 payable in 2009 and thereafter.
- 19 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. Effective for tax statements for taxes payable in 2009 and thereafter.
- 20 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, 2008.

- 21 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 five-year time period. This market value has not been increased for many years.

Effective for confessions of judgment entered into the day after final enactment.

- 22 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.
- 23 Sustainable forest incentive payments.** Guarantees that the sustainable forest incentive payment shall not be less than \$7 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. Effective for payments made after June 30, 2008.
- 24 Definition of municipality.** Includes “airport authority” in the definition of municipality for purposes of establishing airports.
- 25 General powers; airport authorities.** Provides that an airport authority has all the powers granted a municipality.
- 26 Creation of airport authorities; dissolution.**

Subd. 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.

- 27 Airport authorities; levy authority.** Provides that the authority may authorize a levy if approved by a vote of at least two-thirds of the members of the authority. Provides that if the authority authorizes a levy, it must be submitted to the governing body of the municipality containing the airport. The governing body of the municipality may approve or modify the amount of the levy before certifying it to the auditor of the county where the airport is located (i.e., the home county). Provides that the auditor will establish a uniform tax rate to be levied on all taxable property within the boundaries of the authority. Effective for taxes payable in 2009 and thereafter.
- 28 Hardship assessment deferral; military persons.** Extends the option to defer certain special 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 assessments for any homestead property of a senior or 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.

- 29 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.
- 30 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.
- 31 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 district's levy will now be subject to the general law's hospital district levy limitation. Local approval is required.
- 32 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 cities or towns 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 towns 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 is repealed under this article, section 0, when the association initially levies under this provision.

Effective for taxes payable in 2009 and thereafter.

33 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.

(c) Repeals the requirement that county wheelage tax revenues be used to offset the county's property tax levy, retroactively to taxes payable in 2007 and thereafter.

Article 3: Income Taxes

Overview

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.

Provides that the income tax subtraction for out-of-state military service applies to National Guard service under Title 32 of the U.S. Code.

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

1 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 2010.

2 Additions to taxable income; individuals. Requires fines and penalties deducted from federal taxable income to be included in Minnesota taxable income for individuals, beginning in tax year 2008.

3 Subtractions from taxable income; out-of-state military service of National Guard.

Out-of-state military service by National Guard. Provides that the subtraction for out-of-state military service applies to National Guard personnel in the same manner that it applies 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 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 beginning in tax year 2008.

4 Additions to taxable income; corporations. Requires fines and penalties deducted from federal taxable income to be included in Minnesota taxable income for corporations, beginning in tax year 2008.

5 Military service combat zone credit. 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.

6 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.

7 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 2008, except withholding tax does not apply to payments made before April 1, 2008.

8 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, 2008.

9 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, 2011, 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 4: Federal Update

Overview

Conforms Minnesota's income tax to most federal changes enacted since May 18, 2006. The principal federal changes that Minnesota would conform to are:

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
5. allowance of a new itemized deduction for mortgage insurance premiums
6. allowance of a one-time rollover to a health savings account, and reduces limitations on contributions to health savings accounts
7. exclusion from gross income discharges of indebtedness on principal residences
8. exclusion of up to \$360 annually of payments to volunteer firefighters and emergency medical technicians

Federal recovery rebates authorized under the Economic Stimulus Act of 2008 are excluded from federal taxable income; they are also excluded from Minnesota taxable income and not subject to state income tax.

Federal changes that Minnesota would not conform to are:

1. deduction for higher education tuition expenses, tax year 2007
1. deduction for teacher classroom expenses, tax year 2007
2. enhanced deduction for corporate donations of computer equipment, tax year 2007
3. increase in section 179 expensing for tax years 2007 through 2010
2. allowance of 50 percent bonus depreciation for tax years 2008 and 2009

- 1 Update of tax administration provisions.** Adopts federal tax administrative provisions made between May 18, 2006, and February 13, 2008, that Minnesota references for state tax administration purposes under chapter 289A. None of the seven 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 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 and following years, with the following exceptions:

- ▶ higher education tuition deduction (allowed federally for tax year 2007 only)
- ▶ teacher classroom expense deduction (allowed federally for tax year 2007 only)
- ▶ enhanced deduction for donation of computer equipment (allowed federally for tax year 2007 only)
- ▶ increased section 179 expensing (extended to tax years 2008 to 2010)
- ▶ 50 percent bonus depreciation (property placed in service in 2008 and, in some cases, 2009)

