# House Research
# Act Summary

**CHAPTER:** 150 **SESSION:** 2014 Regular Session

**TOPIC:** Omnibus Tax Bill

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### Article 1: Income and Corporate Franchise Taxes

## Overview

Conforms Minnesota's individual income tax and corporate franchise tax on an ongoing basis retroactively to tax year 2013 to most federal changes enacted since April 14, 2011, with conformity delayed until tax year 2014 for the increased standard deduction for married filers and the expanded dependent care credit.

Allows an additional $3 million in small business investment credits ("angel credits") for tax year 2014 and extends the credit for two years at $15 million per year, with $7.5 million of the annual credit allocation reserved for investments in greater Minnesota and minority- and women-owned businesses. Reserved credits not allocated by September 30th are available for allocation to other qualifying investments. Disqualifies from receiving credits investments made by individuals who control at least 20 percent of the voting stock in the business, either on their own or in combination with family members.

Simplifies and expands the working family credit by eliminating the two-tier structure, and increasing the credit rate. Also increases the income level at which the credit begins to phase out for married filers, matching the increase provided for the phaseout threshold at the federal level.

1 **Definitions.** Provides new definitions of:

- qualified greater Minnesota business, by reference to requirements in section

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116J.8727, subdivision 2 (section 2 of the bill)

- minority group member, minority-owned business, and women-owned business, by re-stating definitions used by the U.S. Small Business Administration and currently used by the department of employment and economic development (DEED) in credit reporting.
- women, by referencing a Minnesota rule used in administering state contract preferences
- officer, as a person elected or appointed by the board to manage the business
- principal, as a person having authority to act on behalf of the business

2 **Certification of small business.** Requires a qualified greater Minnesota business to meet all the requirements for a qualified small business, and also must

- have its headquarters in greater Minnesota, defined by reference as outside the seven-county metro area plus the portions of the cities of Northfield, Hanover, Rockford, and New Prague that are within the seven-county metro area.
- have at least 51 percent and pays or incurs at least 51 percent of its payroll in greater Minnesota

3 **Small business investment credit.** Extends the credit for two years, through tax year 2016, at $15 million per year, and provides an additional $3 million of funding for tax year 2014. Provides that $7.5 million of the tax year 2015 and 2016 allocation be reserved for investments in minority- and women-owned businesses and qualified greater Minnesota businesses through September 30th, with reserved amounts not allocated made available for other investments on October 1st.

Disqualifies from receiving the credit investments made by individuals who are officers or principals of the business, and also investments by individuals who control, either on their own or in combination with family members, at least 20 percent of the outstanding voting stock in the business, at the time the investment is proposed. "Family members" is defined by reference to the Internal Revenue Code to mean an individual's spouse, ancestors, descendants, and siblings, including half-siblings. "Officer" means a person elected or appointed by the board of the business to manage daily operations, and "principal" means a person having authority to act on behalf of the business.

Also waives the three-year holding requirement for investors if the investor dies.

Effective beginning in tax year 2014.

4 **Revocation of credits.** Updates a cross-reference to clarify that investments in qualified greater Minnesota businesses are subject to revocation under the same conditions as investments in qualified small businesses under current law.

5 **Annual reporting.** Updates a cross-reference to clarify that qualified greater Minnesota businesses are subject to the same annual reporting requirements as apply to qualified small businesses under current law.

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6 **Sunset.** Extends the credit sunset by two years, through tax year 2016, and makes corresponding two year extensions in reporting requirements, revocation of credits, and the carryover of appropriations in the case of unused credit allocations.

7 **Update of administrative tax provisions.** Adopts federal tax administrative changes made between April 14, 2011, and December 20, 2013, that Minnesota references for state tax administration purposes under chapter 289A. Neither of the federal acts enacted changed federal provisions referenced in chapter 289A. However, because Minnesota would not conform to the increased standard deduction for married filers under this bill until tax year 2014, some married joint filers who are not required to file a federal return may be required to file a state return (the income level at which married joint filers are required to file a state return will be $2,050 lower than the income at which federal filing is required, for tax year 2013 only).

**Effective date:** Effective retroactive to tax year 2013.

8 **Composite returns.** Updates a reference in the statute providing filing requirements for nonresidents to reflect the renumbering of additions to taxable income in section 9.

