

House Research Act Summary

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Analyst: Pat Dalton, 651-296-7434

Joel Michael, joel.michael@house.mn Nina Manzi, 651-296-5204 Steve Hinze,
steve.hinze@house.mn

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Article 1: Department Policy and Technical - Income and Corporate Franchise Taxes

Overview

Makes changes recommended by the Department of Revenue in the individual income and corporate franchise taxes:

- Clarifies that various estimated tax provisions apply to C corporations and entities subject to the unrelated business income tax.
- Provides a definition of "field audit" and reorganizes requirements that taxpayers notify the commissioner of federal tax changes and related re-computation of tax and refunds.
- Strikes references to expired federal provisions.
- Clarifies that unity of ownership does not exist unless two or more corporations have a common owner of more than 50 percent.

The provisions are effective the day following final enactment or for tax year 2012.

- 1 Field audit definition. Recodifies the existing definition of field audit in the definitions section of chapter 289. Under present law, this definition is included in a subdivision of statute that requires taxpayers to report changes to their federal return; section 8 deletes the embedded field audit definition and makes other changes.
- 2 Estimated tax payments; short taxable year. Along with sections 3, 4, and 5, clarifies that estimated tax provisions apply to both C corporations that pay corporate franchise tax and to exempt entities that pay unrelated business income tax. Under present law, estimated tax payment requirements for businesses with short taxable years reference "entity" but not "corporation."
- 3 Underpayment of estimated tax. Clarifies that interest on underpayments of estimated tax is added to the tax due from both C corporations that pay corporate franchise tax and from exempt entities that pay unrelated business income tax. Under present law, the interest on underpayments provision references "corporation" but not "entity."
- 4 Required installments; estimated tax. Clarifies that the statute outlining the calculation of required installments of estimated tax applies to both C corporations that pay corporate franchise tax and to exempt entities that pay unrelated business income tax. Present law references "entity" but not "corporation" in some sentences, and "corporation" but not "entity" in others.
- 5 Failure to file estimated tax. Clarifies that the statute defining the time from which an underpayment of estimated tax runs applies to both C corporations that pay corporate franchise tax and to exempt entities that pay unrelated business income tax. Present law references "entity," but not "corporation."
- 6 Federal tax changes. Strikes the requirement that taxpayers subject to federal tax changes report the changes to the commissioner of revenue within 180 days; the time for reporting requirement is moved to section 7.
- 7 Time requirement to report federal changes. Recodifies the existing requirement that taxpayers report federal changes within 180 days of the final determination of the federal changes. Strikes language authorizing the commissioner to re-compute tax for federal changes; the tax re-computation authority is re-stated in section 8.
- 8 Limits on time for assessment of tax. Re-codifies the commissioner's existing authority to re-compute tax for federal tax changes, including refunds, either based on the report made by the taxpayer, or, if the taxpayer fails to report the federal changes, based on information available to the commissioner. Strikes the definition of "field audit," which is re-codified in section 1.
- 9 Federal extensions. Strikes a cross-reference to the definition of field audit that is stricken in section 8. The definition of "field audit" is moved to section 1, which by its scope will apply to the entire

chapter (289A), making a cross-reference unnecessary.

- 10 Penalty for failure to notify commissioner of federal changes. Updates the statute providing a penalty for the failure to report a federal change to the commissioner to reference the reporting requirement in section 6, and the 180 day time for reporting recodified in section 7.
- 11 Foreign operating corporation; definition. Strikes a reference to the expired federal Puerto Rico and possessions tax credit in the definition of foreign operating corporation.
- 12 Subtractions from taxable income; cross-reference. Updates cross-references to conform to the change in section 13.
- 13 Additions to taxable income; corporations. Strikes an obsolete addition for income excluded under section 114 of the Internal Revenue Code, which has been repealed, and also updates internal cross references.
- 14 Subtractions from taxable income; corporations. Strikes an obsolete subtraction for certain foreign sales corporations, which was limited to taxable years ending before January 1, 1995 and updates internal cross references.
- 15 Alternative minimum taxable income. Strikes a reference to the expired federal Puerto Rico and possessions tax credit.
- 16 Unity of ownership. Clarifies that unity of ownership does not exist when two or more corporations are involved unless there is, directly or indirectly, a common owner of more than 50 percent of the business.

Article 2: Department Policy and Technical - Property Taxes

Overview

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

- Providing that tax return information supplied to assessors to support applications for property tax benefits remains private data
- Allowing assessors to do appraisals related to land exchanges
- Clarifying the format of notices related to delinquent property taxes
- Providing that certain transfers of land enrolled in the rural preserves program do not trigger payment of back-taxes

- 1 Homestead and other applications. Updates cross-references related to the disclosure of information related to eligibility for certain property tax benefits, due to the recodification in section 7.
- 2 Taxes credited to state airports fund. Clarifies that the commissioner of revenue collects the air flight property tax. Current law only requires the tax to be credited to the state airports fund but does not specifically require the commissioner to collect the tax.
- 3 Prohibited activity (assessor's duties). Modifies the list of non-tax property appraisals that an assessor may perform within their jurisdiction, so that county assessors are allowed to do appraisals related to land exchanges.
- 4 Authority; air flight property tax penalties. Adds a citation to allow the commissioner to abate air flight property tax late payment penalties, clarifying that the commissioner has the power to abate both late payment and late filing penalties upon finding reasonable cause.
- 5 Exempt property used by private entity. Clarifies that taxes on the use of federal real property are assessed as a personal property tax against the user.

- 6 Additional taxes (ownership changes for property in rural preserves). Allows certain new owners of property enrolled in the rural preserves program to qualify without an intervening period of disqualification. This avoids deferred taxes becoming payable when both the prior owner and the new owner qualify. Provides that the new owner will qualify in the following situations: 1) a transfer of the property to a surviving owner due to death; 2) a transfer of the property to a spouse by reason of marriage or divorce; or 3) a transfer of the property to a trust or authorized farming partnership, corporation, or company when the same people retain the same beneficial interests.
- 7 Homestead applications and homestead penalties. Provides that tax return information supplied to the assessor to support an application for a property tax classification benefit remains private data, as is the case now for tax information such as social security numbers supplied on a homestead application. Also removes obsolete language related to mailing homestead applications. Recodifies section by dividing into separate subdivisions.
- 8 Class 4bb residential classification. Eliminates separate property tax classifications in class 4bb for non-agricultural property (currently class 4bb(1)) and agricultural property (currently class 4bb(2)). Effective for taxes payable in 2013 and thereafter.
- 9 Class 1b homestead declaration. Updates cross reference due to recodification in section 7.
- 10 Class 1b homestead declaration. Updates cross reference due to recodification in section 7.
- 11 Tax exempt property; lease. Clarifies that the tax on leased exempt property applies in the case of property owned by a local unit of government.
- 12 Administrative appeals; railroad and utility valuations. Allows railroads until the earlier of June 15 or ten days after the date of the valuation, and utilities until the earlier of July 1 or ten days after the valuation; to file an administrative appeal of their property tax valuations. Current law allows both railroads and utilities to file appeals until May 15 or ten days after the date of the valuation, whichever is earlier. Effective beginning with assessment year 2013.
- 13 Definition of rural area; electrical cooperatives per capita tax. Amends the definition of rural area, to refer to "statutory cities" and "home rule charter cities." This technical change is necessary because the current statute refers only to "incorporated city," a designation that no longer exists. All cities are now either statutory cities or home rule charter cities.
- 14 Notice of delinquent property tax. Eliminates obsolete text from the notice regarding the various times within which the owners of different types of property may avoid a forfeiture of the property by paying the taxes, costs, and interest. Instructs the commissioner of revenue to provide a narrative description of the various redemption periods that the respective county auditors will include in the notice. Effective for notices required beginning in 2013.
- 15 Verification of social security numbers (homestead applications). Updates cross reference due to recodification in section 7.
- 16 Approval; recording (senior deferral program). Allows the commissioner to prescribe the form of the lien notices recorded under this program, eliminating the need for the lien notices to be notarized or contain a notation that the document was drafted by the commissioner of revenue.
- 17 Public corporation; listed powers (duties of assessors). Provides that county assessors need not be licensed as real estate appraisers in order to do land exchange appraisals as provided in section 3.
- 18 Repealer. Paragraph (a) repeals an obsolete provision related to filing a list of leased tangible personal property with the commissioner of revenue. Paragraph (b) repeals a one-year value exclusion for residential property treated for lead paint removal, which becomes obsolete beginning with taxes payable in 2013.

Article 3: Department Policy and Technical - Sales and Use Taxes; Special Taxes

Overview

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

1 Program described, commissioner's duties; appropriation (auto theft prevention surcharge.) Changes a cross reference in the auto theft prevention surcharge program to reflect the codification of the current agreement that authorizes the DOR to administer the surcharge under Minnesota Statutes, chapter 297I.

Effective date: Premiums collected after June 30, 2012.

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

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

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

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

Effective date: Day following final enactment.

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

Effective date: Purchases made after December 31, 2012.

5 Beer excise tax; small brewer credit. Ties allowance of the credit for small brewers to the fiscal year (rather than calendar year) and defines the terms "owned or controlled" as a common owner owning more than 50 percent of the voting stock of the entity.

Effective date: Claims filed after December 31, 2012.

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

Effective date: Premiums received after December 31, 2012.

7 Retaliatory provisions. Includes life insurance companies in the list of entities that are covered by the retaliatory tax provisions and removes an obsolete cross-reference.

Effective date: Day following final enactment.

8 Tax on purchasing groups. Exempts purchasing groups that purchase insurance directly from a nonadmitted insurer from the two percent tax on other entities. Section 6 imposes tax on these groups under the 3 percent tax that applies to entities that purchase insurance from nonadmitted insurers.

Effective date: Premiums received after December 31, 2012.