The seven 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. Provisions include:

- 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 deductions 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, and makes increases provided under earlier federal legislation permanent
- makes permanent various changes to section 529 qualified tuition plans made in earlier federal legislation, including the exclusion of earnings held in 529 accounts from taxable income if used for qualified higher education expenses

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 include:

- extends the higher education tuition expense deduction of up to \$4,000 (Minnesota would not conform to this deduction; instead an addition to taxable income would be required under section 0)
- extends the teacher classroom expense deduction of up to \$250 (Minnesota would not conform to this deduction; instead an addition to taxable income would be required under section 0)
- 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 (Minnesota would not conform to the enhanced deduction of computers for tax year 2007; instead an addition to taxable income would be required under section 0)
- 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 (tax year 2007 only)

The Small Business and Work Opportunity Tax Act of 2007, Public Law 110-28, enacted May 25, 2007, increased the section 179 expensing amount allowed for tax year 2007 and extended the increased section 179 expensing through tax year 2010. As a revenue offset the act increased the age through which the unearned income of children is taxed at the parents' marginal rate from 14 to 18. Minnesota has not conformed to higher section 179 limits in past federal laws and retains its current law requirement that taxpayers add-back to taxable income 80 percent of the additional expensing amount in the first tax year, and then subtract one-fifth of the amount added back in each of the five following tax years.

The Energy Independence and Security Act of 2007, Public Law 110-140, enacted December 19, 2007, increased the amortization period for geological and geophysical expenditures from five to seven years.

The Mortgage Forgiveness and Debt Relief Act of 2007, Public Law 110-142, enacted December 20, 2007, provided and extended several provisions related to home mortgages:

- excludes from gross income discharges of indebtedness on principal residences, for tax years 2007 to 2009
- extends the itemized deduction for mortgage insurance premiums for two years, through tax year 2010
- increases the amount of capital gain on a principal residence that a surviving spouse may exclude from gross income from \$250,000 to \$500,000, if the sale occurs within two years of the spouse's death

The act also provides a new income tax exclusion of up to \$360 per year in payments to members of volunteer emergency medical services and firefighting organizations, for tax years 2008, 2009, and 2010.

The Economic Stimulus Act of 2008, Public Law 110-185, enacted February 13, 2008, increased section 179 expensing for tax year 2008 only and provided 50 percent bonus depreciation, for tax years 2008 and 2009 (bonus depreciation applies in 2009 only for equipment with longer production periods). Minnesota would not conform to either provision but would retain its current law requirement that taxpayers add back to taxable income 80 percent of the additional expensing or depreciation amount in the first tax year, and then subtract one-fifth of the amount added back in each of the five following tax years.

The act also authorizes recovery rebates to be issued by mail this summer to qualifying taxpayers. The rebates are excluded from federal taxable income. Because federal taxable income is the starting point for Minnesota's tax calculation, the rebates are also excluded from Minnesota taxable income and are not subject to state income tax.

- 3 **Additions to taxable income; individuals.** Requires the federal deduction for up to \$4,000 of higher education tuition expenses and up to \$250 of teacher classroom expenses to be added to taxable income by individuals. These two deductions currently expire following tax year 2007.
- 4 **Additions to taxable income; corporations.** Requires the enhanced deduction for qualified computer donations allowed at the federal level in tax year 2007 to be added to taxable income. This deduction currently expires following tax year 2007.
- 5 **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 and following years. The main changes to federal adjusted gross income are described in section 0.
- 6 **Nonresident and part-year resident ratio.** Amends the calculation of the ratio used by nonresidents and part-year residents to apportion liability to Minnesota to include the federal higher education tuition and classroom expense deductions required to be added to Minnesota taxable income in section 0.
- 7 **Individual alternative minimum tax (AMT).** Requires amounts added to taxable income under section 0 (tuition expense and teacher classroom expense deductions) to also be added to alternative minimum taxable income. This makes add-backs consistent under the AMT and the regular tax.
- 8 **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.
- 9 **Federal update; estate tax.** Changes the date through which Minnesota incorporates the federal estate tax from May 18, 2006, to February 13, 2008. Since there have not been any federal changes to the estate tax since the last update, this change does not have any substantive effect.

Article 5: Sales and Use Tax

Overview

Clarifies taxing of modular and manufactured homes.