9 **Update to federal definition of taxable income.** Adopts all of the federal changes to taxable income, with the exceptions of the extension of increased section 179 expensing allowances and bonus depreciation, which were extended to tax year 2013 only, and the reinstated and modified limitation on itemized deductions and phaseout of exemptions, which were made permanent. Adopt most federal changes retroactively to tax year 2013 and following years, with exceptions noted.

The new federal laws and important changes are as follows.

**The American Taxpayer Relief Act of 2012 (ATRA),** Public Law 112-240, enacted January 2, 2013, made the following major changes:

*Provisions Made Permanent*

- Increased the adjusted gross income (AGI) thresholds for the limitation on itemized deductions to $300,000 for married joint filers, $250,000 for single filers, and $275,000 for head of household filers, indexed after tax year 2013 for inflation. *(Minnesota would not conform to this provision, but instead would retain its own limitation on itemized deduction, which in tax year 2013 began when AGI reaches $178,150, adjusted annually for inflation, and allow a new subtraction from taxable income in section 11 for the amount limited at the federal level.)*

- Increased the adjusted gross income (AGI) thresholds for the phaseout of personal and dependent exemptions to $300,000 for married joint filers, $250,000 for single filers, and $275,000 for head of household filers, indexed after tax year 2013 for inflation. *(Minnesota would not conform to this provision, but instead would retain its own phaseout of exemptions, which in tax year 2013 began when AGI reaches $267,200 for married joint filers, $178,150 for single filers, and $222,700 for heads*

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*of household, adjusted annually for inflation, and allow a new subtraction from taxable income in section 11 for the amount phased out at the federal level.)*

- Increased the standard deduction for married joint filers to be twice that for single filers (from $10,150 to $12,200 in tax year 2013), with a corresponding increase in the standard deduction for married separate filers to equal the amount allowed for single filers. *(In section 4 Minnesota would conform to the extension of the increased standard deduction for married filers beginning in tax year 2014; in tax year 2013 Minnesota would continue to require taxpayers to add to taxable income the difference between the "old" and "new" federal standard deduction amounts.)*

- Increased the contribution limit for education savings accounts from $500 to $2,000 per year and allows use of education savings accounts for elementary and secondary school expenses.

- Exclusion of up to $5,250 of employer-provided educational assistance.

- Increased income limits and allowed an unlimited time period for deduction of student loan interest—for married joint filers, income eligibility for the deduction would otherwise decrease from $125,000 to $75,000 in tax year 2013, and for single filers income eligibility would decrease from $60,000 to $50,000.

- Exclusion of awards under the National Health Service Corps scholarship program and related awards for healthcare professionals.

- Extended increased credit rates and maximum credit amounts for the federal dependent care credit, which affect calculation of the state dependent care credit. *(Minnesota would conform the state credit to these changes beginning in tax year 2014; for tax year 2013 taxpayers would be required to determine the state credit by reference to the "old" federal credit.)*

- Increased maximum exclusion for employer-provided adoption assistance ($12,770 in tax year 2013), adjusted annually for inflation.

*Provisions Temporarily Extended Through Tax Year 2013*

- Increased the section 179 expensing amount and phaseout threshold for tax years 2012 and 2013 to $500,000 and $2 million. *(Minnesota retained in Laws 2013, chapter 143 its requirement that taxpayers add-back to taxable income 80 percent of the expensing amount in the first tax year, and then subtract one-fifth of the amount added back in each of the five following tax years.)*

- Educator classroom expense deduction of up to $250.

- Higher education tuition expense deduction. The deduction applies to up to $4,000 of qualifying expenses for taxpayers with adjusted gross income up to $65,000 ($130,000 for married joint filers), and to up to $2,000 of qualifying expenses for taxpayers with adjusted gross income over $65,000 but less than $80,000 ($130,000

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to $160,000 for married joint filers).

- Itemized deduction for mortgage insurance premiums.