- 9 Auto theft prevention surcharge. Recodifies the auto theft prevention surcharge in chapter 297I (from chapter 168A) to provide direct authority for DOR to collect the surcharge. Under an interagency agreement, DOR has been collecting the surcharge. This proposed change codifies the agreement and authorizes DOR to administer the surcharge in the manner it administers other taxes imposed under chapter 297I (the chapter governing insurance taxes).
Effective date: Premiums collected after June 30, 2012.
- 10 Purchasing groups due date. Eliminates the requirement that purchasing groups file biannual returns. Section 11 provides for filing of annual returns.
Effective date: Premiums received after December 31, 2012.
- 11 Purchasing groups due date. Changes purchasing groups' due date for filing returns from twice a year to once a year. This is consistent with the annual return due for other entities that buy directly from unauthorized insurers rather than from licensed insurance companies or surplus lines brokers.
Effective date: Premiums received after December 31, 2012.
- 12 Auto theft prevention surcharge; return filing. Specifies quarterly filing dates for the auto theft prevention surcharge returns.
Effective date: Premiums collected after June 30, 2012.
- 13 Repealer - Auto theft prevention surcharge. Repeals the auto prevention surcharge provisions in chapter 168A, which are recodified in chapter 297I by the article.
Effective date: Premiums collected after June 30, 2012.

Article 4: Department Policy and Technical - Minerals

Overview

This article makes minor clarifying changes, recommended by the Department of Revenue, to nonferrous minerals tax provisions enacted by the 2011 Legislature.

- 1 Net proceeds tax, property tax exemption. Deletes the exemption from property tax for "direct reduced ore" under the net proceeds tax. Direct reduced ore is an iron ore product, which will not be the net proceeds tax that only applies to nonferrous ores, metals or minerals.
- 2 Nonferrous occupation tax, mining. Defines the term "hydrometallurgical processes" that is used in nonferrous minerals tax.
- 3 Net proceeds tax. Modifies the terminology used in the distribution language for the net proceeds tax to be consistent with the language imposing the tax.

Article 5: Department Policy and Technical - Miscellaneous

Overview

Makes the following changes recommended by the Department of Revenue (DOR):

- Provides that the state is not liable to holders of warrants voided when the commissioner issues a replacement warrant.
- Provides that DOR email notices are sufficient if the taxpayer agreed to accept notices electronically
- Replaces statements of the time for running of interest on penalties in individual tax chapters with a cross reference to the rule in chapter 270C. That typically will result in interest being computed from the date the penalty was assessable, rather than the due date for payment of the tax.
- Requires wage levy disclosure statements and wage levies to be filed and paid electronically.

- 1 Void warrants. Clarifies that the state is not liable to a holder of a void warrant. Effective the day following final enactment.
- 2 Notice by electronic means. Provides that DOR notices of determinations and actions sent electronically are sufficient notice if the recipient agreed to accept notice electronically. Effective the day following final enactment.
- 3 Penalty for failure to pay electronically; interest. Replaces language requiring interest on the penalty for failure to pay by electronic means from the due date of the payment of tax with a reference to 270C.40, subdivision 3, which provides that interest on penalties runs from the time the penalty was assessable. Effective the day following final enactment.
- 4 Electronic wage levy system. Requires electronic filing of wage levy disclosure statements and wage levy payments. Effective for wage levy disclosure statements and wage levy payments filed or made after December 31, 2012.
- 5 Interest on penalties; mortgage registry and deed tax. Replaces language requiring interest on penalties under the mortgage registry and deed tax chapter (chapter 287) to run from the due date of the payment of tax, including any extensions, with a reference to 270C.40, subdivision 3, which provides that interest on penalties runs from the time the penalty was assessable. Effective the day following final enactment.
- 6 Interest on penalties; civil penalties under chapter 289A. Replaces language requiring interest on civil penalties under chapter 289A to run from the due date of the payment of tax, including any extensions, with a reference to 270C.40, subdivision 3, which provides that interest on penalties runs from the time the penalty was assessable. Chapter 289A provides for administration of the individual income, withholding, corporate franchise, estate, sales and minerals taxes administered by the state, and the property tax refund. Effective the day following final enactment.
- 7 Interest on penalties; understatement of liability under chapter 289A. Replaces language requiring interest on the penalty for substantial understatement of liability for taxes administered under chapter 289A, except for the sales tax, to run from the date the tax was underpaid with a reference to 270C.40, subdivision 3, which provides that interest on penalties runs from the time the penalty was assessable. Effective the day following final enactment.
- 8 Interest on penalties; petroleum taxes. Provides that the penalty for operating without a license under the petroleum tax chapter bears interest as provided in 270C.40, subdivision 3, Effective the day following final enactment.
- 9 Interest on civil penalties; chapter 297E (gambling taxes). Replaces language requiring interest on civil penalties under the gambling tax chapter (297E) from the date the payment was required,

including any extensions, with a reference to 270C.40, subdivision 3, which provides that interest on penalties runs from the time the penalty was assessable. Effective the day following final enactment.

- 10** Interest on penalty for unpaid cigarette and tobacco taxes. Replaces language requiring interest on the penalty for unpaid cigarette and tobacco taxes to run from the due date for the payment of tax with a reference to 270C.40, subdivision 3, which provides that interest on penalties runs from the time the penalty was assessable. Effective the day following final enactment.
- 11** Interest on civil penalties under cigarette and tobacco taxes. Replaces language requiring interest on civil penalties under the cigarette and tobacco tax chapter (297F) to run from the due date of the payment, including any extensions, with a reference to 270C.40, subdivision 3, which provides that interest on penalties runs from the time the penalty was assessable. Effective the day following final enactment.
- 12** Interest on penalty for unpaid liquor taxes. Replaces language requiring interest on the penalty for unpaid liquor taxes to run from the date the payment was required with a reference to 270C.40, subdivision 3, which provides that interest on penalties runs from the time the penalty was assessable. Effective the day following final enactment.
- 13** Interest on civil penalties under chapter 297G (liquor taxes). Replaces language requiring interest on civil penalties under the liquor tax chapter (297G) from the date the payment was required, including any extensions, with a reference to 270C.40, subdivision 3, which provides that interest on penalties runs from the time the penalty was assessable. Effective the day following final enactment.
- 14** Interest on penalty; insurance premiums taxes. Replaces language requiring interest on penalties under the insurance premiums tax chapter (chapter 297I) to run from the date the return or payment was required to be filed or paid with a reference to 270C.40, subdivision 3, which provides that interest on penalties runs from the time the penalty was assessable. Effective the day following final enactment.

Article 6: Public Finance

Overview

This article contains portions of the annual bill sponsored by the Public Finance Institute, a trade association of businesses and professionals providing services in connection with state and local government bonding. It also makes changes to the bond allocation law that expand the ability to carryover allocations from prior years and authorizes Itasca County and the cities of St. Paul and Woodbury to issue bonds without a referendum.

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

- Public works facilities
- Fairgrounds buildings
- Records and data storage facilities

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

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

- Ties the 5-percent petition requirement to the number of voters in the last county general

election. Current law ties this to the most recent general election, regardless of whether county officials were on the ballot.

- Eliminates the requirement that the commissioner of revenue prepare the ballot question.
- Prohibits the county from proposing to issue CIP bonds for a one-year period, if a reverse referendum petition is filed and the county chooses not to issue the bonds, rather than holding an election to approve them. If the issue is submitted and the voters do not approve, the issue can be resubmitted to the voters after 180 days.

- 3 CIP bonds amount limitation; Build America Bonds. Excludes from the statutory dollar limit on CIP bonds the interest paid by the federal government (e.g., under the Build America Bonds or BAB program), so that the limit applies only to the portion of the interest paid by the county. This puts BABs on an equal footing with tax exempt bonds, for which the interest payments are lower as a result of a tax expenditure, rather than because of direct payment by the federal government.
- 4 Qualified bonds for exempt facilities. Eliminates references to specific types of projects that qualify for bond allocations as "public facility bond projects" and updates a reference to the Internal Revenue Code. As a result, any project that qualifies under the federal law (except residential rental bonds, which have a specific allocation) could qualify for an allocation of this type of tax exempt bonding.
- 5 Bond allocation; entitlement issuers. Eliminates the provision that deducts unused carryovers of entitlement issuers' bond allocations from the next year's allocation to that issuer. This change is retroactive to the 2011 entitlement allocation.
- 6 Bond allocation; OHE bonds. Eliminates the one-year limit on Office of Higher Education's carryover of its bond allocation for student loan bonds.
- 7 Bond allocation; MHFA bonds. Eliminates the one-year limit on Minnesota Housing Financing Agency's carryover of its bond allocation for housing bonds.
- 8 City CIP bonds; election requirement. Makes changes to the city CIP reverse referendum provisions that parallel those made to the county CIP program by section 2.
- 9 City CIP bonds amount limitation; Build America Bonds. Excludes from the statutory dollar limit on CIP bonds the interest paid by the federal government (e.g., under the BAB program), so that the limit applies only to the portion of the interest paid by the city. This parallels the changes made in section 3 to the county CIP law.
- 10 Street reconstruction bonds. Makes changes in the reverse referendum provisions governing street reconstruction bonds for questions that are subject to referendum, but that are not submitted to the voters or that are defeated to parallel the similar provisions for county and city CIP bonds in sections 2 and 8.
- 11 St. Paul; capital bonding. Extends the special law authorizing the city of St. Paul's capital improvement bonding program from 2013 to 2024. These bonds are general obligation bonds and may be issued upon a vote of five of the seven members of the city council without voter approval - this is an exception to the city's home rule charter, which otherwise would require simple majority approval by the council and voter approval.
- 12 Itasca county bonds. Modifies a 2003 special law that authorized Itasca county to issue revenue bonds to finance a 35-bed nursing home facility to replace an existing facility. The 2003 bonds were not used to increase the number of beds.

This section allows the county to issue general obligation bonds for the nursing home. Under Minnesota Statutes, section 376.56, an election on issuing general obligation bonds is not required "for acquiring, improving, remodeling, or replacing an existing nursing home without increasing the total number of accommodations for residents in all nursing homes in the county." This will allow the county to refund the bonds to obtain a better interest rate.

Issuance of the bonds is subject to a reverse referendum that follows the rules that apply to county

capital improvement program (CIP) bonds.

- 13 Bond allocation; carryforward of 2008 - 2010 allocations.** Provides that carryforwards of bond allocations of entitlement issuers from 2008, 2009, and 2010 are not to be deducted from the entitlement issuers' allocations in 2012.
- 14 City of Woodbury bonds.** Authorizes Woodbury to issue general obligation bonds to rehabilitate and expand the Bielenberg Sports Center without submitting the issue to the voters. To qualify for the exemption, the bonds must be secured by revenues from the facility and the city must estimate the bonds can be paid with a property tax levy that is no bigger than the levy used to pay the original bonds used to finance the Center.
- Issuance of the bonds is subject to a reverse referendum that follows the rules that apply to county CIP bonds.

