

House Research Act Summary

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Article 1: Individual Income, Corporate Franchise, and Estate Taxes

Overview

Increases the second tier rate of the research credit from 2.5 to 4.7 percent of the qualifying research expenses over \$2 million for tax year 2013 and following years.

Allows subtraction of 55 percent of military retirement benefits, effective in tax year 2013.

Accelerates adoption of single-sales apportionment for corporations from tax year 2014 to tax year 2012.

Allows an on-going deduction for contributions of food inventory by S corporations, partnerships, and sole proprietors under the same rules that apply to C corporations.

Authorizes a new income tax reciprocity benchmark study and directs the commissioner of revenue to enter into negotiations with the Wisconsin secretary of revenue, with the goal of restoring income tax reciprocity between the two states, with payment made from Wisconsin to Minnesota in the same fiscal year in which revenues are foregone. If Minnesota and Wisconsin enter a reciprocity agreement, the commissioner's authority to terminate the agreement is eliminated (i.e., legislation would be required to terminate the agreement).

Provides an estate tax exemption for qualifying small business and farm properties. The combined amount of these exclusions can be up to \$4 million, which when added to the Minnesota's general exemption of \$1 million equals the federal \$5 million exclusion. Directs the commissioner of revenue to conduct an estate tax study for the 2012 legislature.

- 1 Data disclosure; income tax reciprocity benchmark study. Authorizes the commissioner of revenue to share data with the Wisconsin secretary of revenue for purposes of conducting the income tax reciprocity benchmark study provided in section 16. Current law, which authorizes the commissioner to share data with other states for purposes of enforcing tax laws, would not authorize data sharing since there is not currently a reciprocity agreement in effect with Wisconsin.
- 2 Subtractions from taxable income; individuals; military retirement pay and contributions of food inventory.

Military retirement pay. Allows an income tax subtraction for 55 percent of military retirement pay, including survivor's benefit plan payments, effective beginning in tax year 2013.

Contributions of food inventory. Allows an ongoing deduction for contributions of food inventory by S corporations, partnerships, and sole proprietors following the rules that apply permanently to C corporations under the federal and Minnesota taxes and that apply temporarily (through tax year 2011) to businesses taxed under the federal individual income tax. (Minnesota has typically conformed to this deduction in federal update legislation that extends the temporary federal provision. This section would permanently establish these rules without regard to whether they are in effect for federal purposes or not. Double

deduction would not be allowed in any years in which Minnesota conforms to the federal rules as part of update legislation.)

- 3 Nonresident ratio. Modifies the calculation of the ratio used to apportion the tax of nonresidents and part-year residents to include the subtractions from taxable income for contributions of food inventory and military retirement pay.
- 4 K-12 education credit. Adds tuition payments to the list of eligible expenses for which Minnesota taxpayers may claim the refundable K-12 education credit. The credit equals 75 percent of qualifying expenses, up to a maximum of \$1,000 per child in grades K-12, and begins to phase out when income reaches \$33,500.
- 5 Research credit. Increases the second tier rate of the research credit by 2.2 percentage points. Under present law, the research credit equals ten percent of the first \$2 million of qualifying research and 2.5 percent of the excess over \$2 million. This section would leave the first tier rate unchanged at ten percent, and increase the second tier rate to 4.7 percent, effective in tax year 2014.
- 6 Income tax reciprocity.
 - Subd. 1. Agreements with other states. Eliminates the commissioner's authority to terminate a reciprocity agreement with Wisconsin, and specifies that any reciprocity agreement with Wisconsin must require estimated payments of net revenue loss to be made from Wisconsin to Minnesota in the same fiscal year in which the loss occurred with a final payment with interest made in the next fiscal year. This would largely eliminate the payment time lag in effect for the reciprocity agreement with Wisconsin that was terminated following tax year 2009.
 - Subd. 2. New reciprocity agreement with Wisconsin. Directs the commissioner to initiate negotiations with Wisconsin, with the objective of entering into a new reciprocity agreement that would be effective for tax year 2012. Provides that the commissioner may not enter into a new agreement with Wisconsin until Wisconsin has paid any amounts due, with interest, under the terms of the agreement in effect before tax year 2010.

Effective date: Subdivision 2 is effective following final enactment, and subdivision 1 is effective when a new agreement with Wisconsin is reached.

- 7 **Alternative minimum tax; individuals.** Provides subtractions from alternative minimum taxable income for amounts deducted under the deductions for food inventory and military retirement pay provided in section 2.
- 8 **Single sales apportionment.** Provides that the Minnesota share of corporate franchise tax for a multistate corporation will be determined solely based on percentage of the corporation's Minnesota sales to its total sales, effective for tax year 2012. Under present law, single sales apportionment is being phased-in as shown in the table below:

Tax Year	Sales Factor	Property Factor	Payroll Factor
2011	90%	5%	5%
2012	93%	3.5%	3.5%
2013	96%	2%	2%

2014 and later	100%	0%	0%
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- 9** Sales apportionment; financial institutions. Provides for single sales apportionment for banks and other financial institutions, effective for tax year 2012.
- 10** **Minnesota adjusted taxable estate.** Modifies the definition of Minnesota adjusted taxable estate so the value of qualified small business property, as defined in section 13, and qualified farm property, as defined in section 14, are subtracted. The sum of the two amounts cannot exceed \$4 million.
- 11** **Small business and farm property exclusion.** Provides that the value of a qualified small business property, as defined in section 13, and qualified farm property, as defined in section 14, (but not to exceed in combination \$4 million) is excluded from calculation of Minnesota estate tax.
- 12** **Definitions.** Defines terms for purposes of the small business and farm exemptions:
- **Family member** (defined by reference to federal law) means a spouse, ancestor, lineal descendent, or a spouse of a lineal descendent of the decedent.
 - **Qualified heir** is a family member who acquired the property (farm or small business property) and agreed to continue using the property as a small business or farm or to pay recapture tax under section 15.
 - **Qualified property** refers to the small business property or farm property that meets the requirements of sections 13 or 14.
- 13** **Qualified small business property.** Requires small business property to satisfy the following requirements:
- Its value was included in the federal adjusted taxable estate.
 - It consists of trade or business property (or shares of stock or other ownership interests that are not publicly traded) and the decedent or spouse materially participated in the operation of the business.
 - It had gross annual sales for the most recent taxable year of \$10 million or less.
 - Any cash or equivalents are deducted from the value of the business.
 - Decedent owned the business for three years before the date of death.
 - A family member continuously uses the property for three years after the date of death.
 - The estate and the qualified heir agree to pay recapture tax if a family member fails to satisfy the requirement to use the property for the three-year period.
- 14** **Qualified farm property.** Requires qualified farm property to satisfy the following requirements:
- Its value was included in the federal adjusted taxable estate.
 - The property consists of a farm, as defined by Minnesota law, and was classified

as the decedent's agricultural homestead for property tax purposes.

- Decedent continuously owned the property for the three-year period before the date of death.
- A family member continuously uses the property for three years after the date of death.
- The estate and the qualified heir agree to pay recapture tax if a family member fails to satisfy the requirement to use the property for the three-year period.

15 Recapture tax. Imposes a recapture tax, if the qualified heir disposes of the property (except by transferring it to a family member) or if a family member fails to satisfy the three-year use requirement. The tax equals 16 percent of the value of the exclusion and is due six months after the property is disposed of or the qualifying use stops.

16 Income tax reciprocity benchmark study. Directs the Department of Revenue to work with the Wisconsin Department of Revenue to conduct an income tax reciprocity benchmark study. The study would use information from Minnesota and Wisconsin 2011 income tax returns of individuals who are residents of one state and have earnings in the other state. Requires the study to include:

- The number of residents of each state with earnings in the other state;
- The income earned by residents of one state who work in the other state;
- The change in tax revenue in each state if a reciprocity agreement were implemented under which taxpayers were required to pay income tax only in their state of residence.

Requires the report to be submitted to the legislature by March 1, 2013.

17 Estate tax study. Requires the commissioner of revenue to prepare an estate tax study and report to the legislature by February 1, 2012. This study is to evaluate the tax using standard tax policy methods and is to consider revenue neutral ways to restructure or replace the tax (e.g., an inheritance tax structure, complementary gift tax, and so forth). The commissioner is directed to consult with the probate and estate tax section of the bar association in conducting the study.

18 Appropriation. Appropriates \$291,000 in fiscal year 2012 and \$314,000 in fiscal year 2013 to the commissioner for the income tax reciprocity benchmark study in section 16.

Article 2: Federal Update

Overview

Conforms to federal law definitions of federal taxable income, effective through December 17, 2010, for tax year 2011 and following years, and to a federal change retroactive to tax year 2009 allowing an income exclusion for state loan forgiveness programs for health care professionals. Laws 2011, chapter 8, conformed to federal law changes for tax year 2010 only.

