

HOUSE RESEARCH

Bill Summary

FILE NUMBER: H. F. 2
Version: As introduced
DATE: January 15, 1999
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Subject: Income tax; property tax; and health care provider taxes
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Overview

This bill makes several major changes in state taxes and the property tax:

Article 1 reduces income tax rates; expands the width of the married joint brackets to twice that of the single brackets; and increases the alternative minimum tax exemption amount for married joint filers to be twice that for single filers.

Article 2 restructures the property tax class rates to compress the difference between class rates. The top tier commercial-industrial rate is dropped from 3.5 to 3 percent and apartment class rate from 2.5 to 2 percent. The education homestead credit is increased and the general education levy reduced.

Article 3 phases-out the health care provider taxes in three annual steps. (The taxes would be repealed on January 1, 2001.) The health care access fund is repealed. Funding for the MinnesotaCare program would be provided through the general fund.

Article 1 Income Taxes

- 1 Income tax rates.** Makes changes in the individual income tax rate and bracket structure:
 - the 6% rate is reduced to 5.5%; the 8% rate is reduced to 7.5%; and the 8.5% rate is reduced to 8.25%
 - the width of the married joint brackets is increased to be twice the width of the brackets for single filers
 - the income threshold for the 8.25% rate is increased (e.g. to \$150,000 for married joint filers)
- 2 Indexing.** Makes conforming changes in the indexing provisions to reflect that section 1 resets the widths of the tax brackets.

- 3 **AMT rate.** Reduces the alternative minimum tax (AMT) rate from 7% to 6.8%.
- 4 **Definition of tentative minimum tax.** Makes a conforming change in the definition of tentative minimum tax to reflect the change in the AMT rate.
- 5 **AMT exemption amount.** Increases the married joint exemption amount under the AMT from \$40,000 to \$60,000. The income threshold at which the exemption phases out for married joint filers is increased from \$150,000 to \$225,000. In both instances, this makes the amounts twice the amount for single filers.
- 6 **AMT credit.** Makes a conforming change in the AMT credit to reflect the change in the AMT rate.
- 7 **Effective date.** Provides the changes are effective beginning for tax year 1999.

Article 2

Property Tax Reform

- 1 **Class rate changes.** Makes changes in the property tax class rates, as summarized in the table below.
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- 3 **Employment property.** Repeals the special class rate for employment property. The class rates provided by the bill for commercial and industrial properties are lower than the separate class rates for employment property (2% v. 2.3% for lower tier C/I).
- 4 **Special apartment class rates.** Repeals the special class rate for apartments in cities outside of the Twin Cities metropolitan area located more than 15 miles from a city with populations of 5,000 or more. The general apartment class rate under the bill (2%) is lower than this special class rate (2.3%). The section also repeals the special rules for warehouses converted to apartments. These apartments also have a 2.3% class rate.
- 6 **Education homestead credit.** Increases the education homestead credit from 66.2% to 100% and the maximum credit from \$320 to \$430.
- 7 **General education levy reduction.** Reduces the general education levy by \$100 million per year, beginning for taxes payable in 2000.

Proposed Class Rate Schedule

Property	Payable	Payable	Payable 1999	Proposed Pay 2000
Type	1997	1998		
Residential Homestead:	1.00%	1.00%	1.00%	1.00%
<\$75,000 ¹				
>\$75,000	2.00	1.85	1.70	1.50
Residential Non-homestead:	2.30	1.90	1.25	1.00
Single unit:				
<\$75,000	2.30	2.10	1.70	1.50
>\$75,000				
2-3 unit and undeveloped land	2.30	2.10	1.70	1.50
Market-rate Apartments:	3.40	2.90	2.50	2.00
Regular				
Small cities	2.30	2.30	2.15	2.00
Low-income Apartments:	2.30	2.00	-	-
Title II				
Farmer's Home Administration	2.00	1.90	-	-
New Class 4d				