Article 7: Property Taxes

Overview

- Freezes the state general levy at the 2012 level for taxes payable in 2013.
- Provides targeted tax relief for homeowners equal to 75 percent of any tax increase over 12 percent, beginning with taxes payable in 2013.
- Requires cities and counties over 5,000 population to present budgetary information organized by function and by expenditure type.
- Requires most special taxing district levies to be shown separately on TnT notices and property tax statements
- Modifies the penalties for late filing of annual reports with the state auditor by cities and counties.

- 1** Benefits of participation; expenditure-type reporting. Modifies the requirements for the monetary benefit found in the performance standard measures program by requiring that in 2012 only, a county or city with a population over 5,000 must also participate in the expenditure type reporting program under section 10 to be eligible.
- 2** Property tax working group. Eliminates a cross-reference to the subdivision that is repealed in section 16.
- 3** Tax credit for property in bovine tuberculosis management zone. Allows the expired bovine TB credit to be continued within the bovine TB management zone (which is a sub- area of the modified accredited zone where the original credit applied). Provides that the credit will expire when the Board of Animal Health discontinues all required bovine TB activities in the zone. For taxes payable in 2012, the credit will be in the form of a check issued by the county.
- 4** State general levy. Freezes the state general levy at the pay 2012 levels for taxes payable in 2013, with indexing reinstated for payable 2014 and thereafter.
- 5** Proposed levy budget hearing; expenditure-type reporting. Requires counties and cities with populations of more than 5,000 to notify the county auditor of the website where the public is able to access budget information, and requires the published notice for the budget hearing to include a statement that budget information is available on the website.
- 6** Truth-in-taxation notice; expenditure-type reporting. Requires the TnT notice for each county and each city with a population over 5,000 to clearly state that budgetary information is available on the county's or city's website.

- 7 Truth-in-taxation notice; special district levy itemization. Requires the levy of each special taxing district that constitutes at least 25 percent of the total amount of special taxing district levies to be shown separately on the TnT notice. Effective for notices for taxes payable in 2014 and thereafter.
- 8 Contents of tax statement. Requires the levy of each special taxing district that constitutes at least 25 percent of the total amount of special taxing district levies to be shown separately on the property tax statement. Effective for taxes payable in 2014 and thereafter.
- 9 Targeting property tax refund. Modifies the formula for the targeting property tax refund. Currently, the refund formula is 60 percent of the increase over the greater of (1) 12 percent of the previous year's tax or (2) \$100. This section increases the factor from 60 percent to 75 percent beginning with refunds based on taxes payable in 2013.
- 10 **Expenditure-type reporting.**
- Subd. 1. Purpose.** Provides a purpose statement.
- Subd. 2. Definitions.** Defines "municipality" and "population."
- Subd. 3. Electronic budgetary information.** Requires that counties and cities with populations over 5,000 publish on their websites three years of previous and one year of current budgetary information on both revenues and expenditures organized by function and by expenditure type. The information must be published by July 31 each year.
- Subd. 4. Alternative publication of budgetary information.** Provides alternative publication provisions for jurisdictions without a website.
- Subd. 5. Incentives.** Provides an incentive for participation in 2012; a city or county that complies with this section and the reporting required under the standard measures program will be entitled to the monetary benefit / incentive of \$0.14 per capita not to exceed \$25,000.
- Subd. 6. Penalties.** Clarifies that failing to comply with this section in 2013 and thereafter will result in withholding of state-aid road funding, local police and firefighters relief association amortization state aid, local government aid, and/or county program aid.
- 11 **Conformity.** Modifies the aid penalties if a county or city files its annual reports with the state auditor late. The penalty will be 10 percent of county program aid or city LGA if the forms are not filed within 45 days of the deadline, 30 percent if not filed within 60 days of the deadline, or 50 percent if not filed within 90 days of the deadline. Effective beginning with calendar year 2012 financial reports.
- 12 **Tax; payment of expenses (Cook-Orr Hospital district).** Modifies the use of the portion of the Cook-Orr Hospital district property tax currently dedicated to ambulance acquisition. Allows this portion of the tax to also be used to fund attached and portable equipment used in the ambulances and to fund ambulance parts and replacement parts.
- 13 Cemetery levy; town of Sawyer. Permits Carlton County to levy annually in and for the unorganized township of Sawyer for cemetery purposes. In 1999, the legislature authorized the county to levy up to \$1000 per year until 2009 for this purpose. This bill removes the cap and eliminates the sunset. Effective upon local approval by Carlton County.
- 14 **Effective date change (Marshall County flooded farm homesteads).** Allows farmers in Marshall county who were forced to move away from their farms due to flooding in 2009 to continue to receive agricultural homestead classification on the farmland indefinitely, provided they continue to reside in Minnesota within 50 miles of the land. This provision was originally adopted in a 2010 law, but on a temporary (two-year) basis, which is due to expire for taxes payable in 2013.

- 15** **Holding of property for economic development.** Temporarily increases the allowable holding period for property held by a political subdivision for later resale for economic development purposes from 9 years to 10 years, for property located in the metropolitan area, or in a city of 5,000 or more outside the metropolitan area. (For outstate cities under 5,000 population, the maximum allowable period is 15 years.) During the holding period, the property is exempt from taxation. The temporary increase in the allowable holding period expires December 31, 2015.
- 16** Repealer. Repeals statute requiring the Tax Committee in each legislative body to prepare a resolution on property tax targets and benchmarks.

Article 8: Individual Income and Corporate Franchise Taxes

Overview

Modifies the angel investment credit by:

- increasing the annual limit on tax credits from \$12 million to \$16.5 million in tax year 2012
- increasing the credit rate for investments in greater Minnesota businesses from 25 percent to 40 percent if less than 30 percent of credits in the previous year were awarded in greater Minnesota
- increasing the number of years in which a qualifying business may have been in operation from 10 to 20 for businesses engaged in developing drugs that require FDA approval
- prohibiting investments from qualifying for the credit if the business made a public stock offering before receiving the investment
- prohibiting businesses receiving creditable investment from making a public stock offering or selling the business within six months after the investment was made
- allowing contact information on the businesses receiving the credit to be disclosed to the public

Conforms to federal law changes that allow airline employees to retroactively roll over bankruptcy payments into traditional individual retirement accounts (IRAs). Extends the time for affected individuals to file amended returns and make claims for refunds for the years in which the payments were received and IRA rollovers made to April 15, 2013.

Increases the second tier rate of the research and development credit from 2.5 percent to 2.8 percent, beginning in tax year 2012.

Makes several changes to the historic structure credit:

- Extends the sunset by six years, through fiscal year 2021
- Allows credit applicants to appeal eligibility decisions through the contested case procedure in chapter 14
- Modifies the effective date for the credit so that the credit is allowed for historic structure rehabilitation for which costs were first paid after May 1, 2010, for rehabilitation that occurred after May 1, 2010, rather than for structures for which rehabilitation costs were first paid under contracts entered into after May 1, 2010
- Clarifies procedures for assigning credits and grants
- Modifies definitions to more closely match those used for the federal credit

Provides a refundable jobs credit for employers who hire unemployed veterans before July 1, 2013.

- 1** **Angel credit; definitions.** Provides a new definition of "liquidation event" as a conversion of a qualified investment to cash, cash and other considerations, or any other form of debt or equity interest.
- 2** **Angel credit; qualifying small business.** Makes several changes in the requirements that a small business must satisfy for the business and investments in it to qualify under the angel investment credit:

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

3 Angel credit; annual limit. Increase the annual cap on angel credit allocations from \$12 million to \$16.5 million in tax year 2012. Retains the current law allocation of \$12 million for tax years 2013 and 2014, and the present law sunset of the credit after 2014.

4 Promotion of angel credit in greater Minnesota. Requires the commissioner of DEED to develop a plan to promote usage of the angel credit in greater Minnesota, with the goal of awarding 30 percent of credits to investments in greater Minnesota businesses during the second half of calendar year 2013 and following years. If the 30 percent target is not achieved in the second half of 2013 or in any following year, then the credit rate is increased from 25 percent to 40 percent for the next calendar year for investments in greater Minnesota businesses.

Defines "greater Minnesota business" as a business that has its headquarters and at least 51 percent of its employees and payroll outside the seven-county metro area, but includes the entire area of cities that are partly in the seven-county metro area, and partly in other counties (Hanover, New Prague, Northfield, and Rockford).

5 Angel credit, permitted disclosure. Modifies the exemption from the Data Practices Act for disclosure of information on the businesses that are certified by DEED as qualified small businesses for purposes of the angel credit. Under present law, only the name of the qualified business may be disclosed. This section would allow the mailing address, telephone number, e-mail address, contact person's name, and industry type to also be disclosed.

6 Update of administrative tax provisions. Adopts federal tax administrative provisions made between April 14, 2011, and February 14, 2012, that Minnesota references for state tax administration purposes under chapter 289A. The recently enacted federal law did not affect tax administration.

7 Update to federal definition of taxable income. Adopts the federal change to taxable income effective when the federal change became effective.

The Federal Aviation Administration Modernization and Reform Act of 2012, Public Law 112-95, enacted February 14, 2012, allows employees who received payments in airline bankruptcy cases filed after September 11, 2001, and before January 1, 2007, to roll over all or part of the payments to traditional individual retirement accounts (IRAs). A previous federal law allowed employees to roll over bankruptcy payments to Roth IRAs; this law allows amounts previously rolled over into Roth IRAs to be further rolled over into traditional IRAs. Taxpayers have 180 days, until August 12, 2012, to elect to make a rollover into a traditional IRA. The income limits on deductible IRA contributions do not apply to the rollovers. The rollovers are retroactive to the year in which the payments were received, and taxpayers are allowed to file amended returns to claim refunds of federal income taxes reflecting the reduction in taxable income resulting from the deduction of rolled-over amounts.

8 Internal Revenue Code. Adopts the federal change to the definition of federal adjusted gross income (FAGI) made between April 14, 2011, and February 14, 2012. FAGI is used for computing individual alternative minimum tax and determining withholding, and is the starting point for calculating household income, which is used to compute the dependent care and K-12 education credit. The change to federal adjusted gross income is described in section 7. Deductible IRA contributions are excluded from alternative minimum taxable income, so the federal change could result in decreased AMT liability for affected taxpayers. Deductible IRA contributions are not excluded from household

income, so the federal change would not affect the dependent care credit or the K-12 education credit.