Adopts the federal tax changes enacted in the two 2010 federal health care acts, the Small Business Jobs Act of 2010, and the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (TRUIRJCA). Minnesota would conform to all federal changes, with the exceptions of:

- Increased section 179 expensing for tax years 2010 and 2011
- 50 percent bonus depreciation for tax years 2011 to 2013, with temporary 100 percent bonus depreciation for property placed in service after September 8, 2010, and before January 1, 2012
- Extension of the elimination of the limitation on itemized deductions and the phaseout of personal and dependent exemptions to tax years 2011 and 2012
- Extension of the exclusion for employer-provided education assistance to tax years 2011 and 2012

- 1 **Update of administrative tax provisions.** Adopts federal tax administrative provisions made between March 18, 2010, and December 17, 2010, that Minnesota references for state tax administration purposes under chapter 289A, for tax year 2011 and following years. The new federal laws did not change federal provisions that Minnesota provisions refer to in chapter 289A.

Effective date: 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 with the following exceptions:

- Increased section 179 expensing for tax year 2011
- 50 percent bonus depreciation for tax years 2011 to 2013, with temporary 100 percent bonus depreciation for property placed in service after September 8, 2010, and before January 1, 2012
- The extension of the elimination of the limitation on itemized deductions and the phaseout of personal and dependent exemptions to tax years 2011 and 2012
- The extension of the exclusion for employer-provided education assistance to tax years 2011 and 2012

The four new federal laws and important changes were:

The Patient Protection and Affordable Care Act of 2010, Public Law 111-148, enacted

March 23, 2010, and **The Health Care and Education Reconciliation Act of 2010**, Public Law 111-152, enacted March 30, 2010, made the following major changes that affected tax years other than tax year 2010, which Minnesota addressed in Laws 2011, chapter 8:

- Extended the income exclusion for health insurance to benefits for adult children up to and including age 26, effective for plan years beginning on or after September 23, 2010. Under prior federal law, the exclusion was limited to coverage for dependents who were under age 19, students under age 24, or permanently and totally disabled.
- Disallowed reimbursement from health savings accounts, flexible spending accounts, and health care reimbursement accounts for over-the-counter medicines, effective tax year 2011.
- Increased the maximum exclusion for employer-provided adoption assistance to \$13,170 for tax year 2010, and extended the increased amount adjusted for inflation to tax year 2011.
- Allowed an income exclusion for state loan forgiveness programs for health care professionals intended to increase the availability of health professionals in underserved areas, retroactive to tax year 2009.
- Increased the floor on deductibility of medical expenses by itemizers from 7.5 percent to 10 percent of adjusted gross income, effective in tax year 2013.
- Codified the economic substance doctrine, requiring transactions to which the doctrine is relevant to change the taxpayer's economic position in a meaningful way, excepting the effects on federal income tax liability, and requiring the taxpayer to have a substantial purpose, excepting the corresponding change in federal income tax liability, from entering into the transaction.

The Small Business Jobs Act of 2010, Public Law 111-240, enacted September 27, 2010, made the following major changes that affected tax years other than tax year 2010, which Minnesota addressed in Laws 2011, chapter 8:

- Increased the 75 percent exclusion for the gain on sale of qualified small business stock held for more than five years for stock acquired after February 18, 2009, and before January 1, 2011, to 100 percent for stock acquired after September 27, 2010, and before January 1, 2011. The exclusion will revert to 50 percent for stock acquired on or after January 1, 2011.
- Reduced the minimum holding period to avoid the tax on built-in gains on sales of assets of S corporations that converted from C corporations from ten years to five years, for tax year 2011 only, allowing S corporations to sell assets held more than five years without being taxed on built-in gains. Effective for tax year 2011 only.
- Increased the section 179 expensing amount and phase-out threshold for tax years 2010 and 2011 to \$500,000 and \$2 million (*Laws 2010, chapter 8, did not conform to the extension of increased section 179 amounts for tax year 2010. Minnesota would continue to not conform for tax year 2011, but would retain its current law the requirement that taxpayers add to taxable income 80 percent of*

the 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).

- Removes cell phones and similar devices from "listed property," so that the employer deduction for cell phone expenses is not reduced by personal use of the phone by the employee. Effective beginning in tax year 2010.
- Allows annuity holders to annuitize, or take payment of, a portion of the assets in an annuity while keeping the remaining assets in the contract; previously annuity holders wishing to take payments from only a portion of the annuity had to exchange the annuity for two separate annuities. Effective beginning in tax year 2011.
- Reduces the share of income on guarantees that can be sourced outside the United States, effective for guarantees issued after September 27, 2010.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, Public Law 111-321, enacted December 17, 2010, made the following major changes that affected tax years other than tax year 2010, which Minnesota addressed in Laws 2011, chapter 8:

- Extends provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and of the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) that were scheduled to sunset after tax year 2010 for two years, to tax years 2011 and 2012. The major EGTRRA provisions that affect Minnesota's income definition are:
 - § Increase in the standard deduction for married joint filers to be twice that for single filers (from \$9,650 to \$11,600 in tax year 2011)
 - § Elimination of the phaseout of personal and dependent exemptions, and the limitation on itemized deductions (*Minnesota would not conform to the extension of the elimination of the phaseout of exemptions and the limitation of deductions but would require taxpayers to add the amounts phased-out and limited under prior federal law to taxable income in section 3*)
 - § Increased income limits and unlimited time period for deduction of student loan interest - for married joint filers, income eligibility for the deduction would otherwise decrease from \$120,000 to \$70,000 in tax year 2011, and for single filers income eligibility would decrease from \$60,000 to \$45,000.
 - § Exclusion of up to \$5,250 of employer-provided educational assistance. (*Minnesota would not conform to the extension of the exclusion of educational assistance, but would require taxpayers to add the amounts excluded at the federal level to taxable income in section 3*)
 - § Exclusion of awards under the National Health Service Corps scholarship program and related awards for health-care professionals
 - § Increased contribution limit for education savings accounts and

allowing use of education savings accounts for elementary and secondary school expenses.

- Extends 50 percent bonus depreciation to tax years 2011 to 2013, with temporary 100 percent bonus depreciation for property placed in service after September 8, 2010, and before January 1, 2012. *(Minnesota would not conform to the extension of bonus depreciation but would retain its current law requirement that taxpayers add to taxable income 80 percent of the additional depreciation amount in the first tax year, and then subtract one-fifth of the amount added back in each of the five following tax years). The Small Business Jobs Act of 2010, P.L. 111-240, extended 50 percent bonus depreciation to tax year 2010.)*
- Increases the section 179 expensing amount and phase-out threshold for tax year 2012 to \$125,000 and \$500,000, indexed from 2007 to 2012, estimated at \$137,000 and \$540,000. *(Minnesota would not conform to the extension of section 179 but would retain 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).*
- Extends the teacher classroom expense deduction of up to \$250 to tax years 2010 and 2011.
- Extends the option for taxpayers to claim an itemized deduction for sales taxes rather than income taxes paid to tax years 2010 and 2011. *Minnesota taxpayers will be unaffected by this, since present law requires any deducted sales tax to be added back in computing Minnesota tax; the same add-back is required for income taxes deducted at the federal level.*
- Extends the increase in the federal adjusted gross income limit on the amount of qualified conservation easements that may be claimed as a charitable deduction to tax years 2010 and 2011. General law limits deduction of contribution of capital property to 20 or 30 percent of adjusted gross income, depending on the type of recipient organization. Beginning in 2006, the limit was increased to 50 percent for donations of qualified conservation easements by most taxpayers, and to 100 percent for donations made by farmers and ranchers, defined as individuals with 50 percent of gross income from farming/ranching.
- Extends the higher education tuition expense deduction to tax years 2010 and 2011. The deduction applies to up to \$4,000 of qualifying expenses for taxpayers with adjusted gross income up to \$65,000 (\$130,000 for married joint filers), and to up to \$2,000 of qualifying expenses for taxpayers with adjusted gross income over \$65,000 but less than \$80,000 (\$130,000 to \$160,000 for married joint filers).
- Extends the authority for individuals age 70½ or older to transfer up to \$100,000 from a traditional IRA or Roth IRA directly to a qualified charity, while excluding that amount from adjusted gross income to tax years 2010 and 2011, and provides that distributions made before after December 31, 2010, and before February 1, 2011, may be recognized in tax year 2010.
- Extends the maximum amount of benefit that an employer may exclude from

gross income for employee transit and vanpool expenses to equal the amount allowed to be excluded for employee parking expenses, for tax year 2011 only.