Allows the following local taxes, which were part of the vetoed 2007 Omnibus Tax bill:

1. Increases the Duluth food and beverage tax;
2. Expands the use of the existing Bemidji local sales tax.

- 1** **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, 2008.
- 2** **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 \$40 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.

- 3** **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 \$44million plus associated bond costs. It also allows the city to issue up to \$44 million in bonds for construction costs of the center, 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.

Article 6: June Accelerated Tax Payments

Overview

Increases the percentage of the June tax collections that must be remitted early, from 78 percent to 80 percent. This affects sales tax, cigarette and tobacco tax, and liquor tax, where the vendor or distributor has an annual tax liability of at least \$120,000.

- 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 80 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 **June accelerated payment; tobacco excise.** Increases the percentage of estimated June liability required to be paid from 78 percent to 80 percent for the cigarette excise tax and the tobacco products tax. Effective beginning with June 2009 sales tax receipts.
- 4 **June accelerated payment; alcohol excise taxes.** Increases the percentage of estimated June liability required to be paid from 78 percent to 80 percent for the liquor, wine, and beer excise taxes. Effective beginning with June 2009 sales tax receipts.

Article 7: Special Taxes

Overview

The article reinstates the exemption for Northwest Airline from the petrofund surcharge for two years. It also increases the percent of gasoline tax attributed to fuel for use in all-terrain vehicles 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. Values agreed to by the I.R.S. govern, if the I.R.S. appraises the value or proposes a change in the value reported by the estate.
- 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 **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.

4 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.

5 Northwest Airlines Petrofund Exemption. Reinstates the NWA exemption from the petrofund motor fuels surcharge through July 1, 2009. This exemption expired on July 1, 2007.

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 four cents per ton to school districts in the immediate vicinity of each taconite facility for building maintenance and repairs and an additional two 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. Imposes the aggregate production tax on nonmetallic materials removed from taconite mines, with the proceeds deposited in 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. Effective for the 2008 assessment and thereafter.

2 Range fiscal disparity tax base. Provides that the value of ore docks and power plants located at taconite facilities that section 0 subjects to property taxation are included in the commercial industrial property tax base used in the range fiscal disparities program. Effective for the 2008 assessment and thereafter.

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.** Increases the membership of the Iron Range Higher Education Committee. Increases the number of members from two to four that are on the committee from the Iron Range Resources and Rehabilitation Board and provides that those members are appointed by the chair, not the commissioner of the IRRRB. Also adds the President of the Northeast Higher Education District or its successor 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 has begun before July 1, 2008. Effective day following final enactment.
- 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 2009 and thereafter.
- 7 **School district allocation.** Allocates an additional four 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 and how those revenues are to be apportioned if there is more than one district in that vicinity. Also provides that an additional two cents per taxable ton is distributed to all school districts in the tax relief area. Provides that the six additional cents are not used in an offset for purposes of determining school aid. Deletes obsolete language in paragraph (f). Effective for distributions beginning in 2009.
- 8 **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 distributed 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. Effective for distributions in 2009 and thereafter.
- 9 **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 distributions in 2008 and thereafter.
- 10 **Municipal aid account.** Adds a township that contains a state park consisting primarily of an underground iron ore mine and a city located within five miles of that state park to be eligible for a distribution from the taconite municipal aid account. This allows the City of Tower to be eligible for aid from this account. Effective for distributions in 2008 and thereafter.
- 11 **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. Effective day following final enactment.

- 12 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.
- 13 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.
- 14 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 include the accrued interest. Effective for distributions in 2008.
- 15 Aggregate materials; definitions.** Provides that taconite tailings, crushed rock, and architectural or dimension stone and dimension granite removed from taconite mines or the site of a previously operated taconite mine, are included in the definition of aggregate materials and subject to the aggregate production tax. Effective for aggregate material removed beginning June 1, 2008.
- 16 Aggregate production tax remittance.** Requires the proceeds of the production tax on materials removed from taconite mines or the site of a previously operated taconite mines, to be remitted to the Commissioner of IRRRB and deposited in the Taconite Area Environmental Protection Fund. Effective for aggregate material removed beginning June 1, 2008.
- 17 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." Effective for aggregate material removed beginning June 1, 2008.
- 18 IRRRB; 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 September 1, 2006, and \$6,250,000 issued in March 1, 2007. Payments are made to the school district on March 1, except that initial annual payment shall be made September 1, 2008. Effective day following final enactment.