- Option for taxpayers to claim an itemized deduction for sales taxes rather than income taxes paid. *(Minnesota taxpayers are not affected by this, since present law requires any deducted sales tax to be added back in computing Minnesota tax; the same add-back is required for income taxes deducted at the federal level.)*

- Increased federal adjusted gross income limit on the amount of qualified conservation easements that may be claimed as a charitable deduction. Permanent law limits deduction of contributions of appreciated property to 20 percent or 30 percent of adjusted gross income, depending on the type of recipient organization. Beginning in 2006, the limit was increased to 50 percent for donations of qualified conservation easements by most taxpayers, and to 100 percent for donations made by farmers and ranchers, defined as individuals with 50 percent of gross income from farming/ranching.

- Parity in qualified transportation fringe benefits under which employers may exclude up to the same maximum amount per month per employee for vanpool and transit pass expenses as for parking.

- Authority for individuals age 70½ or older to transfer up to $100,000 from a traditional IRA or Roth IRA directly to a qualified charity, while excluding that amount from adjusted gross income.

- Enhanced deduction for charitable contributions of food inventory, which allows pass-through entities (S corporations, partnerships, and proprietors) to deduct contributions of food inventory under the same rules as C corporations. Instead of being limited to the basis in the food inventory, the enhanced deduction equals the lesser of basis plus one-half of the appreciation in the food inventory, or two times basis, but may not exceed ten percent of the taxpayer's net income from pass-through entities.

- Special rule limiting the amount of payments from controlled subsidiaries to parent exempt organizations that are subject to the unrelated business income tax to the amount in excess of allowable payments under the arm's-length transaction rules, providing that a binding written contract between the organizations was in effect as of August 17, 2006.

- Preferential treatment of dividends of regulated investment companies, under which dividends paid to foreign shareholders are exempt to the extent the dividends are derived from interest income that would be exempt if it had been earned directly by the foreign shareholder.

- Various provisions related to depreciation and expensing, including more generous rules for leasehold and restaurant improvements, including new restaurant property

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and improvements to retail property (15-year straight-line recovery), motorsports entertainment complexes (seven-year recovery period), mine safety equipment, accelerated depreciation for business property on Indian reservations, and qualified film and television production expenses.

- Exception under subpart F, which allows U.S. shareholders with a ten percent or greater interest in a controlled foreign corporation that consists of banking, financing, and similar businesses to defer recognition of active income earned by the corporation but not distributed to the shareholders.
- Limit on basis adjustments in S corporation stock when S corporations donate appreciated property to the tax basis of the property rather than the fair market value (this reduces capital gain on later sales of the S corporation stock, compared with prior law).
- 100 percent exclusion for the gain on sale of qualified small business stock held for more than five years for stock acquired after September 27, 2010, and before January 1, 2012, to apply to stock acquired before January 1, 2014. The exclusion will revert to 50 percent for stock acquired on or after January 1, 2014.
- Reduction in the minimum holding period to avoid the tax on built-in gains on sales of assets of S corporations that converted from C corporations from ten years to five years, allowing S corporations to sell assets held more than five years without being taxed on built-in gains.
- 50 percent bonus depreciation to tax year 2013. *(Minnesota retained in Laws 2013, chapter 143 its requirement that taxpayers add to taxable income 80 percent of the additional depreciation amount in the first tax year, and then subtract one-fifth of the amount added back in each of the five following tax years.)*
- Excludes from gross income discharges of indebtedness on principal residences.

**The Fallen Firefighters Assistance Tax Clarification Act of 2013,** Public Law 113-63, enacted December 20, 2013, provides that payments to firefighters and their survivors by a specific relief association in New York are considered to be tax exempt; because the group benefiting from the payments was not large enough to be considered a charitable class the law was necessary for the organization to avoid losing its tax exempt status. In the event any taxpayer required to file a Minnesota return made contributions to the specified relief association, conforming to this change ensures that the contributions will be deductible at the state level.

**10** **Additions to federal taxable income (FTI) for individuals.** Makes various changes.

Conforms Minnesota's income tax to the increased federal standard deduction for married filers beginning in tax year 2014 but retains the addition between the "old" and "new" federal deduction amounts for tax year 2013. ATRA made the increased standard deduction for married filers a permanent feature of the income tax.

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Conforms to the deductions for higher education tuition expenses and educator classroom expenses. ATRA extended these provisions to tax year 2013 only.

Srikes obsolete language relating to the additional standard deduction amounts for motor vehicle sales taxes and real property taxes, and the exclusion for federal subsidies for prescription drug programs, all of which have expired at the federal level, as well as other obsolete language, and modifies the current law addition for state income taxes deducted at the federal level to reflect the retention of Minnesota's limitation on itemized deductions.