- Extends to tax years 2010 and 2011 various provisions related to depreciation and expensing, including more generous rules for leasehold and restaurant improvements, including new restaurant property and improvements to retail property (15-year straight-line recovery), motorsports entertainment complexes (seven-year recovery period), advanced mine safety equipment, accelerated depreciation for business property on Indian reservations, brownfields environmental remediation costs, suspension of the net income limit on depletions of oil and natural gas properties, and qualified film and television productions expenses.
- Extends to tax years 2010 and 2011 the enhanced deductions for contributions of food inventory, book inventory, and computers.
- Extends preferential treatment of dividends of regulated investment companies to tax years 2010 and 2011
- Extends to tax years 2010 and 2011 the limit on basis adjustments in S corporation stock when S corporations donate appreciated property to the tax basis of the property rather than the fair market value (this reduces capital gain on later sales of the S corporation stock, compared with prior law).
- Extends the 100 percent exclusion for the gain on sale of qualified small business stock held for more than five years for stock acquired after September 27, 2010, and before January 1, 2011, to apply to stock acquired before January 1, 2012. The exclusion will revert to 50 percent for stock acquired on or after January 1, 2012.
- Extends the itemized deduction for mortgage insurance premiums to tax year 2011.
- Extends the exception under Subpart F for active financing income to tax year 2011.
- Extends increased credit rates and maximum credit amounts for the federal dependent care credit, which affect calculation of the state dependent care credit, to tax years 2011 and 2012.

- 3 Additions to federal taxable income (FTI) for individuals.** Conforms Minnesota's income tax to federal deductions for teacher classroom expenses and higher education tuition deductions by restricting the addition to taxable income for these items to tax years before 2010. Requires new additions for the amount of itemized deductions that would be limited and personal and dependent exemptions that would be phased out had the two-year extension to these elements of EGTRRA 2001 not been enacted, and for the amount of employer-provided education assistance, starting for tax year 2011. Also limits the addition for subsidies received by companies that provide retiree drug benefits to tax years before 2013; changes to federal law that take effect in 2013 eliminate the federal exclusion for subsidies, making the state tax addition duplicative.

Effective date: tax year 2011

- 4 **Additions to taxable income for corporations.** Conforms Minnesota's income tax to the enhanced federal deduction for the donation of computer equipment by restricting the addition to taxable income for these items to tax years before 2010. Also limits the addition for subsidies received by companies that provide retiree drug benefits to tax years before 2013; changes to federal law that take effect in 2013 eliminated the federal exclusion for subsidies, making the state tax addition duplicative.

Effective date: tax year 2011
- 5 **Internal revenue code.** Adopts federal changes to federal adjusted gross income (FAGI) made between March 18, 2010, and December 17, 2010. FAGI is used for computing individual alternative minimum tax, determining withholding, and is the starting point for calculating household income, which is used to compute the dependent care and K-12 education credit. The main changes to federal adjusted gross income are described in section 2.

Also ties references to foreign source income to the Internal Revenue Code, as amended through March 18, 2010. These references are used in the foreign operating corporation and foreign royalty provisions. The 2010 federal legislation limited the rules applying to (and thus the definition of) "active foreign source income" to corporations that qualified under prior law.
- 6 **Nonresident ratio.** Modifies the calculation of the ratio used to apportion the tax of nonresidents and part-year residents to include the addition to taxable income of employer-provided educational assistance.
- 7 **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.
- 8 **Estate tax.** Adopts federal changes in the Internal Revenue Code that affect the estate tax chapter. These changes extended EGTRRA's changes (e.g., repeal of the state death tax credit and enactment of the deduction for state death taxes), which Minnesota has not conformed to, or affected the federal rates and exclusion amount, which do not directly affect computation of the Minnesota estate tax, because Minnesota decoupled from federal law in 2001.

Article 3: Sales and Use Taxes

Overview

Eliminates all early sales tax payments except for the June accelerated payments and returns to the law as it existed before the change enacted during the 2010 session.

Brings the state into compliance with the Streamlined Sales and Use Tax Agreement (SSUTA) by:

- Codifying transitional language regarding rate changes on taxable services;
- Modifying the sourcing for "other" direct mail to match changes in sourcing requirements; and
- Removing "ring tones" from the definition of taxable telecommunication services.

Expands the sales tax exemption for certain goods and services to local governments to include water used directly for public safety purposes, public safety communication systems, including dispatch centers, and most purchases by towns.

Modifies the sales tax treatment of resold tickets of admission.

Provides a sales tax exemption for certain small aircraft and related aircraft parts.

- 1 Sales and use tax. Eliminates the accelerated remittance schedules for vendors with annual sales tax collections of at least \$120,000 for all months except for June collections. Effective for all payments due after July 1, 2011.
- 2 Ring tones. Exempts the purchase of ring tones from sales and use tax by striking "ring tones" from the list of taxable telecommunication services. This change brings Minnesota into compliance with the SSUTA definition of taxable telecommunication services. Effective for sales after June 30, 2011.
- 3 Transitional period for services; sales tax. States that a sales tax rate increase is effective beginning with the first billing period for taxable services starting after the date of the rate change. For a rate decrease, the new rate will apply to bills mailed on or after the date of the rate change. This is current administrative practice. Effective the day after final enactment.
- 4 Transitional period for services; use tax. Adds the same language added in section 3 to the complementary use tax provisions. Effective the day after final enactment.
- 5 Advertising and promotional material. Defines advertising and promotional direct mail and continues to apply the current sourcing rules. Removes obsolete references to direct pay permits, since these are now one type of exemption certificate rather than a separate permit. Effective for sales after June 30, 2011.
- 6 Other direct mail. Defines "other direct mail" and simplifies the sourcing rules for this item. Under current law, if the purchaser does not provide an exemption certificate or direct pay permit, the seller must source the mail based on each mailing address. This will allow the mail to be sourced to the address of the purchaser instead. Also removes obsolete references to direct pay permits, since these are now one type of exemption certificate rather than a

separate permit. Effective for sales after June 30, 2011.

- 7 Resold admission tickets. Eliminates double taxation on resold tickets of admission by allowing a ticket reseller to claim a refund or give the ticket purchaser a credit for any sales tax paid on the original ticket sale. Limits the credit to the lesser of (1) the tax paid at the time of the original ticket sales, or (2) the tax charged by the reseller. Requires the reseller to charge the sales tax on the full price of the ticket resale if the sales tax was not paid on the original ticket sale. Requires the ticket reseller to maintain records necessary to document the price and tax paid by the ticket reseller when they purchase a ticket and when they resell a ticket. Effective for sales after June 30, 2011.
- 8 Scope. Makes a technical correction by adding units of local government to the statement of scope for the statutory sections dealing with sales tax exemptions for governments and nonprofit groups.
- 9 Sales to local governments. Expands the sales tax exemption for certain goods and services to local governments to include purchases by towns, except when the purchase is an input to a government good or service generally provided by a private business, that would be taxable if purchased by a private business engaged in the same activity. Effective for purchases made after June 30, 2011.
- 10 Sales of goods and services to governments. Eliminates a sales tax exemption for gravel and road repair vehicles purchased by town which is unnecessary with the general town exemption in section 9. Also exempts water used directly in providing fire protection by a fire department, fire protection district, or fire company providing services to the state or a political subdivision.

The exemption for the town purchases is effective for purchases made after June 30, 2011. The exemption for the water is retroactive to June 30, 2007; however, no refunds will be made for taxes paid on water used for fire protection before January 30, 2010.
- 11 Public safety radio communication systems. Expands the existing sales tax exemption for the "ARMER" public safety radio communication in certain areas of the state to all public safety communications systems and dispatch centers throughout the state. The change is retroactive to sales and purchases made since December 31, 2009, but requires local governments to pay the tax upfront and apply for a refund after July 1, 2013, for all purchases made between December 31, 2009, and July 1, 2013. The exemption is an upfront exemption beginning July 1, 2013.
- 12 Refund; appropriation. Provides for the refund of sales taxes paid on purchases for public safety communication radio systems made between December 31, 2009, and July 1, 2013, as required in section 11.
- 13 Refund eligible persons. Requires that the local government that owns the public safety communication equipment exempted from sales tax under section 11, apply for the refund allowed under section 12.
- 14 Application. Requires contractors to provide information necessary to local governments in order for them to apply for the public safety communication equipment sales tax refund under sections 11, 12, and 13.
- 15 Exemptions (aircraft). Provides a sales tax exemption for the sale or purchase of small aircraft and certain aircraft equipment, including parts necessary to repair and maintain that equipment. Effective for sales after June 30, 2011.

16

Repealer. Repeals the penalty and safe harbor provisions related to the early remittance schedules eliminated in section 1.

Article 4: Economic Development

Overview

This article provides:

- New science and technology programs to encourage technology start-up businesses, funded with a \$500,000 appropriation for the FY 2012-2013 biennium.
- TIF rules permitting the special pooling allocation for low-income housing to be used for market-rate housing, if the housing has been vacant for six months and has been foreclosed.
- A one-year extension of the special TIF authority granted in the 2010 jobs bill (Laws 2010, chapter 216) for expanded use of economic development districts and surplus increments.
- A 10-year duration extension for a TIF district in the city of Lino Lakes.
- A series of corrections and modifications to the 2010 special TIF law enacted for the city of Ramsey.
- Authority for the city of Cohasset to use tax increment to repay its general fund for some of its outlays for TIF district projects.
- \$100,000 of state funding for a border city development program in the city of Taylor Falls.

1

Citation. Names the law proposed in sections 2 through 10 the "Minnesota Science and Technology Program."

2

Definitions. Defines the following terms for purposes of the program:

Authority is the Minnesota Science and Technology Authority, an existing state entity that is established in Minnesota Statutes, section 116W.03.