- 9 Research and development credit.** Increases the second tier rate of the research and development credit from 2.5 percent to 2.8 percent beginning in tax year 2012. The second tier rate applies to qualifying expenditures in excess of \$2 million.
- Effective date:** Tax year 2012
- 10 Definitions; historic structure rehabilitation credit.** Adds definitions of the terms "federal credit" to mean the federal historic structure rehabilitation credit, and of the terms "placed in service," and "qualified rehabilitation expenditures," to have the meanings in the Internal Revenue Code for the federal credit.
- Effective the day following final enactment.
- 11 Applications; historic structure rehabilitation credit.** Allows determinations of the State Historic Preservation Office of the Minnesota Historical Society regarding project eligibility for the historic credit to be appealed through a contested case procedure under chapter 14, which must be initiated within 45 days of the determination. Requires the Office to notify applicants in writing of eligibility determinations.
- Effective the day following final enactment.
- 12 Assignment of credit certificates and grants; historic structure rehabilitation credit.** Provides that a credit recipient assigning the credit to another taxpayer must notify the commissioner in a form and manner prescribed by the commissioner within 30 days of the assignment for the assignment to be valid. Provides that the pass-through of credits to partners or owners of an S corporation or similar entity are not considered to be assignments. Allows grant agreements to provide for grants to be issued to an individual or entity other than the applicant.
- Effective the day following final enactment.
- 13 Partnerships; multiple owners; historic structure rehabilitation credit.** Allows entities with multiple owners to allocate the credit among owners based on the allocation in any "executed agreement." Current law allows allocation of the credit either based on the ownership of the entity's assets, or as specified in the entity's organizational documents.
- Effective the day following final enactment.
- 14 Sunset; historic structure rehabilitation credit.** Extends the sunset of the state historic structure rehabilitation credit by six years, with the credit expiring after fiscal year 2021. Authorizes the State Historic Preservation Office to issue credit certificates through fiscal year 2024, based on allocation certificates issued before fiscal year 2022 (projects are certified for the credit and issued allocation certificates prior to building rehabilitation, and issued credit certificates or grants after rehabilitation is completed and the project placed in service, so there is often a time lag between the issuance of allocation certificates and credit certificates). Extends the economic impact reporting requirement through 2025, or the year after the year all allocation certificates have been cancelled or resulted in credit certificates, whichever is earlier.
- 15 Veterans jobs tax credit.** Allows a refundable credit against the individual income and corporate franchise tax for newly-hired qualified unemployed veterans. The credit equals \$3,000 per employee for veterans hired in the last nine months of 2012, and \$1,500 per employee for those hired in the first six months of 2013. Defines "qualified unemployed veteran" as individuals who:
- served in a combat zone or supporting area after September 11, 2001;
 - separated from active military service during the five year period before the hiring date;

- received unemployment compensation for at least four weeks in the one year period before the hiring date; and
- were unemployed on the hiring date.

Employers must apply for a tentative credit after hiring new employees, using an Internet application to be developed by the commissioner of revenue. The credit is limited to the first 1,250 employees hired, on a first-come, first-served basis. The employer claims the credit after the individual hired has worked for the employer for 12 consecutive months. An employer may claim the credit for up to 16 employees hired in 2012, and up to 33 employees hired in 2013.

Special rules for construction and trades employers require them to renew tentative credits between 180 and 210 days after the employee was hired, verifying that the employee is still employed, and that the employer expects them to remain employed for the 12 consecutive months necessary for claiming the credit. Any tentative credits that are not renewed by construction and trades employers are available to be reissued.

- 16 Update of references to Internal Revenue Code in the property tax refund chapter.** Adopts the federal change that affects the definition of household income used in calculating the property tax refund, which uses the definition of federal adjusted gross income as its starting point. Deductible IRA contributions are not excluded from household income, so the federal change does not affect the property tax refund.
- 17 Estate tax.** Updates the Internal Revenue Code date reference in the estate tax chapter to February 14, 2012. The federal change enacted since the last update does not affect the computation of the estate tax.
- 18 Effective date of historic structure rehabilitation credit.** Modifies the effective date of the credit retroactively so that the credit is allowed for certified historic structures for which qualified rehabilitation expenditures were first paid after May 1, 2010, for work that occurred after May 1, 2010. Requires credit applications to have been submitted before a structure was placed in service for the project to qualify under the changes to the effective date. Current law limits the credit to certified historic structures for which qualified costs of rehabilitation were first paid under construction contracts entered into after May 1, 2010 (the date the credit was enacted into law under Laws 2010, chapter 216).
Effective retroactively to the inception of the credit statute.
- 19 Amended returns; IRA rollovers.** Extends the time for filing amended returns for individuals who made IRA rollovers under the changes to federal law to April 15, 2013, if the 31/2 year time limit on amending returns to make claims for refunds in statute has expired. This parallels the extension of the time to file amended federal returns provided in P.L. 112-95.

Article 9: Sales and Special Taxes

Overview

Eliminates the accelerated sales tax remittance schedules for large vendors for all months except the June collections.

Allows a health care provider tax exemption for certain laboratory services.

Changes the payment schedule for sales tax on certain used motor vehicles leases from an upfront payment to an incremental payment made with the lease payments.

Provides an upfront exemption on capital equipment for small businesses with 50 or fewer full time employees.

Modifies the definition of "refurbishment" used to qualify for the existing exemption for data centers.

Provides a sales tax exemption for lodging and food sales between an established religious order and an affiliated institution of higher education.

Clarifies that all licensed nursing homes and certified boarding care homes will continue to receive their current exemption.

Makes several modifications to existing local taxes in the cities of Rochester, Central Cities (St. Cloud area), and Clearwater.

Modifies annual liquor information reporting requirements.

- 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, 2012. These early remittance requirements are currently scheduled to blink off at that time due to the budget surplus in the February 2012 forecast.
- 2 **Exemptions (health care provider tax).** Exempts from the health care provider tax laboratory services where the biological specimen is collected outside the state. Effective for services provided after July 1, 2013.
- 3 **Retail sale.** Allows the sales tax on lease-to-own and rent-to-own vehicles to be paid incrementally with the rent or lease payments, rather than requiring the entire tax to be paid at the start of the lease. Effective for leases entered into after June 30, 2012.
- 4 **Capital equipment; sales tax.** Allows the existing refund of sales taxes paid on capital equipment as an upfront exemption for small businesses beginning in FY2013. To qualify a business must
 - have 50 or fewer full time employees in the previous year, or
 - if it is at least 20 percent owned by another business, the combined full time employees for both businesses may not exceed 50 employees in the previous year.

All other businesses must still pay the sales tax on capital equipment and apply for a refund as specified in current law.
- 5 **Qualified data centers.** Modifies the existing sales tax exemption for qualified data centers by reducing the size of the required "refurbished" facility from 30,000 square feet to 25,000 square feet, and clarifies that "substantially refurbished" includes installation of new computer equipment, software, and environmental control, energy efficiency, and building improvements. Effective for sales made after June 30, 2012.

- 6 Sales to nonprofits.** Provides a cross reference to the list of nonprofit purchases not excluded from the sales tax exemption to allow for the exemption in section 7.
- 7 Established religious orders.** Excludes from sales tax the sale of lodging and taxable food and beverages between an established religious order and an affiliated higher education institution. Defines "religious order" and "affiliated" for purposes of this subdivision. This provision allows St. John's Abbey to retain an existing exemption after the governing restructuring between the Abbey and St. John's University that will occur this year. Effective for sales and purchases made after June 30, 2012.
- 8 Nursing home sales tax exemption.** Provides a sales tax exemption for certain purchases for licensed nursing homes and certified boarder care homes. The exemption mirrors the existing exemption for charitable nonprofits. Most nursing homes and boarding care homes continue to qualify for that exemption but this provision ensures that no facility loses its exemption due to a new definition of "charity" resulting from a property tax case. Effective for sales after June 30, 2012.
- 9 Motor vehicle lease sales tax revenue.** Clarifies that the revenues from the periodic sales tax from rental and leases of used motor vehicles, authorized in section 3, continue to go to the Minnesota transit account and the county state-aid highway fund.
- 10 Liquor sellers; annual information reporting.** Prohibits the commissioner of DOR from requiring distributors of alcoholic beverages to include copies of retailers' sale tax exemption certificates for each of the retailers to which they made sales in the annual information which must be filed with DOR.
- Effective beginning with reports required to be filed in calendar year 2012.
- 11 Use of revenues (Rochester).** Expands the cities specifically enumerated as being eligible for a portion of the \$5 million of Rochester's local sales tax revenue set aside for economic development purposes in surrounding communities to include any other city with a population of at least 1,000 that is:
- within 25 miles of the geographic center of Rochester, and
 - is closer to Rochester than to any other nonmetro city with a population of 20,000 or more.
- The only city that qualifies is Wanamingo.
- 12 Rochester lodging tax.** Increases the total local lodging tax authority in the city of Rochester from 5 percent to 7 percent. Currently the city is only imposing the tax at a rate of 4 percent. Also delays when the bonds for Mayo Center complex renovations and expansions must be issued in order to be funded by the extra 3 percent lodging tax from the end of 2014 to the end of 2106.
- Subd. 1a and 2.** Increases the authorized additional local lodging tax rate used to fund renovation, expansion, and improvement of the Mayo Civic Center complex from 1 percent to 3 percent.
- Subd. 2a.** Removes a reference to the food and beverage tax repealed in section 17 from the language related to repayment of the Mayo Civic Center complex bonds.
- Subd. 3.** Changes the date by which Mayo Civic Center bonds and obligations must be issued in order to be funded from the lodging tax revenue from December 31, 2014, to December 31, 2016.
- 13 Use of revenues (Central Cities).** Modifies one of the existing allowed uses of the city of St. Cloud share of the Central Cities local sales tax revenues to limit funding to *regional* community and aquatic centers and related facilities.