Article 9: Economic Development

Overview

This article contains the annual (2007) tax increment financing (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. Expansion of Minneapolis' housing replacement program by 200 parcels
2. Modification of Brooklyn Center's 1994 special law
3. The City of Burnsville to finance development of the Minnesota River Quadrant
4. The City of Fridley to finance a transit station for the Northstar commuter rail line
5. The City of New Brighton to assist in financing its Northwest Quadrant area
6. Designating the city of Eyota as a small city for purposes of using economic development TIF.

It includes a \$705, 000 appropriation to fund border city aid for FY2009.

- 1 Border city allocations.** Allocates \$705,000 for border city enterprise zone and border city development zone tax reductions. This allocation is divided equally between the two programs (\$352,500 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.
- 2 TIF redevelopment districts.** Modifies the blight test under the 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 (three-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.
- 3 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.
- 4 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 two-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.)
- 5 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.

6 **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.

7 **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.

8 **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.

9 **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.

10 **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 three 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.

11 **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.

12 **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.

13 **Interfund loans.** Inserts two words in the statute that were inadvertently dropped when this subdivision was last amended to specify the appropriate interest rate.

14 **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.)

15 **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.

- 16 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.)
- 17 Brooklyn Center; account name.** Changes a reference in the law to the account to be consistent with the name change in section 0.
- 18 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.
- 19 Housing replacement district; Minneapolis' parcel limit.** Increases the parcel limit for Minneapolis' housing replacement TIF districts from 200 to 400.
- 20 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.
- 21 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 five-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.

- 22 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.

23 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 five-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.

24 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 five-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.

25 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.

Article 10: Public Finance

Overview

This article contains provisions from the annual (2007) 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, 2008, 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.** Provides a separate definition of “subordinate service district” and “special services.”

6 **Creation of subordinate service districts.** Requires the town to take formal action by resolution to approve or disapprove the establishment of the requested subordinate service district. These districts are created by petition of the affected property owners, and current law does not provide clear ratification of those districts by the town board, including the specific services and the boundaries of the district. This section requires the notice of public hearing and the resolution to specify the special services and the territorial boundaries of the district and requires the notice be published in a newspaper of general circulation in the town at least 14 days prior to 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.** Reinstates counties’ authority to issue capital notes for software. This authority expired 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.** Reinstates and makes permanent the authority of home rule cities to issue capital notes to purchase software. This authority expired on July 1, 2007, under present law.

16 **Statutory city capital notes for software.** Reinstates and makes permanent the authority of statutory cities to issue capital notes to purchase software. This authority expired 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.

18 Trust for post-employment benefits.

Subd. 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, 2009.
- 28 **Crane Lake, certificates of indebtedness.** Permits the town board of the town of Crane Lake (St. Louis County) to issue up to \$250,000 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 11: 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 2008, 25 in 2009, and 10 in 2010 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 and related 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, 2007.
- 2 Date of birth.** Requires that individuals provide their date of birth on their individual income tax returns. Effective beginning with tax year 2008 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 2008. Decreases the 100 employee threshold to 50 for tax year 2009, to 25 for tax year 2010, and to 25 for tax year 2011 and later 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, 2007.
- 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, 2007.
- 6 Estate tax returns.** Eliminates an obsolete reference to the federal credit for state death

taxes. Effective the day following final enactment.

- 7 **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 tax years beginning after December 31, 2008.
- 8 **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 June 30, 2008.
- 9 **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.
- 10 **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, 2007.
- 11 **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.
- 12 **Subtractions from taxable income; corporate franchise tax.** Makes three 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.

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, 2007.
- 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, 2007.

- 16 Uniform indexing language; alternative minimum tax(AMT) 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 provides that they will be indexed using 2006 as the base year, and will ensure that the indexed amounts are rounded the same way as are other indexed items. Indexing of the AMT exemption amounts uses a different base year than do other indexed items, because the law requiring indexing of these amounts took effect for tax year 2007. Effective for tax years beginning after December 31, 2007.
- 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, 2007, and for property tax payable after December 31, 2008.

Article 12: Department Sales and Use Taxes

Overview

Makes a number of language changes to comply with the Streamlined Sales and Use Tax Agreement (SSTA) while minimizing changes to the tax status of the various 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 for kidney dialysis equipment

Makes a number of other miscellaneous administrative 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 after June 30, 2008.
- 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, 2008.
- 4 Penalty for failure to report liquor taxes.** Provides a \$500 penalty on a liquor distributor for failing 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 after December 31, 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 after December 31, 2007.