College or university is a private or public postsecondary education institution that grants academic degrees and conducts research and development in science and technology.

Commercialization includes all of the activities involved with developing, producing, and selling a new product, ranging from doing the basic research at the "conceptual stage" through selling the product.

Commercialized research project is research conducted in a college or university or at a nonprofit research institution or by a qualified science and technology company that has shown advanced commercial potential in the form of licenses, patents, or similar and for which a qualified science and technology company is being or has been formed.

Fund is the Minnesota science and technology fund created under section 3.

Nonprofit research institution is a 501(c)(3) organization with its principal place of business in Minnesota that conducts significant research and development activities in Minnesota.

Qualified science and technology company is a business with fewer than 100 employees engaged in research, development, or production of science or technology in Minnesota.

3 Minnesota Science and Technology Fund. Establishes the Minnesota Science and Technology Fund as a special revenue fund in the state treasury. Payments from the fund may only be made at the request of the authority.

4 Authorized uses of the fund. Authorizes the fund to be used for:

- The commercialized research program under section 5
- The federal research and development support program under section 6
- The industry innovation and competitiveness program under section 7
- Carrying out the powers of the authority to award grants and loans under section 8

5 Commercialized research program. Authorizes the authority to establish a commercialized research program to encourage the creation of science and technology jobs. This program can provide grants of up to \$250,000 per project for:

- Research projects to assist in the commercialization of science and technology, developed by a college, university, or nonprofit organization and transferred to a qualified science and technology company; or
- Projects developed directly by a qualified science and technology company.

This program is subject to the following limits:

- The authority must establish written criteria for award and use of the grants;
- The recipient (college, university, nonprofit organization, or private company) must provide matching funds; and
- Recipients must report to the authority on the uses and outcomes of the grant within one year.

6 Federal research and development support program. Authorizes the authority to establish a federal research and development support program to increase and coordinate efforts to obtain federal funding for research of primary benefit to qualified science and technology companies, colleges and universities, and nonprofit research organizations.

Specifically, this program is to:

- Identify potential federal funding sources.
- Make grants to qualified science and technology companies.
- Help develop federal Small Business Innovation (SBIR) or Small Business Technology Transfer (STTR) proposals.
- Match SBIR and STTR awards (subject to an annual \$1.5 million funding limit).

7 Industry innovation and competitiveness program. Authorizes the authority to create an industry technology and competitiveness program to:

- Provide matching funds to help startup qualified science and technology companies.
- Fund efforts to retain engineering, science, and technical jobs in Minnesota.
- Fund science and technology industry growth clusters.

This program is subject to the following limits:

- The authority must establish written criteria for the award and use of the grants;
- The recipient (college, university, nonprofit organization, or private company) must provide matching funds; and
- Recipients must report to the authority on the uses and outcomes of the grant within one year.

8 Minnesota science and technology authority; powers. Provides that the authority has all of the powers necessary to carry out its purposes, including the power to make grants and loans and to pay for reasonable administrative expenses, including staff and professional fees. Administrative costs are annually limited to five percent of the first \$5,000,000 in the fund and two percent of any balance in excess of \$5,000,000.

In making grants, the authority is to give priority to qualified science and technology businesses that have "demonstrable economic benefits to the state" by creating jobs, attracting federal money, or creating new businesses.

In making grants to colleges, universities, and nonprofit research organizations, the authority is to give priority to proposals that:

- Promote collaboration with private businesses;
- Attract new research entities, talent, or resources to Minnesota; or
- Attract significant researchers and resources from outside of Minnesota.

Interest charged on the loans and other revenues from the fund's transactions, including required repayments, go back to the corpus of the fund.

9 Repayment. Requires the recipient of an award, grant, loan, or other financial assistance to repay all or part of it, if the recipient moves out of Minnesota or ceases operation in the state within four years after it received the grant. If the relocation or closing occurs within three years of receipt, the entire amount must be repaid. Relocations or ceasing operations after three years and before four years require repayment of 75 percent of the grant.

10 Expiration. Provides the law expires when the Minnesota Science and Technology Authority expires by law (June 20, 2018). Any unused money in the fund at that point would be returned to the general fund.

11 **Economic development districts.** Extends by one year the 2010 jobs bill's economic development district authority from July 1, 2011, through July 1, 2012.

Laws 2010, chapter 216, allows economic development districts to be used for any type of project if the following conditions are met:

- The municipality finds the project will create new jobs in the state, including construction jobs, and the project otherwise would not have begun before July 1, 2011, without the assistance;
- Construction of the project begins no later than July 1, 2011; and
- The request for certification is made by June 30, 2011.

This section would extend each of these dates by one year, except the authority for projects to assist housing is extended by only six months and may not be used for income-restricted housing. Under prior law, economic development districts could only be used for (1) manufacturing, (2) warehousing, (3) research and development, and (4) tourism in selected

counties.

- 12 Use of surplus increments.** Extends by one year, the 2010 job bill's expanded authority to spend excess and surplus tax increments, notwithstanding the pooling limits, 5-year rule, and so forth. This authority applies to construction of new or substantial rehabilitation of existing buildings, if:

- Construction begins before July 1, 2011;
- The development will create new jobs (including construction jobs); and
- The development would not have occurred without provision of the assistance.

This authority includes the ability to make equity investments in the development, for example, if it is necessary to obtain financing. The municipality (usually the city) must approve and hold a public hearing with published notice (following the same rules that apply when approving a new TIF plan).

This section extends each of those dates by one year, except the authority for market-rate housing projects is limited to a 6-month extension and income-restricted housing is allowed no extension.

- 13 Pooling rules; market rate housing.** Modifies the special pooling rules for housing projects. Under present law, an additional 10 percent of increment from a district may be used outside of the area of the district from which it was collected (that is, it may be "pooled" with other moneys to pay development costs) for income-restricted housing. This bill expands the use of that 10 percent of increment to include funding of certain costs related to developing market-rate housing.

This would allow use for owner-occupied housing with a value up to 150 percent of the average market value of housing in the city, but not to exceed:

- \$200,000 in the seven-county metropolitan area; or
- \$125,000 elsewhere in the state.

The money could be used to acquire the houses, demolish or relocate them, rehab them, do site preparation, or pollution cleanup. To qualify, the sites or housing must meet both of the following conditions:

- Be a 1- to 4-unit dwelling that has been vacant for at least six months; and
- Be in a foreclosure after the redemption period has expired.

This authority expires December 31, 2016, but can be used to continue paying outstanding bonds that were issued before that date.

Effective date: Applies to all TIF districts subject to the pooling rules.

- 14 Ramsey; TIF.** Modifies the 2010 special TIF law enacted for the city of Ramsey. It corrects the boundary description in the 2010 law to add an eastern boundary for the district. In addition, it expands the exemptions from general law TIF rules that apply to this district:

- The requirement that 90 percent of redevelopment district increments be spent to correct blight would not apply. The 2010 law provided exceptions from this requirement for various expenditures (e.g., the transit station and related infrastructure), while this provision provides a complete exemption.
- Increments are specifically authorized to be used for costs incurred before

establishing the TIF district for: (1) land acquired by the city or its housing and redevelopment authority and (2) public improvements installed in the district.

- The city is allowed to capture increment from two parcels, which under general law would be disqualified as prior planned improvements. Under the prior planned improvement rule, the value of improvements for which building permits were issued within 18 months before approval of the TIF plan is added to the district's original tax capacity. This prevents these improvements, which were contemplated before the plan for the district was finalized, from generating tax increment, rather than general taxes for all of the taxing districts.

Effective date: Local approval by city.

- 15** Cohasset TIF. Allows the city of Cohasset to use tax increments from two TIF districts to reimburse its general fund for expenditures made on behalf of the TIF districts. Under general law, this would be allowed only if the authority and the city had entered into a written interfund loan agreement before the city made the expenditures.

- 16** Lino Lakes; TIF. Authorizes the City of Lino Lakes to collect increments from its TIF district No. 1-10 through December 31, 2023. District No. 1-10 is an economic development TIF district, which otherwise would be required to be decertified at the end of 2013, so this is a 10-year extension.

If the city elects to use this authority, it would be required to use increments collected from the district after 2/1/2011 only to pay debt service on bonds issued to finance:

- The county road 23 interchange with I-35W; and
- The Legacy at Woods Edge development.

These expenditures would not be subject to the general law restrictions on pooling, including the 5-year rule, and limits on the type of purposes for which economic development district increments may be spent.

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

- 17** Taylors Falls; border city development zone. Allows the City of Taylors Falls to designate all or any part of the city as a border city development zone. The bill allocates \$100,000 to the city to provide state tax benefits under the zone. This dollar limit does not apply if the commissioner of revenue waives the limit under the general law rules.