- 14 Termination of tax (Central Cities).** Allows each city currently part of the Central Cities local sales tax authority to extend the tax in its community from 2018 to 2038, provided the extension is approved by the voters at a general election held by November 2017. The vote must still list the projects to be funded from the tax extension but the tax does not have to expire for one year before being re-imposed.
- 15 Use of revenues (Clearwater).** Modifies the use of the local sales tax revenues in the city of Clearwater to include projects at the specified parks and trails. In 2010 the legislature passed a provision tying the projects to those enumerated in an adopted 2006 city improvement plan; unfortunately the city council had never formally adopted the plan.
- 16 Liquor reporting; retroactive effective date.** Imposes the same provisions in section 10 retroactively for the reports required to be made in calendar years 2010 and 2011 and eliminates the requirement that taxpayer identification numbers be provided as part of the annual report. This reporting requirement was enacted by the 2008 Legislature and the first reports were required to be filed in 2009 for calendar year 2008. Failure to report is subject to \$500 penalty for unintentional violations and \$1,000 for intentional violations.
- 17 Repealer.** Repeals the penalty and safe harbor provisions related to the early remittance schedules for sales tax eliminated in section 1. Also repeals the authority for a one percent Rochester food and beverage tax to fund payment of the Mayo Civic Center complex bonds. This tax has never been imposed.

Article 10: Local Development

Overview

This article makes the following changes in the general tax increment financing (TIF) law:

- Extends by 18 months the special TIF authority granted in the 2010 jobs bill (Laws 2010, chapter 216) for expanded use of economic development districts and surplus increments. The 2011 Legislature (Laws 2011, chapter 112) extended this authority by one year.
- Provides expanded authority to use TIF in mining reclamation project areas.
- Modifies the redevelopment blight test to reduce the percentage of parcels that must contain substandard structures from being greater than 50 percent to 50 percent or more.
- Clarifies that the market value limit on homes that may be assisted with the 2011 pooling exception is to be applied to the value of the homes prior to rehabilitation or construction and shortens the six-month waiting period to 30 days.

Special law TIF authority is provided to the following cities or development authorities:

- Oakdale (modification of an existing special law passed in 2008 and modified in 2010)
- Dakota County Community Development Agency
- Bloomington - two districts, extensions
- Brooklyn Park
- St. Cloud

- 1 Authority.** Allows a city or county to directly act as the development authority for TIF districts in mining reclamation projects, as defined in section 4.
- 2 Redevelopment district; blight test.** Modifies the redevelopment blight test to reduce the percentage of parcels that must contain substandard structures from being greater than 50 percent to 50 percent or more. This will allow, for example, a district with two parcels, one of which contains a substandard structure to qualify as a redevelopment district.
- 3 Soil deficiency district.** Defines a new type of TIF district, a soil deficiency district. An area qualifies as a soil deficiency district, if parcels in the area containing 70 percent of the area of the district require substantial filling, grading or other preparation. A parcel counts only if 50 percent of its area requires that type of preparation. In addition, the estimated cost of the preparation must exceed the fair market value of the land in the district. These preparation costs cannot include costs related to roads and various public improvements under the special assessment laws.
- 4 Mining reclamation project area.** Defines areas that qualify as mining reclamation project areas. To qualify parcels with 70 percent of the land area must have one of the following conditions (on 50 percent or more of the parcel) that makes development more difficult or expensive:
 - Peat or other soils with geotechnical difficulties
 - Soils or terrain that requires substantial filling
 - Landfills, dumps or similar

- Quarries or similar extraction sites
- Floodways
- Substandard buildings (to qualify only 30 percent of the parcel must be occupied by these buildings, as contrasted to the 50-percent requirement that applies to the other conditions)

- 5** **Municipal approval.** Adds soil deficiency districts to the statute that governs approval of TIF plans and requires the municipality to retain documentation supporting designation of the mining reclamation project area for the life of the TIF district plus two additional years.
- 6** **Soil deficiency district; duration limit.** Sets the duration limit for a soil deficiency district at 20 years of increment after receipt of the first increment, the same duration that applies to soils condition districts.
- 7** **Soils condition districts.** Expands the authority to expend increments from soils condition districts that are located in mining reclamation project areas by allowing use for public improvements that are directly caused by the removal or remedial action. Under present law, the increments from soils condition districts may only be spent on hazardous substance and pollution cleanup and remediation.
- 8** **Economic development districts.** Extends by 18 months, the 2010 jobs bill's economic development district authority, as extended by the 2011 tax policy bill, from July 1, 2012, through January 1, 2014.

Laws 2010, chapter 216, as amended by Laws 2011, chapter 112, 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, 2012, without the assistance.
- Construction of the project begins no later than July 1, 2012.
- The request for certification is made by June 20, 2012.

This section would extend each of these dates by 18 months. 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.

- 9** **Use of surplus increments.** Extends by 18 months, the 2010 job bill's expanded authority, as extended by Laws 2011, chapter 112, to spend excess and surplus tax increments, notwithstanding the pooling limits, five-year rule, and so forth. Under present law, 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)
 - 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 must hold a public hearing with published notice (following the same rules as apply to approving a new TIF plan).

This section extends each of those dates by 18 months to January 1, 2014. The authority to use these increments for housing, which expired on January 1, 2012, would not be extended by this section.

- 10** **Soil deficiency districts.** Establishes the rules governing the permitted purposes for which increments from soil deficiency districts, as defined in section 3, may be spent on costs to:
- Acquire land with soil deficiencies
 - Correct the soil deficiencies
 - Administer the district
 - Rehabilitate or remove substandard structures, but not to exceed 25 percent of the district's increment.
- 11** Pooling restrictions. Makes two modifications to the exemption to the TIF pooling percentage limits, which were enacted by the 2011 Legislature, allowing an extra 10 percent of a district's increment to be spent outside of the district for market rate housing (i.e., not meeting the low-income housing tests under federal tax law) that has gone through foreclosure:
- It clarifies that the maximum market value limit for the housing is to be measured before rehabilitation or reconstruction of the housing. The market value limits are \$200,000 in the metro area and \$125,000 elsewhere or 150 percent of the average market value of homes in the city, if that amount is lower.
 - The requirement that the property be vacant for a six month period is eliminated and replaced with a 30-day waiting period (measured from the expiration of the redemption period) before the authority may acquire the property.
- The section also authorizes the development authority for a TIF district in a mining reclamation project area to treat all expenditures in the project area as qualifying as "in-district" expenses for purposes of the pooling limits. This, in combination with the provisions of sections 12 and 13, will permit the unlimited pooling within the mining reclamation area.
- 12** Five-year rule. Allows a development authority to elect that TIF districts in mining reclamation project areas are not subject to the five-year rule.
- 13** Use of increments for decertification. Allows a development authority to elect that TIF districts in mining reclamation project areas are not subject to the requirement that all "in-district" increments be used for decertification after the five-year rule has expired.
- 14** City of Oakdale. Modifies the special law for the city of Oakdale, passed by the legislature in 2008 and modified in 2009, granting the city authority to deviate from general law rules with regard to tax increment financing (TIF) districts created in a defined area of the city. This bill makes two changes in this special law authority:
- The period of time that the city has to establish TIF districts under the special law is extended by four years from 2013 to 2017.
 - An exemption is provided to the general law "blight test" rules. The blight test (essentially a requirement that an area contain "blighting" conditions that legally justify creating a redevelopment TIF district) requires that 70 percent of the parcels in an area be occupied by buildings or other qualifying structures and that 50 percent of the buildings be substandard. A parcel can be treated as being occupied by a substandard building, if the parcel was occupied by a substandard building that was demolished within three years of certification of the district and if a four-part test is satisfied. The bill provides special rules for meeting this four-part test:
 - o The three-year time limit between demolition of the building and the certification of the district does not apply.
 - o The requirement that private demolition (if done by the property owner rather than the development authority) be done under a development agreement does not apply.

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

15 City of Bloomington, extension. Authorizes Bloomington and its port authority to extend the duration of its tax increment financing (TIF) district No. 1-G and the portions of district No. 1-C north of the Mall of America building through 2038.

Approval of the special law would be required to be made by the city, county, and school district.

16 City of Bloomington; extension. Authorizes Bloomington and its port authority to extend the duration of TIF District No. 1-1, which contains the Central Station property, through 2035.

Background. The 2008 Legislature authorized the city to extend the five-year rule for this district to 10 years. This district is a redevelopment district, which received its first increment in 2006. The district would be required to be decertified at the end of 2031 under general law. The provision, thus, provides a four-year extension, allowing 33 years of increment to be collected.

17 Dakota county. Allows the Dakota County Community Development Agency (CDA) to establish a redevelopment TIF district in the city of West St. Paul. This district would consist of the parcels of an existing redevelopment district that is required to be decertified in 2012; the original tax capacity of the district is set at \$93,239. The district is treated as a redevelopment district, but it must be decertified in 2027. (Under general law, a redevelopment district is allowed 26 years of increment, as contrasted with the 15 years allowed to this district. Alternatively, the provision could be viewed as a 15-year extension of the pre-existing district, since the original tax capacity is set as the level of the decertified district.)

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

- Increments could be used for improvements, equipment, and other items that serve decorative purposes or whose cost is at least doubled because of the selection of materials and so forth. (General law prohibits these uses, if they are placed outside of the TIF district.)
- The requirement that increments be used for blight correction does not apply.
- The pooling rules (percentage limits on how much increment may be spent on activities outside of the TIF district) do not apply.

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

18 City of Brooklyn Park. Grants an extension of the five-year rule for a district in Brooklyn Park through July 1, 2014. The five-year rule limits the amount of time the city has to enter contracts and pay for developments within each TIF district.

19 City of St. Cloud. Deems TIF District No. 2, referred to as the Norwest District, in the city of St. Cloud a "gap" district, that is a district for which the request for certification was made on or after August 1, 1979 and before July 1, 1982.

Article 11: Estate Taxes

Overview

This article makes clarifying changes to the estate tax exclusion for qualifying small business and farm property, enacted by the 2011 Legislature. All of these changes are effective retroactive to the original effective date of the exclusion.