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, 2008.

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, 2008.

- 6 Retail sale (price).** Modifies the definition of retail sales to reflect changes in SSTA related to bundled transactions and telecommunications while minimizing changes to 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, which identify the appropriate split. Effective for sales and purchases after December 31, 2007.

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 after December 31, 2007.

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 after December 31, 2007.

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 after December 31, 2007.

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 after December 31, 2007.

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 after December 31, 2007.

- 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 after December 31, 2007.
- 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 after December 31, 2007.
- 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 after December 31, 2007.
- 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 after December 31, 2007.
- 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 after December 31, 2007.
- 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 of services subject to sales tax under section 0. Effective for sales and purchases made after December 31, 2007.
- 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 41 and return to taxing it under the general sales tax. Effective for sales and purchases made after June 30, 2008.
- 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 after December 31, 2007.

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 after December 31, 2007.

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 after December 31, 2007.

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 after December 31, 2007.

23 **Prepaid calling service; definition.** Clarifies that prepaid calling service is a telecommunications service. Effective for sales and purchases made after December 31, 2007.

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 after December 31, 2007.

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 after December 31, 2007.

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 after June 30, 2008.

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 December 31, 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 after December 31, 2007.
- 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 after December 31, 2007.
- 35 Fully completed exemption certificate.** Modifies the elements of a fully completed sales tax exemption certificate to conform 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 for reports filed after December 31, 2008.
- 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 after June 30, 2008.
- 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, 2008.
- 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 after June 30, 2008.

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 after December 31, 2007.

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 13: Department Property Taxes

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 2008 for airflight taxes payable in 2009, 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, 2008, for airflight property taxes payable in 2009 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 after June 30, 2008.

- 6 **Airflight property tax recodification; investigation powers.** Applies the commissioner's general examination and investigation powers to the airflight property tax. Effective the day following final enactment.
- 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 the day following final enactment.
- 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 the day following final enactment.
- 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 fees; 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 after June 30, 2008.
- 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 after June 30, 2008.
- 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 the day following final enactment.
- 29 **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.
- 30 **Disparity reduction credit.** Clarifies that the population parameters for the bordering cities in the bordering states are based on the 1980 census. Effective retroactively for taxes payable in 2001 and thereafter.
- 31 **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.
- 32 **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.
- 33 **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.
- 34 **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.
- 35 **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.
- 36 **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.

- 37 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 1, 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.
- 38 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 2008, payable in 2009 and thereafter.
- 39 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 2008 and thereafter for proposed taxes payable in 2009 and thereafter.
- 40 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 2009 and thereafter.
- 41 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 2009 and thereafter.
- 42 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.
- 43 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.
- 44 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.
- 45 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.
- 46 Sustainable forest act appeals.** Provides the cross reference to the new section containing

the appeal procedure. Effective the day following final enactment.

47 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.

48 Sustainable forest act appeals. Provides the cross reference to the new section containing the appeal procedure. Effective the day following final enactment.

49 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.

50 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 the day following final enactment.

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 14: 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 after December 31, 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 use tax. Under current law, the refund is applied against the pharmacy tax under subdivision 1b, which has been repealed. Since a pharmacy may not be required to file a return, the provision changes the time limits so as to require all pharmacies to claim the refund within 18 months of delivering the drugs outside of Minnesota. This provision also clarifies that if no return is due, interest will begin to accrue 60 days from the date the claim is filed. 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 after June 30, 2008.
- 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 after June 30, 2008.
- 10 Insurance policies surcharge.** Clarifies that none of the insurance policy surcharges are subject to the retaliatory tax. Effective retroactively to July 1, 2007, and applies to policies written or renewed on or after that date.
- 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 after December 31, 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 after December 31, 2008.

Article 15: 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. 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 of collection costs is 15 percent of the debt, 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.** Clarifies 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, 2008.
- 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 the day following final enactment.

Article 16: Miscellaneous

Overview

Makes various changes relating to local impact notes.

Authorizes cities and private nonprofit hospitals under certain conditions to participate in the revenue recapture program.

Establishes new priorities for revenue recapture claims.

Repeals the statute requiring tax rebate recommendations.

Authorizes the Town of Scambler (Otter Tail County) to impose the aggregate tax

- 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 **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.
- 6 **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.
- 7 **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), which have the lowest priority.
- 8 **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.
- 9 **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.