The general law rules for border city development zones apply to these zones. This law allows businesses locating or expanding in designated zones to qualify for property tax exemptions, corporate franchise tax credits, and sales tax exemptions. Cities with these powers also can extend some of these benefits to businesses located within their cities, but outside a development zone. To receive these tax reductions, a business must apply to the city in which it is located. Under present law, the cities of Breckenridge, Dilworth, East Grand Forks, Luverne, Moorhead, and Ortonville have border city development zone powers. (Luverne received one-time funding in 2001; the other cities have received biennial funding since designation of the zones in 1998 through the 2007-2008 biennium. No city received border city financing in the 2010-2011 biennium.)

Effective date: Day following final enactment.

- 18** Appropriation. Appropriates \$500,000 from the general fund to the Minnesota science and technology fund for fiscal year 2012. This appropriation carries over to fiscal year 2013 and up to \$107,000 of it may be used for administrative expenses of the authority,

notwithstanding the percentage limits on administrative expenditures in section 8.

Article 5: Local Taxes

Overview

Prohibits local governments, from spending money to promote a local sales tax and limits their spending to the costs of conducting the required referendum. Also requires that the required referendum for imposing a local sales tax be held prior to the city coming to the legislature for the needed authorization.

Modifies the authorized uses for sales tax revenues for the existing taxes in the city of Clearwater and in Hennepin County for the ballpark.

Allows an increase in the sales tax rate in the city of Hermantown.

Extends the existing tax and increases the projects funded by the existing Rochester sales tax.

Authorizes new local sales taxes for the cities of:

- Cloquet
- Fergus Falls
- Hutchinson
- Lanesboro
- Marshall
- Medford

- 1 Prohibition on promoting local sales taxes. Strikes obsolete language that prohibited political subdivisions from spending money to promote new local sales tax provisions until after May 31, 2010.

It adds a new provision prohibiting a local government from spending money to promote a local sales tax referendum, and limits it to spending money only on conducting the vote. Effective the day after final enactment and applies to all sales tax referenda, including those contained in this article.
- 2 Requirements for adoption, use, termination. Requires voter approval of a local option sales tax before the local government asks the legislature to authorize a sales tax. Effective the day after final enactment.
- 3 Limit on deposits to reserve fund; Hennepin county ballpark tax. Imposes a limit on the amount of reserves that may be maintained for the baseball park equal to (1) the net present value of all its obligations to fund the ball park authority operating costs, youth sports, extension of library hours, and required capital improvements for a thirty year period starting from when the first bonds were issued, minus (2) the amount of these obligations already paid. This limit will ensure that the ballpark bonds will be paid off and the sales tax ended at the earlier possible date consistent with meeting all other obligations related to the sales tax revenue. Effective the day after final enactment.
- 4 City of Hermantown; sales tax. Authorizes the city of Hermantown to increase the local sales tax rate from the current 1/2 percent rate to the originally authorized one percent rate if

approved by the voters at a general election held by the end of calendar year 2012.

- 5 City of Rochester; use of sales tax revenues. Allows the city to use its local sales tax revenues to fund the following additional projects:
 - \$47 million for transportation infrastructure improvements (highways and airport), but prohibits any money to be used to fund a railroad bypass that would affect rail traffic in the city of Rochester;
 - \$26.5 million for higher education facilities;
 - \$20 million for the Destination Medical Community initiative;
 - \$8 million for construction of regional public safety facilities;
 - \$20 million for a regional recreation/senior center;
 - \$10 million for an economic development fund; and
 - \$8 million for downtown infrastructure.

\$5 million of the \$10 million earmarked for economic development must be used for development grants to the surrounding communities of Byron, Chatfield, Dodge Center, Dover, Elgin, Eyota, Kasson, Mantorville, Oronoco, Pine Island, Plainview, St. Charles, Stewartville, Zumbrota, Spring Valley, West Concord, and Hayfield.
- 6 City of Rochester; bonding authority. Allows the city to hold the election to issue bonds for the projects in section 5 at the same time they hold the election for the extension of the local sales tax. The amount of the bonds is limited to \$139.5 million plus associated bond costs.
- 7 City of Rochester; termination of sales taxes. Allows the city to extend the current tax beyond the date necessary to raise sufficient funds for current authorized projects. The tax is extended to December 31, 2012, so it does not expire before the required referendum is held at the 2012 general election. If the tax extension is approved by the voters, the tax is extended until sufficient revenues are raised to fund the additional \$139.5 million in projects plus associated bond costs.
- 8 City of Clearwater; sales tax. Expands the authorized uses of the Clearwater sales tax to include improvements to regional parks, bicycle trails, park land, open space, and walkways included in the city improvement plan adopted in December 2006. This includes all the projects included in the city's original 2008 request but ties the projects to a particular planning document.
- 9 Authorization (Marshall). Extends the date by which the city of Marshall must go to the voters for approval of local lodging and food and beverage taxes authorized in the 2010 tax bill. This will allow the city to hold this vote with the vote on its local sales tax authorized in section 14.
- 10 City of Cloquet; sales and use tax authorized. Allows the city to impose a local sales tax of up to 1/2 of one percent, subject to approval at a general election. The imposition and administration of the tax is subject to the provisions in Minnesota Statutes, section 297A.99. The city may also impose a flat \$20/vehicle tax on motor vehicles sold by dealers located in the city. Revenues from the taxes must be used to pay the costs of administration and to pay for the following projects:
 - \$4.5 million for the following park improvements: the Veteran's Park, a soccer complex, baseball complex, hockey arena, recreation center, and pedestrian trails

throughout the city;

- \$5.8 million for extension of utilities and other improvements related to property development adjacent to Highway 33 and Interstate 35; and
- \$6.2 million for engineering and construction of infrastructure improvements identified in the city's comprehensive land use plan.

The city may issue up to \$16.5 million in bonds for the projects listed based on the voter approval of the sales tax imposition. No separate vote is required for issuing the bonds and the bonds are not included in any debt or levy limit on the city.

The taxes expire at the earlier of (1) 30 years or (2) when the revenues collected are sufficient to pay for the projects and retire any associated bonds and bond costs. Because of the timing requirements for termination, any excess revenues will be deposited in the city general fund. The city may choose to end the taxes at an earlier date.

- 11** City of Fergus Falls; sales and use tax authorized. Allows the city to impose a local sales tax of one-half of one percent to finance a regional ice arena, as approved by their voters at the 2010 general election. The imposition and administration of the tax is subject to the provisions on Minnesota Statutes, section 297A.99, including the requirement for approval by the voters at a general election.

The city may use up to \$6.6 million in revenues from the taxes to pay the costs of administration and to pay for the acquisition and betterment of a regional ice center facility, including associated bond costs. Allowed costs include furnishing and equipment costs as well as acquisition, design, and construction costs, and associated bond costs.

The tax expires when the revenues collected are sufficient to pay for the project and retire any associated bonds and bond costs. Because of the timing requirements for termination; any excess revenues will be deposited in the city general fund. The city may choose to end the taxes at an earlier date.

- 12** City of Hutchinson, sales tax authorized. Allows the city to impose a local sales tax of one-half of one percent to pay for its wastewater treatment facility, as approved by their voters at the 2010 general election. Allows the city to impose a complementary flat \$20/vehicle tax on motor vehicles sold by dealers located in the city.

Revenues from the taxes must be used to pay the costs of administration and to pay for the construction and renovation of the city's wastewater treatment facility, including construction, engineering, and associated bond costs. The taxes end at the earlier of (1) 18 years, or (2) when revenues raised are sufficient to pay for the project, including all associated bond costs. Because of the timing requirements for termination; any excess revenues will be deposited in the city general fund. The city may choose to end the taxes at an earlier date.

- 13** City of Lanesboro; sales and use tax. Allows the city to impose a 1/2 of one percent sales tax in the city of Lanesboro, as approved by the voters at the 2010 general election, for the indicated projects.

Revenues from the taxes must be used to pay the costs of administration and to pay for the following projects:

- street and utility improvements along a number of specified streets,
- street lighting on State Highways 250 and 16;

- wastewater treatment facility improvements;
- utility improvements to the Lanesboro High Hazard Dam; and
- improvements to the community center, library, and city hall.

Total improvements under this section are limited to \$800,000 and associated bond costs.

Allows the city to issue up to \$800,000 in bonds for the projects listed in subdivision 3, based on the voter approval of the sales tax imposition and the bonds are not included in any debt or levy limit on the city. The taxes end when revenues raised are sufficient to pay for the projects, including all associated bond costs. Because of the timing requirements for termination; any excess revenues will be deposited in the city general fund. The city may choose to end the taxes at an earlier date.

14

City of Marshall; sales and use tax. Allows the city to impose a 1/2 of one percent sales tax in the city of Marshall for the indicated projects if approved by voters at a general election held in the next two years. The city is required to present separate ballot questions must be presented for the two authorized projects which are:

- new and existing facilities of the Minnesota Emergency Response and Industry Training Center and
- new facilities of the Southwest Minnesota Regional Amateur Sports Center.

Allows the city to issue up to \$17.29 million in bonds for the projects listed in subdivision 3, based on the voter approval of the sales tax imposition and the bonds are not included in any debt or levy limit on the city. The local sales tax ends at the earlier of (1) 15 years, or (2) when revenues raised are sufficient to pay for the projects, including all associated bond costs. Because of the timing requirements for termination; any excess revenues will be deposited in the city general fund. The city may choose to end the taxes at an earlier date.