- 1 Recapture tax - return required. Moves the return filing requirement for the recapture tax which applies when a qualifying heir of a family business or farm fails to satisfy the three year qualifying use requirement, from the estate tax chapter (291) to chapter 289A, the chapter that provides general tax and administrative provisions. Sections 2 to 5 similarly relocate other administrative provisions in chapter 291 or place new administrative provisions related to the recapture tax in chapter 289A.
- 2 Recapture tax - informational return required. Requires qualified heirs to file two informational returns during the three-year period after a decedent's death if the decedent excluded from the taxable estate qualified small business or qualified farm property. These returns are due 24 months and 36 months after the decedent's death.
- 3 Recapture tax - return due date. Specifies that the due date for the recapture tax return is six months after a disqualifying cessation of the trade or business or a disqualifying disposition of the property that was excluded from the taxable estate.
- 4 Regular estate tax - payment due date. Clarifies that the estate tax payment due date relates only to the regular estate tax (as distinguished from the recapture tax, which is covered by section 5).
- 5 Recapture tax - payment due date. Provides that the recapture tax payment is due on or before six months after a disqualifying cessation of the trade or business or a disqualifying disposition of the property that was excluded from the taxable estate.
- 6 Family member definition. Clarifies that a trust whose beneficiaries are all family members qualifies as a family member for purposes of the qualified small business property and qualified farm property exclusion.
- 7 Qualified small business property definition. Modifies the qualified small business property definition for purposes of the exclusion to:
 - Exclude publicly traded securities and assets not used in the operation of the trade or business from qualifying for the exemption (paralleling the treatment of cash).
 - Treat replacement property of sole proprietors as meeting the three-year ownership test prior to decedent's death if it replaced similar property.
 - Exclude qualified farm property from qualifying for the exclusion; non-homestead farm property, as well as equipment, can qualify.
 - Provide that for three years after the decedent's death: (1) the trade or business must not be a passive activity and (2) a family member must materially participate in the trade or business.
 - Clarify that property held in revocable trusts qualify for the exclusion (as property of the decedent), if they are included in the federal adjusted taxable estate.
- 8 Qualified farm property definition. Modifies the definition of qualified farm property for purposes of the exclusion to:
 - Clarify that the property must be agricultural land and owned by a person or entity that is not excluded from owning agricultural land by section 500.24.
 - Remove the requirement that for three years after decedent's death a family member must continuously use the property in the operation of the trade or business.

- Require that for three years after decedent's death the property must be classified for property tax purposes as class 2a agricultural property.
- Clarify that property held in revocable trusts qualifies for the exclusion (as property of the decedent), if it is included in the federal adjusted taxable estate.

9 Recapture tax. Clarifies that for sole proprietor property, the qualified heir will not be treated as having disposed of an interest in the qualified property if the heir replaces qualified small business property with similar property. In addition, the section clarifies that the qualified heir may change the form the property is owned in (e.g., by incorporating a business or transferring it to a limited liability company owned by qualifying family members) and provides that partial dispositions of qualified property are only taxed on the value of the property that is so disposed of.

Article 12: Definition of Market Value

Overview

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

- 1 **County fairgrounds improvement expenditures.** Converts from taxable to estimated market value the qualifying criterion (a minimum of \$105 million of market value) that permits a city, town, or school district to spend up to \$10,000 per year on county fairgrounds improvements.
- 2 **County agriculture and conservation land assistance program; required levy.** Converts the minimum levy required for a county to participate in the state agricultural land preservation and conservation assistance program from a percentage of taxable market value to estimated market value. This levy is capped at \$15,000.
- 3 **State police and fire aid; definitions.** Modifies the definitions in the state police and fire aid statute to refer to estimated market value, rather than market value. Market value is used to allocate the amount of fire aid among recipient jurisdictions. The definition includes tax exempt market value.
- 4 **Apportionment of state fire aid.** Provides for apportionment of state fire aid among recipient jurisdictions (cities, towns, and various other governmental units) based on estimated market value, rather than market value.
- 5 **State fire aid.** Changes a reference in state fire aid from market value to estimated market value.
- 6 **Auxiliary forest.** Deems the market value of land in an auxiliary forest for all purposes other than taxation to be based on estimated, rather than taxable, market value.
- 7 **Watershed management tax district; levy limit.** Converts the levy limit on watershed management tax district levies in rural towns from a limit based on 0.02418 percent of taxable market value to one based on the same percentage of estimated market value.
- 8 **Watershed management organizations; bond levy.** Converts the levy limit on watershed

management organization bond levies in rural towns from a limit based on 0.02418 percent of taxable market value to one based on estimated market value.

- 9 Lake Minnetonka Conservation District, total funding limitation.** Converts the total funding limit that applies to the Lake Minnetonka Conservation District from 0.00242 percent of taxable market value to the same percentage of estimated market value. This limit may be exceeded by resolution of three-fourths of the participating municipalities.
- 10 White Bear Lake Conservation District; municipal levy limits.** Converts the levy limit for municipalities to fund the White Bear Lake Conservation District from 0.02418 percent of taxable market value to the same percentage of estimated market value. This affects the cities of White Bear Lake, Dellwood, and Mahtomedi, and the town of White Bear.
- 11 Watershed districts; organizational expense fund.** Converts the cap on a watershed district's organizational expense fund, which is funded by a property tax levy, from a limit based on 0.01596 percent of taxable market value to one based on the same percentage of estimated market value. This fund is capped at \$60,000.
- 12 Watershed districts; general fund and basic features levy limits.** Converts the limit on a watershed district's general levy limit from one equal to 0.048 percent of taxable market value to one based on estimated market value. This levy cannot exceed \$250,000. An additional 15-year levy for basic water management features, if petitioned for by 50 or more resident owners, is also converted from taxable market value to estimated market value.
- 13 Watershed districts; survey and data acquisition levy.** Converts the limit on a watershed district's survey and data acquisition levy limit from one equal to 0.02418 percent of taxable market value to the same percentage of estimated market value. This levy may only be imposed once every 5 years.
- 14 Eminent domain blight test.** Modifies the definition of "structurally substandard" under the blight test in the eminent domain law to refer to estimated market value, rather than taxable market value. This test limits certain uses of the eminent domain power to properties where the cost of curing housing and similar types of code violations exceeds 50 percent of the value of the property. Under the changes this would be measured against estimated, rather than taxable, market value.
- 15 Computation of adjusted net tax capacity or ANTC.** Requires the Department of Revenue (DOR) to compute ANTC values for cities and counties. ANTCs are used in various state aid formulas that are based on "equalized" tax base amounts (i.e., adjusted for the variations in assessment practices using assessment sales ratios). The statute now refers only to the computations for school districts. Changes in the section also clarify that these computations use values that reflect fiscal disparities, tax increment financing, and the power line credit. All of these changes codify the current DOR practice. Section 109 directs the Revisor to recodify this statute in the property tax statutes.
- 16 County historical society levy.** Converts city and town levy limit for county historical societies from 0.02418 percent of taxable market value to the same percentage of estimated market value.
- 17 EMS district levy limit.** Converts the emergency medical service EMS taxing district levy limit from 0.048 percent of taxable market value to the same percentage of estimated market value. This levy is capped at \$400,000.
- 18 CSAH formula; rural counties.** Converts the levy calculation in the county state aid highway (CSAH) formula for rural counties from 0.01596 percent of taxable market value to the same percentage of estimated market value. This levy determines the expected local contribution under the formula.
- 19 CSAH formula; urban counties.** Converts the levy calculation in the CSAH formula for urban counties from 0.00967 percent of taxable market value to the same percentage of estimated market

value. This levy determines the required local contribution under the formula.

- 20 Mandated expenditure of CSAH money; exemption.** Modifies the exemption from a mandate on counties to spend CSAH money on bridge and dam improvements in statutory, third, and fourth class cities. Under present law, this requirement does not apply to cities with taxable market value of more than \$2,100 per capita. This measure is converted to the same amount of estimated market value.
- 21 County road and bridge levy in unorganized townships.** Modifies qualifying rules related to expenditure of the county road and bridge levy in unorganized towns from valuation based on taxable market value to an equivalent amount of estimated market value. This provision applies only to counties with unorganized townships and between 95 and 105 full or fractional townships and values between \$12 million and \$21 million.
- 22 County road and bridge bond limit.** Converts the limit on county road and bridge bonds from 0.12089 of taxable market value to the same amount of estimated market value.
- 23 Estimated market value; definition.** Defines "estimated market value" for purposes of the property tax statutes as the assessor's determination of market value, including any board orders, for the parcel of property. The definition of estimated market *for a taxing district* in section 25 governs the computation of tax levy limits, debt limits, and state aid computations. This section contains the general definition of a *parcel's* estimated market value.
- 24 Taxable market value; definition.** Defines "taxable market value" for purposes of the property tax statutes as the estimated market value of the parcel reduced by:
- Market value exclusions
 - Deferments of value (e.g., green acres, rural preserves, open space, metropolitan agricultural preserves and so forth)
 - Other adjustments that reduce market value before class rates are applied
- 25 Market value definition; computation of levy limits, debt limits, and state aid.** Converts from taxable market value to estimated market value the definition of "market value" in the statute that provides the general rules for computing tax levy limits, debt limits, and state aid computations based on market value. Under current law, taxable market value is computed after (1) limited market value (which has expired and is obsolete) and (2) the "This Old House" valuation exclusion, but includes tax exempt wind energy values. In addition, it provides market value does not reflect adjustments for TIF, fiscal disparities, and the power line credit. In applying the statute, DOR has excluded a variety of minor valuation exclusions that are not referenced in the statute. This section now specifically references the minor exclusions, while providing that estimated market value is the value before these adjustments.

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

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

practice.

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

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

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

- 26 Cross reference.** Corrects a cross reference to a subdivision (relating to the value of platted land) that was recodified as two subdivisions in 2008.
- 27 Manufactured home park cooperative.** Eliminates a reference to the repealed market value homestead credit with a reference to the market value homestead exclusion.
- 28 Homestead application.** Replaces a reference to the repealed market value credit with a reference to the market value exclusion.
- 29 Tax definition.** Eliminates an obsolete reference to gross tax capacity.
- 30 Disparity reduction aid (DRA).** Requires taxable market values to be used in the computation of DRA, since DRA computations are based on net tax capacity, which is always based on taxable market value.
- 31 Disparity reduction credit (DRC).** Confirms that the DRC will continue to be computed using taxable market value. This prevents the definitional change in section 25 from modifying the computation of the DRC.
- 32 Levy limits based on mill rates; growth factor.** Provides that the law converting old special law and city charter provisions containing levy or mill rate limits will provide increases based on the rate of growth in estimated market value, rather than taxable market value.
- 33 Correction of town levies.** Modifies the thresholds used to determine which year's levy a correction of mistakes in town levies will be added to from a percentage of taxable market value to one based on estimated market value.
- 34 Obsolete levy limit law.** Converts the growth factor under the old (last effective for the 2010 levy) levy limit law for commercial-industrial property from taxable to estimated market value.
- 35 Contents of tax statement.** Updates a cross reference in the statute specifying the contents of the property tax statement to the new definition of taxable market value contained in section 24 and eliminates an obsolete reference to limited market value.
- 36 Iron Range fiscal disparities; adjusted market value.** Defines "adjusted market value" for the purposes of the Iron Range fiscal disparities law to be taxable market value, adjusted by the sales ratio. This change confirms existing practice, which is contrary to the statute's use of estimated market value.
- 37 Iron Range fiscal disparities; fiscal capacity.** Clarifies that fiscal capacity under the Iron Range fiscal disparities law is based on adjusted market value.
- 38 Iron Range fiscal disparities; average fiscal capacity.** Clarifies that average fiscal capacity under the Iron Range fiscal disparities law is based on adjusted market value.