	-	-	1.00	1.00
Commercial/Industrial/Public Utility:	3.00	2.70	2.45	2.00
<\$100,000				
\$100,000 - \$150,000	4.60	2.70	2.45	2.00
>\$150,000	4.60	4.00	3.50	3.00
Seasonal Recreational Commercial:	1.00	1.00	1.00	1.00
Homestead resorts (1c)				
Seasonal resorts (4c)	2.30	2.10	1.80	1.50
Seasonal Recreational Residential:	1.75	1.40	1.25	1.00
<\$75,000 ¹				
>\$75,000	2.50	2.50	2.20	1.80
Disabled Homestead (<\$32,000)	0.45	0.45	0.45	0.45
Agricultural Land & Buildings:				
Homestead:	0.45	0.40	0.35	0.30
<\$115,000				
>\$115,000:	1.00	0.90	0.80	0.70
<320 acres				
>320 acres	1.50	1.40	1.25	1.00
Non-homestead	1.50	1.40	1.25	1.00
Education Homestead Credit:	-	32%	66.2%	100%
Rate				
Maximum	-	\$225	\$320	\$430

¹First tier limit was \$72,000 for payable 1997.

Article 3

Health Care Taxes

- 1 Premiums tax on HMOs and nonprofits.** Repeals the 1% insurance premiums tax on health maintenance organizations (HMOs) and nonprofit health service plan corporations (such as Blue Cross). Under present law, this tax does not apply to HMOs and nonprofit health service plan corporations that have cost containment plans in effect. It may be imposed in the future, if the Commissioner of Finance finds that there will be a deficit in the health care access fund.
- 2 Conforming change.** Provides that references to the provider taxes in health care cost containment chapter are tied to the 1998 statutes, since section 12 repeals the provider taxes.
- 3 Conforming change.** Adds a definition of staff model health plan company, since the cross reference to the definition in provider tax is repealed by section 12.
- 4 Conforming change.** Eliminates a reference to the premium tax, since it repealed by section 1.
- 5 Conforming change.** Eliminates the requirement that various health licensing boards assist the Commissioner of Revenue in activities related to the provider tax, since section 12 repeals the provider tax.
- 6 Conforming change.** Eliminates failure to comply with the provider tax as grounds for discipline by various health licensing boards, since section 12 repeals the provider tax.
- 7 MinnesotaCare cost limitations.** Modifies the rules for financial management of the health care access fund to reflect the repeal of the health care access fund in section 12. Under present law, the commissioner of finance estimates available revenues and spending for the health care access fund

for the current and next bienniums. The law requires the commissioner to reduce benefits under the MinnesotaCare program to bring the spending in balance with estimated revenues. The bill retains these cost limitations but requires the commissioner to compare the estimated costs with the actual and projected appropriations for the program. Projected appropriations for the next biennium are calculated by increasing them by the forecast increase in the consumer price index. (With repeal of the provider and premium taxes and the dedicated fund, there will be no revenues to compare with projected spending.)

- 8 Conforming change.** Eliminates references to the health care provider taxes that are repealed by section 12.
- 9 Conforming change.** Ties references to the health care provider taxes to the 1998 statutes, since these sections are repealed by section 12.
- 10 Phase-out of the provider tax.** Phases-out the health care provider taxes over three years. Under present law, a 1.5 percent tax rate applies. This section reduces it to 1 percent for calendar year 1999; to 0.5 percent for calendar year 2000; and to 0 for calendar year 2001 and later.
- 11 Transfer of health care access fund to general fund.** Transfers all the money in the health care access fund to the general fund. The MinnesotaCare program would be funded from the general fund.
- 12 Repeal of health care taxes.** Repeals:
 - (a) the health care provider taxes and the wholesale drug distributor taxes (effective 2001)
 - (b) the data practices provisions relating to the health care provider taxes
 - (c) the health care access fund and the reserve for the health care access fund

Effective date. Provides the repeal of the insurance premiums tax and the health care access fund take effect on July 1, 1999. The conforming changes for the repeal of the health care provider taxes take effect at the same time as repeal of the provider taxes.