15

City of Medford; sales and use tax. Allows the city to impose a 1/2 of one percent sales tax in the city of Medford to repay Minnesota Public Facility Authority Loans, if approved by the voters at the next general election. The loans were used to finance \$4.2 million of improvements to the city's water and wastewater systems. The local sales tax ends at the earlier of (1) 20 years, or (2) when revenues raised are sufficient to repay the loans, including interest. Because of the timing requirements for termination; any excess revenues will be deposited in the city general fund. The city may choose to end the taxes at an earlier date.

Article 6: Property Taxes

Overview

Expands the market value valuation exclusion for disabled veterans to a family caregiver under certain circumstances; also extends the benefit to surviving spouses from two years to five years, and allows surviving spouses of service persons killed in action to qualify for the benefit for five years.

Reduces the state general levy on commercial-industrial property for taxes payable in 2012 and 2013, and gradually reduces the state general levy for both commercial-industrial property and seasonal recreational property each year after that, until it is ultimately eliminated for taxes payable in 2025 and thereafter.

Extends the existing levy limits for large cities and for counties, which expire after the current year, for another two years (i.e., payable 2012 and 2013) and makes provision for PILT losses and TIF district decertification.

Allows, but does not require, local boards of review to hear denials of Green Acres applications by county assessors.

Provides a property tax exemption for attached machinery of an electric generation facility proposed to be built in the city of Fairmont.

Provides a reduced property tax classification (4c) for certain seasonal inns, located near a state trail.

Provides a two year suspension of certain county and city maintenance of effort (MOE) requirements.

- 1 Referendum market value. Technical change in the definition of referendum market value to accommodate cleanup of class 4c language in section 6.
- 2 Economic development; public purpose. Increases from 8 years to 10 years the maximum allowable holding period for property that is held by a political subdivision for later resale for economic development purposes to be exempt from property taxation, when the property is located in the metropolitan area, or in a city of 5,000 or more outside the metropolitan area. (For all other cities, the maximum allowable period is 15 years.) Effective payable in 2012 and thereafter.
- 3 Electric generation facility; personal property. Provides an exemption for attached machinery of an electric generation facility proposed to be built in the city of Fairmont (Martin County). The facility must be designed for between 20 and 30 megawatts of power, run on natural gas, and be operated by a municipal power agency, among other requirements. Construction would be required to commence after December 31, 2011, and before January 1, 2015.
- 4 Appeal. Provides that if an assessor denies an application for Green Acres enrollment, the applicant may appeal the decision to the local board of appeal and equalization. Applies to denials after June 30, 2011.
- 5 Valuation notice. Provides that the notice of property valuation sent out each spring must contain a specific notification when a property's classification has changed from what it was in the previous year. Also deletes a number of obsolete provisions in the valuation statement requirements.

Effective for notifications for assessment year 2012, taxes payable in 2013, and thereafter.

- 6 Class 4. Provides a reduced property tax classification (4c) for commercial properties consisting of not more than 20 residential rental units that are used for less than 250 days a year, and that are located in a city or town with a population of 2,500 or less, located outside the metropolitan area, provided that a state trail passes through the city or town. 4c classification provides for a class rate of 1.5 percent, and provides that the property pays the state seasonal recreational tax rate rather than the state commercial-industrial tax rate.
- Also makes a number of technical changes to eliminate redundancies and generally clean-up that section of statutes.
- 7 Homestead of disabled veteran or family caregiver. Expands eligibility for the market value exclusion for disabled veterans in the following ways:
- The surviving spouse of a disabled veteran is allowed to continue to receive the benefit for five full years after a disabled veteran's death (under current law the surviving spouse continues to receive the benefit for two full years).
 - The surviving spouse of a service member who dies of service-connected causes while serving honorably in active military service is allowed to receive the exclusion for the same five-year period as the surviving spouse of a disabled veteran that dies.
 - A disabled veteran's *primary family caregiver*, if one exists, is allowed to receive the market value exclusion if the veteran has no homestead of her or his own (Congress recently enacted the "*Caregivers and Veterans Omnibus Health Services Act of 2010*," establishing a program of assistance to the approved family caregiver of a service member who is being medically discharged from the military, or a veteran, having a serious injury incurred or aggravated in the line of duty since 9/11/2001, if the VA determines that it is in the best interest of the veteran to do so).
- The section also provides that the market value exclusion terminates in the year after a surviving spouse remarries.
- 8 Local boards of review. Authorizes, but does not require, local boards of review to take appeals of denials of Green Acres enrollment by assessors. Applies to denials after June 30, 2011.
- 9 State property tax levy amount. Reduces the state general levy for commercial-industrial property only by \$32.1 million per year for taxes payable in 2012 and 2013. Fixes the state general levy for both commercial-industrial and seasonal recreational property at approximately the pay 2012 level for pay 2014 and 2015. Beginning with taxes payable in 2016, the levy for both types of property is reduced by 10 percent each year, so that it is completely eliminated for taxes payable in 2025 and thereafter.
- 10 Seasonal residential recreational tax capacity. Makes technical change in state general levy statute related to technical changes in section 6.
- 11 Apportionment of state property tax. Strikes language apportioning the state general levy 95 percent to commercial-industrial property and 5 percent to seasonal recreational property, since the levies for each property type are specified separately in section 9.
- 12 Special levies. Provides that the special levy for market value credit reimbursement reductions does not apply to the elimination of the homestead market value homestead

credit provided in article 7. Also provides a special levy for reductions in payment in lieu of tax (PILT) payments for natural resource land from the certified 2011 level, provided that the reduction is at least one percent of the county's levy for taxes payable in 2011.

- 13** Levy limit base. With sections 14 and 15, extends the current levy limits for another two years - for taxes levied in 2011 and 2012, payable in 2012 and 2013.
- 14** Adjusted levy limit base. With sections 13 and 15, extends the current levy limits for another two years - for taxes levied in 2011 and 2012, payable in 2012 and 2013. Also provides an additional levy limit base adjustment for decertification of tax increment finance (TIF) districts equal to the city tax rate and the captured value of the district in the prior year.
- 15** Property tax levy limit. With sections 13 and 14, extends the current levy limits for another two years - for taxes levied in 2011 and 2012, payable in 2012 and 2013.
- 16** Maintenance of effort requirements. Provides a suspension of maintenance of effort (MOE) requirements on counties for calendar years 2012 and 2013 provided that the suspension of an MOE does not require the state to spend additional money, or cause the state or county to lose federal funds. Also exempts cities from the library MOE requirement for 2012 and 2013. Requires the commissioner of management and budget to post a list of all MOEs that will be suspended under this provision.
- 17** Repealer. Repeals the state general levy for taxes payable in 2025 and thereafter.

Article 7: Aids, Credits, Payments, and Refunds

Overview

Reduces LGA payments to cities over the next several years. Aid payments to first class cities are reduced and permanently eliminated over a four-year period. Aid payments to all other cities are reduced to the lesser of certified 2011 aid or paid 2010 aid for aids payable in 2011 and 2012. The total appropriation is frozen at the 2012 level for future years with the distribution of the aid determined by the existing formula beginning in 2013.

Provides for a reduction in county program aid in 2011 and 2012 and city and county market value credit amounts for 2011; under all programs, payments are limited to the amount received in 2010, after reductions, or the amount certified for 2011, whichever is less.

Provides for a permanent reduction in county program aid of \$36 million per year in 2013 and thereafter.

Converts the market value homestead credit from a state-paid credit to a homestead market value exclusion that provides substantially the same benefit to homestead property as the credit, effective for taxes payable in 2012 and thereafter.

Permanently reduces payments in lieu of tax (PILT) payments per acre on natural resource lands to 88 percent of the allowed per acre payments in calendar year 2011.

Expands the homeowner property tax refund program by increasing the maximum refund from \$2,410 to \$2,460, expanding the income range at which the maximum applies, and decreasing the copayment percentage for most claimants.

Reduces the percent of rent constituting property taxes for renter property tax refund claims from 19 percent to 15 percent. Provides separate schedules for senior/disabled renters and nonsenior/nondisabled renters, with the maximum income eligible decreased to \$40,000 for senior/disabled claimants and to \$25,000 for nonsenior/nondisabled claimants. Also increases copayment percentages for nonsenior/nondisabled claimants. Effective for claims based on rent paid in 2010 and following years.

Repeals the political contribution refund.

Establishes a program of cooperation and consolidation grants to local governments proposing to work cooperatively, administered by the Department of Administration.

Provides for the elimination of disparity reduction aid to counties and towns.

Repeals the Sustainable Forest Incentive Act (SFIA) program effective upon enactment.

- 1** Sustainable forest cross reference. Strikes references to the sustainable forest incentive act (SFIA), which is repealed by section 41, in the auxiliary forest law.