**Effective date:** Retroactive to tax year 2013.

**11** **Subtractions from FTI for individuals.** Provides new subtractions for the federal limitation of itemized deductions and phaseout of personal and dependent exemptions. The federal limitation and phaseout results in additions to taxable income at the federal level; this section subtracts these amounts from state taxable income. Section 9 retains Minnesota's current law limitation of itemized deductions and phaseout of exemptions, which apply at lower income thresholds than the federal limitation and phaseout. The new subtractions in this section are necessary to avoid limiting deductions and phasing out exemptions twice.

Also updates cross references to conform to other changes in the bill.

**Effective date**: Retroactive to tax year 2013.

**12** **State itemized deduction; definition.** Provides a definition of "state itemized deduction" equal to federal itemized deductions before the federal limitation. This definition is referenced in the changes to the existing addition to taxable income of state income taxes in section 10.

**13** **Internal Revenue Code.** Adopts federal changes to federal adjusted gross income (FAGI) made between April 14, 2011, and December 20, 2013. 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 main changes to federal adjusted gross income are described in section 9.

**14** **Individual income tax rates.** Updates cross references to conform to other changes in the bill.

**Effective date**: Retroactive to tax year 2013.

**15** **Dependent care credit.** Adds identifying letters at the start of the last three paragraphs of the subdivision.

**Effective date**: Retroactive to tax year 2013.

**16** **Dependent care credit; income definition.** Updates a cross reference in the definition of household income; modifies the addition for the federal tuition deduction to reference the Internal Revenue Code, and strikes the obsolete addition for unemployment benefits.

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**Effective date**: Retroactive to tax year 2013.

17 **Dependent care credit; temporary definition.** Provides a section-specific definition of "Internal Revenue Code" so that for tax year 2013 only the state dependent care credit is determined by reference to the federal credit calculated with the lower maximum credit amounts, credit rate, and phaseout threshold that would have been in effect had ATRA not been enacted. Effective in tax year 2014 Minnesota would conform its credit to the extended federal credit.

18 **Working family credit; phaseout; restructuring.** Reduces the marriage penalty in the working family credit phaseout by increasing the income level at which the credit begins to phase out for married joint filers, retroactive to tax year 2013. For tax years 2013 to 2017, the threshold is increased by $5,000, with the $5,000 amount indexed for inflation from 2009, so that the additional phaseout amount for tax year 2013 is estimated to be $5,340. For tax year 2018 and following years, increases the threshold by $3,000, with the $3,000 amount indexed for inflation from a base year of 2008. This would match the income level for the working family credit phaseout to the income level for the federal earned income credit phaseout for tax years 2013 and following years.

Also restructures the credit by eliminating the two-tier structure, increasing the percentage of income used to calculate the credit for all claimants (those with no qualifying children, one qualifying child, and two or more qualifying children), and modifying the phaseout rates.

**Effective date**: Restructuring is effective in tax year 2014; the increase in the income level for the phaseout to match the federal phaseout is retroactive to tax year 2013.

19 **Working family credit; inflation adjustment.** Updates the annual inflation adjustment of the income brackets and phaseout thresholds for the working family credit to be calculated using as the starting point the income brackets and phaseout thresholds under the credit as restructured in section 18.

20 **Marriage credit; calculation of earned income of lesser-earning spouse.** Updates a reference in the calculation of the marriage credit to the add-back of the additional standard deduction amount for married filers to conform to the renumbering of clauses in section 10.

**Effective date**: Retroactive to tax year 2013.

21 **Alternative minimum tax; individuals.** Updates cross references to reflect the changes to individual additions and subtractions in sections 10 and 11.

**Effective date**: Retroactive to tax year 2013.

22 **Update of references to Internal Revenue Code; property tax refund chapter.** Adopts the federal changes that affect household income, which uses the definition of federal adjusted gross income as a starting point.

**Effective date**: Retroactive to tax year 2013.

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**23** **Individual income tax collection action prohibited.** Prohibits the commissioner from increasing the amount due from individual income taxpayers for tax year 2013 as a result of changes enacted in this bill, provided that the taxpayer filed a 2013 return in accordance with state law as it existed prior to enactment of this bill.