- 39 Iron Range fiscal disparities; net tax capacity.** Clarifies that net tax capacity under the Iron Range fiscal disparities law is based on taxable market value.
- 40 Allocation of multi-county mortgage registry tax collections.** Provides that the county portion of collections of mortgage registry tax paid for mortgages on properties in multiple counties is allocated among the counties using the estimated, rather than taxable, market value of the properties.
- 41 Allocation of multi-county deed tax collections.** Provides that the county portion of collections of deed tax paid for properties in multiple counties is allocated among the counties using the estimated, rather than taxable, market value of the properties.
- 42 Employer contributions to volunteer firefighters' pensions.** Provides that one-half of additional contributions to a volunteer firefighters' pension fund, required as a result of insufficient fund assets, to be allocated to employer-municipalities in proportion to their estimated, rather than taxable, market values.
- 43 Major town purchases.** Converts the threshold that subjects large contracts for town purchases to reverse referendum authority from 0.24177 of taxable market value to the same percentage of estimated market value.
- 44 Town certificates of indebtedness.** Converts the threshold that subjects town issuance of certificates of indebtedness to reverse referendum authority from 0.25 of taxable market value to the same percentage of estimated market value.
- 45 Town firefighter relief levy limit.** Converts the levy limit for firefighter pension benefits, applicable to towns with populations of 1,200 or more, from 0.00806 of taxable market value to the same percentage of estimated market value.
- 46 Metropolitan area towns; certificates of indebtedness.** Converts the threshold that subjects metro area town issuance of certificates of indebtedness to reverse referendum authority from 0.24177 of taxable market value to the same percentage of estimated market value.
- 47 Dissolution of towns.** Converts the criteria for dissolution of a town, which is triggered by the town's total taxable market value dropping below \$165,000, to the same amount of estimated market value.
- 48 County boundary changes.** Converts the criteria allowing changes in county boundaries to estimated, rather than taxable, market value.
- 49 County CIP bonds.** Eliminates the definition of "tax capacity" in the county capital improvement bond (CIP) bond law. This definition is obsolete, since the CIP debt limit is based on market value, rather than tax capacity.
- 50 County CIP bond debt limit.** Converts the limit on county CIP bonds from 0.12 percent of taxable market value to the same amount of estimated market value.
- 51 Limit on county spending for nonprofit legal assistance.** Modifies the limit on the amount a county may spend to fund a nonprofit legal assistance corporation from 0.00604 percent of taxable market value to the same percentage of estimated market value.
- 52 County courthouse bonds.** Converts the debt limit for county courthouse bonds that may be issued without an election from 0.0403 percent of taxable market value to the same amount of estimated market value.
- 53 County emergency jobs program.** Modifies the limit on the amount a county may levy for an emergency jobs program from 0.01209 percent of taxable market value to the same percentage of estimated market value.

- 54 Hennepin County; building fund.** Converts the levy limit for the Hennepin County reserve and building maintenance fund from 0.02215 percent of taxable market value to the same percentage of estimated market value.
- 55 Hennepin County Library levy limit.** Converts the Hennepin County Library levy limit from 0.01612 percent of taxable market value to the same percentage of estimated market value.
- 56 Three Rivers Park District levy limit.** Converts the levy limit for the Three Rivers Park District from 0.03224 percent of taxable market value to the same percentage of estimated market value.
- 57 Anoka County Library debt limit.** Converts the debt limit (expressed relative to the maximum annual payment of principal and interest) on Anoka County Library bonds from 0.01 percent of taxable market value to the same percentage of estimated market value.
- 58 Anoka County Library levy limit.** Converts the Anoka County Library levy limit from 0.01 percent of taxable market value to the same percentage of estimated market value.
- 59 County interfund borrowing.** Converts the minimum size threshold for a county to qualify to engage in interfund borrowing from \$1.033 billion of taxable market value to the same amount of estimated market value.
- 60 Continuance of nonconforming land uses.** Modifies the exception to the authority to continue nonconforming land uses if more than 50 percent of the market value of the building or structure is destroyed by fire or natural disaster so that the test is based on estimated, rather than taxable, market value.
- 61 Regional rail authority levy limit.** Converts the regional rail authority levy limit from 0.04835 percent of taxable market value to the same percentage of estimated market value.
- 62 Community corrections facilities; rent limit.** Converts the rent limit in the law permitting lease-revenue bond financing of community corrections facilities from 0.1 percent of taxable market value to the same percentage of estimated market value.
- 63 Capital notes; home rule charter cities.** Converts the debt limit that applies to capital notes issued without an election by a home rule charter city from 0.03 percent of taxable market value to the same percentage of estimated market value.
- 64 Certain contracts; statutory cities.** Converts the threshold that subjects conditional sale contracts and contracts for deed purchases by statutory cities to reverse referendum authority from 0.24177 of taxable market value to the same percentage of estimated market value.
- 65 Certificates of indebtedness; statutory cities.** Converts the threshold that subjects statutory cities' issuance of certificates of indebtedness to reverse referendum authority from 0.25 of taxable market value to the same percentage of estimated market value.
- 66 Special service districts; property subject to charges.** Modifies the test to determine whether a split-use property in a special service district is subject in full or proportionately to the charges or levies from 50 percent of taxable market value to the same percentage of estimated market value. (Properties with more than 50 percent of their value derived from the commercial-industrial uses are subject to the charges on their full value, while properties with lower percentages are only subject to the charges on the C/I portion of the value.)
- 67 Pedestrian mall improvements; levy limit.** Converts the levy limit for special city tax for pedestrian mall improvements from 0.12089 percent of taxable market value to the same percentage of estimated market value.

- 68 First class city hospital levy.** Converts the authorized levy for operation of a first class city-owned hospital from 0.0806 percent of taxable market value to the same percentage of estimated market value.
- 69 Campground levy.** Converts the authorized levy for operation and maintenance of a city or town tourist camping grounds from 0.0806 percent of taxable market value to the same percentage of estimated market value.
- 70 Hennepin County park museum levy.** Converts the Hennepin County park museum levy (used for the Minneapolis Museum Institute of Arts) from 0.00846 percent of taxable market value to the same percentage of estimated market value.
- 71 St. Cloud transit commission levy.** Converts the limits on the St. Cloud transit commission property tax levy from 0.12089 percent of taxable market value to the same percent of estimated market value.
- 72 Duluth transit commission levy.** Converts the limits on the Duluth transit commission property tax levy from 0.07253 percent of taxable market value to the same percent of estimated market value.
- 73 Cities; acceptance of conditional gifts.** Converts the qualifying rule for second, third, and fourth class cities to accept gifts with conditions (such as life annuity gifts with interest not to exceed 5 percent) from \$41 million of taxable market value to the same amount of estimated market value.
- 74 HRA levy limit.** Converts the levy limit for housing and redevelopment authorities (HRAs) from 0.0185 percent of taxable market value to the same percent of estimated market value.
- 75 HRA debt limit.** Converts limit on the issuance of general obligation HRA bonds from 0.5 percent of taxable market value to the same percent of estimated market value.
- 76 Port authority, mandatory city levy.** Converts the levy limit for the mandatory port authority levy (i.e., the levy the city must levy on behalf of the port authority) from 0.01813 percent of taxable market value to the same percent of estimated market value.
- 77 Seaway Port Authority levy.** Converts the maximum basic levy of the Seaway Port Authority (which levies as a special tax district, rather than requiring the city to levy its tax as other port authorities do) from 0.01813 percent of taxable market value to the same percent of estimated market value.
- 78 Port authority; discretionary city levy.** Converts the limit for the discretionary port authority levy (i.e., the levy the city may levy on behalf of the port authority) from 0.00282 percent of taxable market value to the same percent of estimated market value.
- 79 EDA levy.** Converts the economic development authority, city levy from 0.01813 percent of taxable market value to the same percent of estimated market value.
- 80 Multicounty economic development levy.** Converts the levy for county contributions to a multicounty, nonprofit economic development corporation from 0.0008 percent of taxable market value to the same percent of estimated market value.
- 81 First class city publicity levy.** Converts the authorized first class city publicity levy from 0.0008 percent of taxable market value to the same percentage of estimated market value.
- 82 Hazardous property penalty.** Converts the limit on the penalty a city may assess on hazardous properties from one percent of taxable market value to estimated market value.
- 83 Joint maintenance of cemeteries.** Modifies the law allowing contiguous towns and statutory cities to agree to jointly maintain public cemeteries, if each has a minimum market value of \$2 million. The minimum market value requirement would be based on estimated, rather than taxable, market value.

This law limits the maximum expenditure by each governmental unit to no more than \$10,000 per year. Note: the joint power law likely would allow any city and town to agree to this type of arrangement.