- 2 Sustainable forest cross reference. Strikes references to the SFIA program, which is repealed by section 41, in the auxiliary forest law.
- 3 Applicability; amount. Reduces the per acre PILT payments for public hunting land to 88 percent of current levels. Currently most of these lands receive payments based on 0.75 percent of appraised value. This is reduced to 0.66 percent. Effective beginning with aids payable in 2011.
- 4 Goose management croplands. Reduces the PILT payment on goose management croplands from 100 percent of the taxes assessed on comparable privately owned adjacent land to 88 percent of the taxes on comparable land. Effective beginning with aids payable in 2011.
- 5 Referendum market value. Clarifies that the market value exclusion under section 9 does not reduce referendum market value, the tax base for school operating referendum levies.
- 6 Refund; definition. Strikes references to the political contribution refund and to sustainable forest incentive payments, which are repealed in section 41.
- 7 Sustainable forest cross reference. Strikes references to the sustainable forest incentive act (SFIA), which is repealed by section 41, in the green acres law.
- 8 Class 2(c); forest management plans. Eliminates a cross reference to forest management plans under the SFIA program, which is repealed by section 41. Defines "forest management plan," which is a qualification for enrollment in class 2c (managed forest land). Current law requires the landowner to manage the land under a plan that meets the requirements of the SFIA program.
- 9 Homestead market value exclusion. Provides for the exclusion of a portion of each homestead's market value in determining its net tax capacity-based tax. The exclusion is equal to forty percent of market value, for homes valued up to \$76,000. For homes above \$76,000 in market value, the exclusion is \$30,400 at \$76,000 of market value, and phases down at a uniform rate to \$0 at a market value of \$413,800. The exclusion formula mimics the formula for the market value homestead credit in current law (which is repealed in section 41).
- 10 Credit reimbursements. Provides that the agricultural market value credit will continue to be a state-paid credit, while the homestead market value credit will no longer be a state-paid credit since it is repealed in section 41.
- 11 Payment. Provides that the agricultural market value credit will continue to be a state-paid credit, while the homestead market value credit will no longer be a state-paid credit since it is repealed in section 41.
- 12 Computation of net property taxes. Eliminates the market value homestead credit from the list of credits to be subtracted from a property's gross tax to determine its net tax.
- 13 Disparity reduction aid. Eliminates disparity reduction aid for counties and townships. Provides that school districts will receive the amount of their 2011 distribution in 2012 and subsequent years. Also deletes the procedure providing for recalculating disparity reduction aid amounts when there is a class rate reduction. Effective for taxes payable in 2012 and thereafter.
- 14 Content of tax statements. Provides for showing the amount of the homestead market value exclusion and eliminating the market value homestead credit on the property tax statement.
- 15 Political contribution refund; conforming changes. Eliminates a reference to the political

contribution refund, which is repealed in section 41.

- 16** Political contribution refund; conforming changes. Strikes a definition of the term "taxpayer" that is used in determination of the political contribution refund, which is repealed in section 41.

- 17** Renter property tax refund; rent constituting property taxes. Reduces the percent of rent constituting property taxes used in calculating the property tax refund for renters from 19 percent to 15 percent. Effective for refund claims filed in 2011 and thereafter based on rent paid in 2010 and thereafter.

Background. The percent of rent constituting property taxes was reduced from 19 percent to 15 percent for 2010 refunds based on rent paid in 2009 only under the June 2009 unallotment. This reduction was subsequently enacted into law in Laws 2010, 1st Special Session chapter 1.

- 18** Renter property tax refund; manufactured homes. Reduces the percent of rent constituting property taxes for rent paid on the site on which a manufactured home or park trailer taxed as a manufactured home is located from 19 percent to 15 percent. Effective for refund claims based on rent paid in 2010 and following years.

- 19** Homeowner property tax refund. Increases the maximum refund allowed under the homeowner property tax refund from \$2,410 to \$2,460, and expands the income level at which the maximum applies from \$3,090 to \$37,280. Decreases the copayment percentage for claimants with household income from \$10,880 to \$93,240. Effective for refunds based on taxes payable in 2012.

Background. The homeowner property tax refund equals a percentage of property taxes paid over a threshold of income, up to a maximum refund amount. The income measure used is household income, a broad measure that includes most forms of taxable and nontaxable income, after adjustment for household size. The refund schedule has 27 income brackets: the threshold percentage increases as income increases, the percentage of taxes over the threshold paid by the homeowner (the copayment) also increases as income increases, and the maximum refund decreases as income increases. For refunds based on taxes payable in 2012, the maximum income eligible is projected to be \$100,779.

- 20** Renter property tax refund; senior and disabled renters. Provides a new schedule for senior and disabled renters. Decreases the maximum household income eligible for a refund from \$53,539 under current law to \$40,000. Retains the current law maximum refund of \$1,520 for claimants with household incomes under \$26,010, and reduces the maximum refund allowed for claimants with household incomes from \$26,010 to \$40,000. Effective for refunds based on rent paid in 2010 and following years.

Background. The renter property tax refund equals a percentage of property taxes paid over a threshold of income, up to a maximum refund amount. Property taxes paid are deemed to equal a percentage of rent paid. The income measure used is household income, a broad measure that includes most forms of taxable and nontaxable income, after adjustment for household size. Under current law there is one schedule for both senior/disabled and nonsenior/nondisabled renters. The refund schedule has 29 income brackets: the threshold percentage increases as income increases, the percentage of taxes over the threshold paid by the homeowner (the copayment) also increases as income increases, and the maximum refund decreases as income increases. For refunds based on rent paid in 2010, the maximum income eligible is projected to be \$53,539.

- 21 Renter property tax refund; nonsenior/nondisabled renters. Provides a new schedule for nonsenior/nondisabled renters. Decreases the maximum household income eligible from \$53,539 under current law to \$25,000. Decreases the maximum refund allowed from \$1,520 to \$1,000, and increases the copayment percentage for all claimants. Effective for refunds based on rent paid in 2010 and following years.
- Background: See background for section 20.
- 22 Property tax refund; inflation adjustment. Updates the annual inflation adjustment of the income brackets and maximum refunds for homeowners to be calculated relative to the schedule provided in section 19. Eliminates the inflation adjustment of the renter property tax refund schedule, effective for both the senior/disabled and nonsenior/nondisabled schedules.
- 23 Alternative process for consolidation. Allows an alternative way for counties to begin the process for consolidation by filing a unanimous resolution from each county board with the secretary of state. Currently they need to have a petition signed by 25 percent of the voters in the last general election from each county in order to start the process.
- 24 First class city. Defined based on 2008 population. Includes Minneapolis, St. Paul, and Duluth.
- 25 City net tax capacity. Clarifies that the net tax capacity used in the LGA formula is after the subtraction of the homestead market value exclusion in section 9.
- 26 Aid payments in 2011 and 2012 (counties). Limits the total county program aid (CPA) paid to each county in 2011 and 2012 to the lesser of its paid CPA in 2010, after reductions, or the amount it was certified to receive in Pay 2011. Total CPA payments in 2011 and 2012 are reduced from \$197 million to \$161 million.
- 27 City formula aid. Finishes the phase out of LGA to first class cities begun in section 29. Those cities get 25 percent of their base aid in Pay 2013 and zero in Pay 2014 and thereafter.
- 28 City aid distribution. Clarifies the starting point for calculating maximum aid increases and decreases to aid payments in Pay 2013 and later. States that the limits on increases and decreases do not apply to the aid changes to first class cities.
- 29 Aid payments in 2011 and 2012. Sets the aid payments to different types of cities in each year. Defines "base aid" to be the lesser of (1) paid 2010 LGA or (2) certified 2011 LGA for each city. The aid paid to each type of city is as follows:
- In Pay 2011:
- First class cities as of 2008 would receive 75% of the base aid
 - Remaining cities would receive 100% of their base aid
- In Pay 2012:
- First class cities as of 2008 would receive 50% of the base aid
 - Remaining cities would receive 100% of base aid
- A special provision is made for calculating aid payments to the city of Houston for Pay 2011 and 2012 to accommodate its extra one-time aid payment authorized in the 2010 omnibus tax bill.