### Article 2: Sales and Use Taxes

## Overview

This article:

- Repeals the imposition of sales tax on the following business purchases effective April 1, 2014:
  - repair labor for electronic and precision equipment
  - repair labor for commercial and industrial equipment (including farm equipment)
  - storage and warehousing services (currently not taxable until April 1, 2014).
- Reinstates the exemption for capital equipment used in providing telecommunication and pay television services beginning April 1, 2014.
- Delays the effective date for when the sales tax exemption for capital equipment becomes an upfront exemption from October 1, 2014 to July 1, 2015.

**1** **Sales and purchase.** Modifies the definition of taxable sale by removing business purchases of (1) repair and maintenance of electronic and precision equipment; (2) repair and maintenance of commercial and industrial equipment; and (3) warehousing and storage services. Effective April 1, 2014.

**2** **Capital equipment.** Corrects a cross reference to the old sales tax telecommunication exemption repealed in the 2013 session and replaces it with a cross reference to the new telecommunication exemption in section 3.

**3** **Telecommunication and pay television services machinery and equipment.** Reinstates the sales tax exemption for machinery and equipment used in providing telecommunications and pay television services that was repealed in the 2013 session. This provision now also references "pay television" rather than "cable television and direct satellite". Effective beginning April 1, 2014.

**4** **Capital equipment; up-front exemption.** The effective date for when the sales tax exemption for capital equipment becomes an upfront exemption is moved from sales made after August 31, 2014 to sales made after June 30, 2015.

**5** **Repealer.** Repeals the definition of "self-storage unit" currently used only in defining taxable warehouse and storage services.

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### Article 3: Estate and Gift Taxes

## Overview

This article:

- Repeals the gift tax enacted by the 2013 legislature, retroactive to its original effective date
- Increases the exemption under the estate tax from $1 million under present law to $2 million, phased-in in $200,000 annual increments (full $2 million begins to apply for deaths in 2018)
- Converts computation of the estate tax from the amount of the repealed federal credit for state death taxes (under pre-2001 federal law) to a statutory rate and bracket structure with rates ranging from 10 percent to 16 percent, the explicit top rate under the repealed federal credit.

**1** **Return requirement.** Modifies the estate return filing requirement to reflect the increase in the exemption amount in section 5.

**2** **Estate tax return.** Eliminates obsolete language relating to estate tax returns for deaths during 2010.

**3** **Estate tax definitions.** Updates to changes in federal law made between January 3, 2013 and March 1, 2014. This change has no substantive effect on computation of tax.

The definition of "adjusted taxable estate" is eliminated, since section 5 changes the tax computation to be based on the Minnesota taxable estate, defined in section 4.

Publicly traded pass-through entities (such as Master Limited Partnerships and REITs) are exempted from the pass-through entity situs rules enacted by the 2013 legislature.

**4** **Minnesota taxable estate.** Defines Minnesota taxable estate, the tax base to which the rates under section 5 apply, as the result of the following computation:

1. Federal taxable estate, plus:
    a. The deduction for state and foreign death taxes
    b. The amount of taxable gifts made within three years of death
2. The value of qualified small business and farm property, but not to exceed $5 million, less the applicable general exemption for the year. (Under current law, the exemption is $4 million.) This change will phase the maximum amount down as the general exemption under section 5 increases.

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**5** **Estate tax computation.** Creates a stand alone estate tax rate schedule and increases the estate tax exemption from a *de facto* $1 million amount (which is not a true exemption because estates with values just above the exemption amount are subject to higher effective tax rates) to a true exemption of $2 million, phased in over five years (fully phased-in for deaths beginning in 2018). Each year the exemption amount increases by $200,000 from the current (for 2013 deaths) $1 million. The rate schedule for 2018 (and later) deaths is:

| Minnesota taxable estate | Tax rate |
|---|---|
| $2 million or less | 0 |
| $2 million up to $2.6 million | 10.0% |
| $2.6 million up to $7.1 million | 13.0% |
| $7.1 million up to $8.1 million | 13.6% |
| $8.1 million up to $9.1 million | 14.4% |
| $9.1 million up to $10.1 million | 15.2% |
| Over $10.1 million | 16.0% |

Under present law, the tax rate schedule is based on the intersection of the repealed federal credit for state death taxes, the old federal estate tax rate schedule, and the old federal unified credit. These complex computations result in a rate schedule that imposes no tax on estates (including taxable gifts made within three years of death) of $1 million or less; a 41 percent tax on estates valued between $1 million and about $1,094,000, and rates ranging from 5.6 percent to 16 percent on higher-valued estates (with the top rate applicable to estate values over $10,100,000).