- 84 City improvement fund; taconite cities.** Modifies the minimum requirement (\$2.5 million) of taconite and iron ore value that permits a city to establish a permanent improvement fund to being based on estimated, rather than taxable, market value.
- 85 Taconite cities improvement fund levy limit.** Converts calculation of the levy limits for the permanent improvement fund for taconite cities from 0.08059 percent of taxable market value to the same percentage of estimated market value.
- 86 Acceptance of 1943 law applying to cities with high concentrations of iron ore value.** Modifies references in the acceptance section of an old law, regulating financial practices, which applied to cities with a more than one-half of their value in unmined iron ore value, to refer to estimated market value. Note: this law is likely obsolete, since no city has sufficient iron ore value to qualify.
- 87 Metropolitan Council debt limit.** Converts the Metropolitan Council's debt limit from 0.01209 percent of taxable market value to the same percentage of estimated market value.
- 88 School district debt limits; adjustment for detached airport property.** Converts the statute that adjusts school district debt limits for districts affected by airport detachments (this affects both the MSP and Holman Field airports) from taxable market value to estimated market value. In addition, the language of the statute is updated to reflect that these detachments have already occurred. (The statutory language is written to apply to future detachments.)
- 89 Metropolitan Airports Commission (MAC); levy limit for general budget purposes.** Converts the MAC's levy limit for general budget purposes from 0.00806 percent of taxable market value to the same percent of estimated market value. MAC has not levied property taxes for any purpose in over 40 years.
- 90 MAC general obligation bonding; additional levy limit.** Converts the MAC additional levy limit (beyond what is necessary to pay its general obligation revenue bonds) from 0.00121 percent of taxable value to the same percentage of estimated market value.
- 91 MAC general levy limit.** Converts the MAC's levy limit from 0.00806 percent of taxable market value to the same percent of estimated market value.
- 92 Metropolitan Mosquito Control Commission (MMCC); levy limit.** Converts the rate of growth in the MMCC's levy limit from the growth in its taxable market value to the growth in estimated market value.
- 93 Metro area fiscal disparities; adjusted market value.** Defines "adjusted market value" for the purposes of the metropolitan area fiscal disparities law to be taxable market value, adjusted by the assessment sales ratio. This change confirms existing practice, which is contrary to the statute's use of estimated market value.
- 94 Metro area fiscal disparities; fiscal capacity.** Clarifies that fiscal capacity under the metropolitan area fiscal disparities law is based on adjusted market value.
- 95 Metro area fiscal disparities; average fiscal capacity.** Clarifies that average fiscal capacity under the metropolitan area fiscal disparities law is based on adjusted market value.
- 96 Metro area fiscal disparities; net tax capacity.** Clarifies that net tax capacity under the metropolitan area fiscal disparities law is based on taxable market value.

- 97 City CIP bonds.** Converts the limit that applies under the city capital improvement program (CIP) bond law from 0.16 percent of taxable market value to the same percentage of estimated market value. CIP bonds may be issued without an election, but are subject to a reverse referendum requirement.
- 98 General net debt limit.** Converts the general net debt limit (applies to municipalities other than school districts and first class cities) from three percent of taxable market value to three percent of estimated market value.
- 99 Net debt limit; first class cities.** Converts the net debt limit that applies to first class cities from percentages of taxable market value to equal percentages of estimated market value.
- 100 Net debt limit; school districts.** Converts the net debt limit that applies to school districts from 15 percent of taxable market value to the same percentage of estimated market value and clarifies the values may be adjusted by the assessor's sales ratio, if that results in a higher limit.
- 101 Refunding bonds; referendum exemption.** Converts the debt threshold that allows a city, county, town or school to issue refunding bonds without holding an election from 1.62 percent of taxable market value to the same percentage of estimated market value.
- 102 Bonds qualifying for State Board of Investment (SBI) purchase.** Converts the maximum limit on Minnesota municipal bond purchases by SBI from 3.63 percent of the taxable market value of the issuer to the same percentage of estimated market value.
- 103 Local government aid (LGA); ANTC.** Updates the reference to city net tax capacity in the LGA statute to the recodified section (under the Revisor's instruction in section 109) that provides for calculation of ANTCs.
- 104 Commercial-industrial percentage.** Requires the commercial-industrial percentage factor in the LGA formula to be based on the estimated market value of commercial-industrial property relative to the city's total estimated market value.
- 105 County program aid; ANTC.** Updates the reference to county net tax capacity in the county program aid statute to the recodified section (under the Revisor's instruction in section 109) that provides for calculation of ANTCs.
- 106 County jail bonds; referendum exemption.** Converts the annual tax levy permitted to pay county jail bonds issued without an election from 0.09671 of taxable market value to the same percentage of estimated market value.
- 107 County jail leases; rent limit.** Converts the rent limit in the law permitting lease-revenue bond financing of county jails from 0.1 percent of taxable market value to the same percentage of estimated market value.
- 108 Definition of estimated market value.** Adds a definition of "estimated market value" to the general definition section (§ 645.44) of the statutes. This definition points to (cross references) section 25's definition and applies for purposes of levy, tax, spending, and debt limits and calculation of aid payments.
- 109 Revisor's instruction.** Directs the Revisor of Statutes to recodify the statute governing calculation of ANTCs in the property tax statutes (chapter 273). This law is now codified in the school finance law, but largely relates to computation of aids paid to cities and counties and is the primary responsibility of the commissioner of revenue.
- 110 Repealer.** Repeals the following statutes:

Section	Description
273.11, subd. 1a	Limited market value - this law expired, effective for taxes payable in 2010.
276A.01, subd. 11	Iron Range fiscal disparities law, definition of "valuation;" this is replaced by the definition of "adjusted market value" as redefined in section 36.
276A.06, subd. 10	Adjustment of value in the Iron Range fiscal disparities law; this subdivision is inconsistent with the provisions of section 25 (it has apparently been ignored in the past) or a similar adjustment is separately provided under individual aid statutes.
473F.02, subd. 13	Metropolitan area fiscal disparities law, definition of "valuation;" this is replaced by the definition of "adjusted market value" as redefined in section 93.
473F.08, subd. 10	Adjustment of value in the metropolitan area fiscal disparities law; this subdivision is inconsistent with the provisions of section 93 (it has apparently been ignored in the past) or a similar adjustment is separately provided under individual aid statutes.
477A.011, subd. 11	Definition of "equalized market value" in the local government aid statute; this is replaced by the use of adjusted net tax capacity, the measure that is actually used in the formula.

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Effective date. Provides the changes affecting the computation of debt limits are effective the day following final enactment, while changes that affect levy and tax limitations or aid computations are effective for taxes payable in 2013. Some special effective dates (e.g., relating to tax increment financing provisions) are provided in individual sections.

Article 13: Miscellaneous

Overview

Establishes a new academic internship program in greater Minnesota, and provides for grants to participating employers. Appropriates \$1 million per year for fiscal years 2013 through 2015 to the Department of Employment and Economic Development (DEED) for the program. Sunsets the program after fiscal year 2015.

Expands the definition of a qualified brewer, increasing to 250,000 barrels the maximum production a brewer may have and still qualify for the small brewers tax credit under the excise tax.

Authorizes the city of Vergas to impose a gravel tax, if its county (Otter Tail) does not impose one.

Provides a \$250,000 allocation of tax reductions for border city aid.

Makes a one-time appropriation of \$7 million to the Minnesota Investment Fund, administered by the DEED; requires use of 25% of the appropriation to be approved by the Minnesota Science and Technology Initiative Advisory Commission.

Cancels \$27.9 million in the budget reserve to the general fund.

1 **Greater Minnesota internship program.**

Subd. 1. Definitions. Defines "eligible employer," "eligible institution," "eligible student," and "Greater Minnesota" for this program.

Subd. 2. Program established. Requires the Office of Higher Education, in conjunction with DEED, to administer an internship program through public and private nonprofit institutions that provides academic credit to students and grants to employers.

Subd. 3. Program components. Requires students to be admitted to a major closely related to the intern experience. Institutions must have written agreements with employers for 12-week or more internships, paying at least minimum wage for a minimum of 16 hours per week and to provide academic credit for the internship. Employers must enter into written agreements with the institution agreeing to the terms of the internship and stating that the intern would not have been hired without the grant and does not replace existing employees. Institutions and employers must annually report to OHE. Clinical internships do not qualify for the program.

Subd. 4. Grant allowed; maximum limits. Authorizes a grant of 40 percent of the intern's compensation up to \$1,250 per intern for a maximum of five interns in a taxable year. The total grants in a fiscal year are limited to \$1 million.

Subd. 5. Allocations to institutions. Requires OHE to allocate grants and administrative fees to institutions based on relevant criteria, including geographic distribution of work locations.

Subd. 6. Reports to the legislature. Requires OHE and DOR to submit two reports to the legislature on the program. The February 1, 2013, report must have cost and participation information. The February 1, 2014, report must have an effectiveness analysis.

Subd. 7. Sunset. Sunsets the program after fiscal year 2015.

2 **Tax credit; small brewers.** Expands the definition of qualified brewer, increasing the maximum production from 100,000 barrels per year to 250,000 barrels per year, to determine eligibility for the small brewers tax credit. The tax credit equals the excise tax on 25,000 barrels of strong beer. The increase would have been effective for calculations based on the 2011 production year (with the

credit available for excise tax on 2012 production).

3 Tax may be imposed; Otter Tail County. Provides that if Otter Tail County does not impose the aggregate materials (gravel) tax, authorized by statute, the city of Vergas may impose the tax in the city instead. The proceeds of the tax would be used for the same purpose as the county tax: 85 percent for roads and bridges, and 15 percent for pit and quarry restoration or other conservation or environmental needs. The city tax would be repealed if Otter Tail County started to impose a gravel tax.

4 **Border city allocations.** Allocates \$250,000 for border city enterprise zone and border city development zone tax reductions. This allocation is divided equally between the two programs (\$125,000 to each), but the city can reallocate the amounts between the two programs. The allocation is divided among the qualifying border cities on a per capita basis. The five cities that qualify are Moorhead, Dilworth, East Grand Forks, Breckenridge, and Ortonville.

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

- Employer credit for hiring veterans - to hire returning veterans and to encourage their reintegration into the community.
- Federal conformity - to simplify compliance and administration of the individual income tax.
- Extension of sunset of the historic structure rehabilitation credit - to create and retain jobs in Minnesota
- Health care provider tax exemption for certain laboratory services - to eliminate a competitive disadvantage with laboratories in other states.
- Sales tax exemption for established religious orders - to maintain an existing exemption that is jeopardized due to a St. John's University governance change.
- Sales tax exemption for nursing homes and boarding care homes - to maintain an existing exemption potentially eliminated due to a property tax court case.

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

6 Budget reserve. Directs the commissioner of management and budget to cancel \$27.9 million from the budget reserve to the general fund.

7 **Appropriation; greater Minnesota internship program.** Appropriates \$1 million per year for fiscal years 2013 to 2015 from the general fund to the commissioner of DEED to make grants under the academic internship program in section 1. Five percent of the appropriation may be used by the Office of Higher Education for administrative expenses. Sunsets the program after fiscal year 2015.

8 Appropriation; Minnesota investment fund. Makes a one-time appropriation of \$7 million in fiscal year 2013 to commissioner of DEED for the Minnesota investment fund, which provides for loans to expanding businesses. The commissioner must consult with and obtain the approval of the Science and Technology Initiative Advisory Commission in awarding 25 percent of the appropriation.