- 30** Appropriation. Phases down the LGA appropriation in Pay 2013 and 2014 and thereafter to reflect the remaining phase out of LGA to first class cities. The appropriation in Pay 2013 is \$318,774,184. The appropriation of \$283,292,875 in Pay 2014 and thereafter is equal to the amount of aid going to cities other than first class cities for aids payable in 2012.
- Sets the county program aid appropriation for pay 2013 and later years at the \$161 million level paid in 2012 (meaning that beginning in 2013 the aid will be distributed through the formula rather than simply the lesser of the 2010 amount or the certified 2011 amount).
- 31** Terms. Eliminates a cross reference to the inflation factor for PILT payments that is repealed in section 41.
- 32** Types of land, payments. Reduces the per acre rate for PILT payments beginning with aids payable in 2011 to 88 percent of the 2011 rate under current law. Eliminates any inflation in the future. Currently the inflation adjusted rates for payable 2011 are equal to:
- \$5.133/acre or 0.75 percent of assessed value for acquired land;
 - \$1.283/acre for county administered other natural resources land and land utilization project (LUP) land; and
 - \$0.642/acre on commissioner administered other natural resource land.
- The permanent rates set in the bill are 88 percent of the 2011 rates and are:
- \$4.517/acre or 0.66 percent of assessed value for acquired land;
 - \$1.129/acre for county administered other natural resources land and land utilization project (LUP) land; and
 - \$0.565/acre on commissioner administered other natural resource land.
- 33** General distribution. Adjusts the allocation of PILT payments to the county and the townships proportionately to reflect the 12 percent reduction in the total payments.
- 34** Lake Vermilion State Park and Soudan Mine State Park, annual payments. Reduces the PILT payments for land in these two parks to 88 percent of the current level-from 1.5 percent of appraised value to 1.32 percent of appraised value. Effective beginning with aids payable in 2011.
- 35** Administration of 2011 property tax refund claims; renters. Directs the commissioner of revenue to recalculate claims for 2011 renter property tax refunds to reflect the reduction in the percent of rent constituting property taxes from 19 percent to 15 percent in sections 17 and 18 and the changes to the renter schedule provided in sections 20 and 21. Requires the commissioner to notify claimants whose refunds are recalculated that the recalculation was mandated by action of the 2011 Legislature.
- Background. By January 31, 2011, landlords were required to issue form CRP to renters for use in claiming the renter property tax refund. Form CRP reports on line 1 the dollar amount of rent paid, and on line 3 the rent multiplied by the 19 percent, which equals the percent constituting property taxes. Renters are instructed to use the amount on line 3 in filling out form M-1PR, the claim form for property tax refunds. The Department of Revenue would then recalculate the M-1PR claim as if the line 3 amount had been rent multiplied by 15 percent, rather than 19 percent, and calculate the new refund amount using the parameters of the revised schedules for senior/disabled or nonsenior/nondisabled renters.

- 36 Credit reductions and limitations; counties and cities. Reduces county and city pay 2011 market values credit reimbursements to the same amount received in pay 2010, after reductions.
- 37 Property tax statement for taxes payable in 2012 only. Provides that for purposes of the 2012 tax statement only, in depicting property taxes payable in 2011, the market value homestead credit will not be explicitly shown. Instead, the credit will be subtracted from the amount shown as the gross tax.
- 38 PILT report. Requires the commissioner of natural resources to report to the legislature with recommended changes to the PILT program after consulting with the commissioners of revenue and MMB and stakeholders. The report must include an analysis of the current PILT payment system and any recommended changes to the purpose and criteria for payments, the rate of payments for classes of natural resource lands, the distribution formula and recognition of the tax capacity foregone due to the loss of future development potential for the land.
- 39 Cooperation, and consolidation grants. Allows the commissioner for administration to make grants of up to \$100,000 each to local governments to plan and implement service cooperation or consolidation with at least one other local government. Grants are on a first-come first served basis. The commissioner must make reports to the legislature on the use of these grants, and impediments to cooperation and consolidation. The appropriation is \$1.0 million in FY 2012 and \$2.5 million in FY 2013.
- 40 Sustainable forests. Provides a number of transition and other provisions related to section 41's repeal of the SFIA program:
- A rationale stating some of the legislature's reasons for repealing the program, confirming that the 2009 legislative changes had the unintended effect of increasing payments by about 80 percent, and finding that many owners of lands in SFIA would engage in the forest management practices required of SFIA without the program.
 - Providing transition payments for CY2011 to participants who did not benefit from the 2010 increase in 2010 SFIA payments. The payment equals \$3.75 per acre, but may not to exceed the proportionate share (based on the number of months until the repeal releases the properties from their restrictive SFIA covenants) of the \$100,000 cap that applied in 2010.
 - Allowing current SFIA enrollees until September 1, 2011 to apply for and enroll in class 2c for managed forest land (class rate of 0.65%) for taxes payable in 2012. To enroll, application would normally be required by May 1, 2011 to qualify for taxes payable in 2012.
- 41 Repealer. Paragraphs (a) and (b) repeal the political contribution refund program, the section of the data practices law relating to political contribution refunds, and the section providing for refund receipts. Effective for contributions made after June 30, 2011.
- Paragraph (c) repeals the wetland reimbursement and the inflation factor used to adjust PILT payments.
- Paragraph (d) repeals the homestead market value credit, and the permanent market value credit reduction for towns, both effective for taxes payable in 2012.
- Paragraph (e) repeals the SFIA program and its associated data practices section effective July 1, 2011. Requires the commissioner of revenue to issue a document to each enrollee

releasing the land from the covenant.

Article 8: Minerals

Overview

This article makes a number of changes related to the taxation of nonferrous mining, clarifying that the net proceeds tax is in lieu of the property tax and that the occupation tax is in lieu of the corporate franchise tax. The base of the net proceeds tax is clarified and extended to refining. In addition, the deductions under the net proceeds tax are made identical to the occupation tax.

The article freezes the taconite production tax rate at the 2010 level of \$2.38 cents/ton for 2011 and 2012 production, eliminates the production tax distribution to the Range Association of Municipalities and Schools (RAMS), and eliminates the state taconite aid payment of 22 cents per ton.

- 1** Property tax exemption. Exempts the following property used in nonferrous mining from property taxation:

- Ore deposits and the lands in which they are contained;
- Real and personal property used in the mining, production, and refining; and
- Concentrates and direct reduced ores.

These mining businesses are subject to a net proceeds tax under section 298.015 in lieu of the property tax.

Effective date: Taxes payable in 2012

- 2** Exempt entities; corporate franchise tax. Provides businesses that conduct mining, producing or refining of nonferrous ores, metals, and minerals are exempt from the corporate franchise tax. These businesses will be subject to the occupation tax imposed under section 298.01, subdivision 3. This is consistent with the treatment of taconite and iron mining companies, which also pay an occupation tax in lieu of the corporate franchise tax.

Effective date: Tax year 2011

- 3** Refining. Establishes a definition of "refining" for purposes of the minerals taxes chapter.

Effective date: Tax year 2011

- 4** Occupation tax, nonferrous mining. Expands the tax to include references to refining, metals, minerals, and hydrometallurgical processes used in nonferrous mining.

Effective date: Tax year 2011

- 5** Gross income; nonferrous occupation tax. Modifies the definition of gross income that is used in the nonferrous occupation tax to include refining, metals, and minerals and to remove the reference to energy resources.

Effective date: Tax year 2011

- 6** Net proceeds tax, imposition. Adds references to ores, metals, and minerals to the net proceeds tax to make the base of the tax consistent with the changes in the occupation tax in

section 4.

- 7 Net proceeds; nonferrous. Provides that the same deductions apply to the net proceeds tax as are provided under the occupation tax. This increases the allowable deductions to include depletion and interest expenses.
- 8 Metal or mineral products; definition. Defines metals or mineral products to mean all of those that are subject to the nonferrous net proceeds tax.
- 9 Guaranteed distributions. Deletes the distributions to RAMS from the list of guaranteed distributions. Section 12 eliminates this distribution.
- 10 Taconite production tax rate. Freezes the taconite production tax rate at the 2010 level (\$2.38/ ton) for 2011 and 2012 and clarifies that the tax also applies to other iron-bearing material.
- 11 City and town distribution. Reduces the production tax distribution to cities and towns from 12.5 cents to 12.2 cents per ton to account for the repeal of the distribution to RAMS in section 12. The 0.3 cent per ton distribution to RAMS is taken out of the city and town distribution, so this leaves the distribution to cities and towns unaffected.
- 12 Repealer. Repeals the following provisions:
 - The distribution of production tax revenue to the RAMS and to the city of Eveleth (section 298.28, subd. 8 and 9c) for the Hockey Hall of Fame - effective for 2011 production (distributions in 2012)
 - State taconite aid (section 298.285) - effective fiscal year 2012
 - Deductions for the computation of the nonferrous net proceeds tax, which is replaced by section 7's tying those deductions to the occupation tax (298.017, subd. 2).

Article 9: Miscellaneous

Overview

Requires the *Tax Incidence Study* prepared by the Department of Revenue to include information on federal tax burden.

Transfers amounts in the Budget Reserve Account, Cash Flow Account, and Douglas J. Johnson fund to the general fund.

- 1 Tax incidence study. Directs the commissioner of revenue to include information on the distribution of federal taxes paid by Minnesota residents in the *Tax Incidence Study*, which is presented to the legislature in March of odd-numbered years. Effective beginning with the study due in March of 2013.
- 2 Budget reserve account reduction. Directs the commissioner of management and budget to transfer \$8.665 million from the statutory budget reserve account to the general fund on July 1, 2011.
- 3 Cash flow account reduction. Directs the commissioner of management and budget to transfer \$166 million from the statutory cash flow account to the general fund on July 1, 2011.

- 4 Transfer; Douglas J. Johnson Fund. Directs the commissioner of iron range resources to make a one-time transfer of \$60 million from the Douglas J. Johnson Economic Protection Trust Fund to the general fund before June 30, 2012.