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6 **QTIP election.** Provides that Minnesota taxable estate reflects the value of qualified terminable interest property (QTIP) elections allowed under federal law. An estate may make this election for Minnesota purposes, even if it is not required to file a federal return. (Under present law, Minnesota only recognizes QTIP elections made under the federal estate tax.) If the estate is required to file a federal return, the QTIP election must be made consistently for federal and Minnesota purposes.

**Background.** QTIP trusts are a standard estate tax planning tool for married couples. They allow electing the amount of the trust that will qualify for the marital deduction. The value of the QTIP property qualifies for the marital deduction (avoiding estate tax on the death of the first spouse), although only a limited income interest is provided to the surviving spouse. To be QTIP property:

- The property must be owned by the decedent.
- The surviving spouse must have a right to all of the income, payable at least annually, from the property for life.
- No one else may have a power of appointment over the property until the surviving spouse dies.
- A QTIP election must be made.

7 **Credit.** Allows a credit against estate tax for the inheritance or estate tax paid by the estate of a nonresident decedent to another state on property subject to Minnesota estate tax because the property is owned by a pass-through entity. (This credit is allowed under present law, section 291.03, subdivision 1c, which is repealed by section 8.)

8 **Repealer.** Repeals the following statutes:

| Statute | Description |
|---|---|
| 291.03, subd. 1b | QTIP property for decedents dying in 2010 – obsolete |
| 291.03, subd. 1c | Nonresident decedent estate tax credit – replaced by section 7 |
| 292.16 – 292.21 | Gift tax imposition and related provision, effective retroactive to the effective date of the tax’s 2013 enactment |
| 291.41 – 291.47 | Law authorizing arbitration of disputes between or among states over their jurisdiction to impose estate or inheritance taxes on a decedent’s estate. This law was enacted in 1951 and according to DOR has never been used |

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### Article 4: Property Tax

## Overview

This article:

- Allows additional school district revenue of $424 per pupil unit for districts that did not qualify for location equity revenue in last year's tax bill.
- Clarifies that the provision affecting assessment of property under a conservation easement adopted in last year's tax bill applies only to new easements.
- Provides supplemental County Program Aid to Mahnomen County for one year and to Beltrami County for ten years.

**1** **General education revenue.** Changes the name of "location equity" revenue to "local optional" revenue.

**2** **Local optional revenue.** Authorizes local optional revenue of up to $424 per pupil for all school districts in the state, rather than only those in the metro area and non-metro districts with at least 2,000 pupils. The revenue is realized through imposition of a levy that is equalized at $510,000 referendum market value per pupil unit. Deletes language specifying a date by which a school board could elect not to participate for the coming year.

**3** **General education aid.** Changes the name of "location equity" aid to "local optional" aid.

**4** **Referendum allowance.** Makes technical changes to the local option revenue subtraction from referendum revenue. Provides that, for a district with more than one referendum allowance expiring in the same year, the local option revenue subtraction must be made first from any allowances that do not have an inflation adjustment approved by the voters.

**5** **Conservation property tax valuation.** Provides that the prohibition against an assessor reducing the value of property under a conservation easement adopted in the 2013 session will only apply to easements entered into after May 23, 2013. Modifies a reference to clarify that the provision applies to all restrictions or easements for conservation purposes.

**6** **Supplemental county program aid payments.** Provides an additional $3 million a year for the calendar years 2015 to 2024 to Beltrami County to pay for out of home placement costs. Provides an additional $1.5 million in 2015 only to Mahnomen County, one-half of which the county will give to the White Earth Band of Ojibwe for health and human services transition costs. The county program aid is increased in each of these years by the amount necessary to make these payments. Effective for aids payable in 2015 to 2024.

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### Article 5: Public Finance

## Overview

This article:

- Extends the State Fair's bonding authority through 2025.
- Provides $75.3 million in borrowing authority for transit capital in the metropolitan area.
- Allows Itasca County to refund nursing home revenue bonds with general obligation bonds.
- Grants special law tax increment financing (TIF) provisions to the cities of Detroit Lakes and St. Paul.

1 **State Fair bonds.** Extends the bonding authority for the State Agricultural Society (the State Fair) to 2025. Under present law, this authority is scheduled to expire in 2015.

**Background.** These bonds are obligations of the authority (i.e., they are not supported by a pledge of taxing authority of a governmental unit) and their maximum outstanding principal amount is limited to $20 million. The State Fair was initially granted this authority by the legislature in 2003.

2 **Metropolitan council transit bonding.** Increases, by a total of $75.3 million, the authority of the Metropolitan Council to issue debt obligations (backed by a regional property tax levy) to fund its capital improvement plan for transit and paratransit. The authorization covers two years:

- $37 million after July 1, 2014
- $38.3 million after July 1, 2015

3 **Itasca county nursing home**. Authorizes Itasca refund revenues bonds, issued under a 2003 special law, with general obligation bonds.

Effective upon local approval.

4 **Detroit Lake**s. Extends the time that the city has to create a TIF district under a 2006 special law from 2014 to 2016.

**Background information**. The 2006 special law authorized the city to establish a redevelopment TIF district in an area of the city under special rules for applying the blight test:

- Buildings and structures removed under the Highway 10 Realignment Project are treated as structurally substandard under the blight test, despite not meeting the time limit or other rules for buildings removed before creation of the district.
- The three-year time limit for requesting certification after demolition does not

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apply (i.e., certification could be requested after the three-year limit and still treat the parcels as occupied by buildings purposes of the blight test).

Effective upon local approval.

**5** **St. Paul.** Allows tax increment from a district established under the 2008 omnibus tax act to be used to pay principal and interest on bonds issued by St. Paul in 2009 for the RiverCentre Arena, instead of the St. Paul HRA's 1996 convention center bonds.

**Background information**. The 2008 omnibus tax act authorized the city of St. Paul to establish a new redevelopment TIF district with the same area and original tax capacity of its downtown pre-1979 TIF district. As a condition for establishing the district, the city had to enter an agreement with Ramsey County providing for transfer of the increment attributable to the county's tax rate to the county. The district terminates in 2023.

This district contributes to the fiscal disparities pool, unlike the pre-1979 HRA districts. To prevent the district from affecting local government aid, county program aid, or school aid, the captured net tax capacity of the district is included in adjusted net tax capacity for those programs.

Effective August 1, 2014, without local approval.

### Article 6: Miscellaneous

## Overview

This article:

- Increases the budget reserve account by:
  - Transferring $150 million to the reserve on July 1, 2014
  - Establishing a level for the reserve based on an annual report prepared by management and budget (MMB)
  - Transferring to the reserve one-third of general fund surpluses in each November forecast until the level set by MMB is reached.
- Creates an Iron Range school cooperation and consolidation account to be funded with reallocation of various distributions of production tax and occupation tax revenues. The former reduce distributions made to Iron Range local governments and mining companies, while the latter reduce state general fund revenues. Projects funded through the account are also backed up by a limited pledge (up to one-quarter of the areawide levy) under the Iron Range fiscal disparities program.

**1** **Budget reserve level established.** Establishes a desired level for the budget reserve for the current biennium, defined as a percentage of general fund nondedicated revenues in the most recent budget reserve report prepared by the commissioner of management and budget (MMB).

Transfers to the budget reserve 33 percent of November forecast unrestricted general fund balances for the biennium after priorities (1) through (4) in 16A.152, subdivision 2, have

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been satisfied. The amount transferred is limited to the amount needed to meet the desired level for the budget reserve established in this section.

2 **Additional revenues; priorities.** Increases the amount for the budget reserve in the second priority for unrestricted general fund balances from the $653 million in current law to $810.992 million, which is the current level of the budget reserve plus the $150 million transfer in section 16. Strikes priority (5), restoration of amounts previously transferred from the state airports fund, which has been satisfied.

**Background.** This section designates uses for surpluses projected for the current biennium. Priorities in current law, all of which are currently satisfied, are:

- To the cash flow account, until it reaches $350 million
- To the budget reserve account, until it reaches $653 million
- To increase the school aid payment schedule to 90 percent, in increments of one-tenth of 1 percent with any residual amount deposited in the budget reserve
- restore previous school aid reductions and reduce the property tax recognition shift accordingly
- restore the $15 million transferred in 2008 from the state airports fund to the general fund

3 **Report on budget reserve percentage.** Modifies the report requirement in current law to require the commissioner of MMB to report each January 15 on the percentage of the current biennium's nondedicated revenues recommended as a budget reserve. Authorizes the commissioner to develop and update a methodology for determining the adequacy of the budget reserve relative to the volatility of the state's tax mix. The report must also specify if changes to the percentage were due to changes in the state's tax structure, or to revised methodology.

4 **School fund allocation.** Defines "school fund allocation" for purposes of the Iron Range fiscal disparities program. This amount is used as the backup to pay for school construction projects when balances in the Iron Range school cooperation and consolidation account, established under section 13, are insufficient in a year to pay the debt on projects the account funds. The amount cannot exceed one-quarter of the areawide levy and the amount must be certified by Iron Range Resources and Rehabilitation Board (IRRRB).

5 **Apportionment of levy; Iron Range FD program.** Provides that in a year in which the school fund allocation under section 4 applies (i.e., there is a payment deficiency in the school fund), the allocation is deducted from the regular levy of municipalities. This means that these levies (by cities, towns, counties, schools, etc.) would be made up by imposing them on their regular local tax bases.

6 **Areawide tax rate.** Provides that calculation of the Iron Range fiscal disparities tax rate includes the school allocation under section 4.

7 **Certification of values.** Provides that calculation of the Iron Range fiscal disparities levies includes the school allocation under section 4.

**Section**

**8** **Occupation taxes.** Annually appropriates to the Iron Range school cooperation and consolidation account established under section 13 from occupation tax revenues an amount equal to the amount of revenues that would be generated by a six cents per ton production tax rate. Since the residual amount of occupation tax revenues are deposited in the general fund, this diverts money from the general fund to the Iron Range school account.

**9** **Guaranteed distribution; taconite counties.** Reduces the guaranteed distribution of production tax revenues to taconite counties by five cents per taxable ton. This guarantee is based on 75 percent of the 1983 distribution. It tends to apply in years in which production is below average or for distributions based on mines that are no longer operating. This change ensures that counties receiving distributions based on mines that are no longer operating (Butler and LTV) will have their distributions reduced, similar to that experienced by those with operating mines as a result of section 11.

**10** **Taconite towns distribution.** Freezes the escalator that applies to the distribution of production tax revenues to taconite towns at the 2014 level for three years (2015 – 2017).

**11** **Taconite counties distribution.** Reduces the distribution to taconite counties by 5 cents per ton, starting with the 2015 distribution.

**12** **IRRRB distribution.** Freezes the escalator that applies the distribution of production tax revenues to the IRRRB at the 2014 level for three years (2015 – 2017).

**13** **Iron Range school account.** Creates an Iron Range school cooperation and consolidation account and allocates the following sources of revenues to it:

- 10 cents per ton from the production tax
- revenues from the occupation as provided under section 8
- two-thirds of the production tax revenues distributed in 2015-17 that are attributable to the annual indexing of the production tax rate

The account is be used, as authorized by the IRRRB, to fund school capital projects for Iron Range schools that were approved by the voters after December 7, 2009 and that are approved by the commissioner of education.

**14** **Taconite economic development fund (TEDF).** Reduces the production tax distribution to the TEDF by 5 cents per ton. The TEDF is used to provide investment credits to mines for approved capital improvements to their operations. The credit amount is based on the tonnage produced by each mine and was (before the change made by this section) 30.1 cents per ton.

**15** **Residual distribution.** Modifies the residual distribution of production tax revenues for the 2015 – 2017 distributions, so that two-thirds of the increase in revenues attributable to the indexing of the production tax rate for inflation will be allocated to the new school account established under section 13; the remainder of this amount will be allocated to the Douglas J. Johnson economic protection fund.

**Section**

**16** **Budget reserve transfer.** Transfers $150 million to the budget reserve on July 1, 2014.

**17** **Appropriation.** Appropriates $1 million in fiscal years 2014-2015 to the Commissioner of Revenue for administering the act.