

HOUSE RESEARCH

Bill Summary

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Overview

This bill is the Governor's sales tax rebate bill.

Article 1 provides for payment of the sales tax rebate. The commissioner of revenue will pay the rebate to individuals who qualified for a 1997 property tax rebate in the late summer and fall of 1999. The rebate is a flat amount based on categories of Minnesota taxable income by filing status. The total rebate is to equal the amount of the surplus at the end of the FY1998-99 biennium.

Article 2 establishes a mechanism for automatic return to the taxpayers of surpluses in future bienniums that exceed 0.5 percent of biennial revenues. The legislature is directed to enact a plan to do so when a surplus is forecast in one of the last two forecasts of the biennium. If no plan is enacted, the surplus would be rebated under the mechanism used for the last rebate.

Article 3 abolishes two existing special accounts (the tax reform and reduction account and the property tax reform account) **and establishes a new one** (the tobacco settlement fund).

Article 4 reverses the conversion (as a result of the November 1998 forecast surplus and the provision of the 1998 Omnibus Tax Bill) **to general fund appropriations of the financing for \$400 million of 1998 capital projects.** These projects would be funded with bonds, as originally enacted by the 1998 legislature.

Article 1

Sales Tax Rebate

- 1** Statement of purpose. States the purposes for the sales tax rebate is to refund the FY1998-99 budget surplus based on data from the Minnesota tax incidence report prepared by the Department of Revenue. Use of this data is stated to be "fair and reasonable" because no effective and practical

mechanism exists to determine the actual sales tax paid by eligible individuals.

2 Sales tax rebate. Provides the rules governing eligibility for and payment of sales tax rebates to individuals.

Eligibility. Individuals who were eligible for the 1997 property tax rebate and filed for it by April 15, 1999 are eligible for the sales tax rebate. This limits eligibility to individuals who paid homestead property taxes or who paid rent on their principal residences in 1997. It effectively excludes: (1) individuals who moved to Minnesota in 1998; (2) individuals who rented or lived in tax exempt housing and thus did not qualify for a property tax rebate; (3) individuals who shared quarters with someone else and did not pay rent or assigned their right to a property tax refund to another tenant; and (4) individuals who were claimed as dependents on the another person's tax return.

Payment schedules. The rebate amounts are flat amounts based on filing status and ranges of Minnesota taxable income. Adjustments to the amounts on returns made after April 15, 1999 are ignored. The table below shows the amounts.

Minnesota taxable income	Single or Married Separate	Married Joint or Head of Household
Less than \$2,500	\$204	\$388
\$2,500 to \$4,999	256	493
\$5,000 to \$9,999	314	514
\$10,000 to \$14,999	370	575
\$15,000 to \$19,999	434	627
\$20,000 to \$24,999	489	671
\$25,000 to \$29,999	541	716
\$30,000 to \$35,999	563	764
\$35,000 to \$39,999	563	804
\$40,000 to \$44,999	697	845
\$45,000 to \$49,999	697	893
\$50,000 to \$59,999	829	958
\$60,000 to \$69,999	829	1,053
\$70,000 to \$79,999	1,000	1,139
\$80,000 to \$89,999	1,000	1,225
\$90,000 to \$99,999	1,000	1,316
\$100,000 to \$119,999	1,000	1,411
\$120,000 to \$139,999	1,000	1,588
\$140,000 to \$159,999	1,000	1,709
\$160,000 to \$179,999	1,000	1,813
\$180,000 to \$199,999	1,000	1,927
\$200,000 or more	1,000	2,000

Non-residents and part year residents. Non-residents do not qualify for the rebate, since they were not eligible for the 1997 property tax rebate. Part year residents (calendar year 1997) qualify for a proportionate rebate. The rebate is calculated based on total income and the resulting rebate amount is multiplied by the percentage of the 1997 income from Minnesota sources. This is the same calculation used to determine their Minnesota individual income tax liability.

Adjustment to meet budgeted amount and available surplus. The commissioner of revenue is to

reduce the rebate amounts proportionately so that late filers (i.e., those filing in 1999) do not result in total sales tax rebates exceeding the budgeted \$1.07 billion. Also, the commissioner is to adjust the rebate amounts (up or down) so that the full amount of the surplus, as certified by the commissioner of finance in July, is rebated.

Payment dates. The commissioner may begin paying rebates in August, 1999, but interest does not begin to accrue until after October 1.

Checks to joint filers. For married joint returns, checks will be made out jointly to both spouses. One spouse may request separate checks be issued. In addition, if the rebate is offset for taxes or other debts under Revenue Recapture, the non-debtor spouse may claim one-half of the rebate.

Uncashed checks. Uncashed rebate checks lapse to the general fund on July 1, 2001.

Authority to file claims for unpaid rebates. Individuals who are eligible but did not receive a rebate may apply for a rebate until July 1, 2000.

Authority to offset. Payment of the rebate is subject to offset for unpaid taxes or under Revenue Recapture.

- 3 Appropriation, administrative costs. Appropriates \$1 million to the commissioner of revenue to administer the rebate.
- 4 Effective date. Day following final enactment.

Article 2

Automatic Rebate in Enacted Budget

- 1 Purpose statement. States the purpose of the article is to require surpluses that exceed 0.5 percent of the general fund budget to be returned to the taxpayers at the end of each biennium.
- 2 Rebate requirements. Requires the commissioner of finance for the last two forecasts (i.e., those done in November of an even numbered year and February of an odd numbered year) before the end of a biennium to designate a surplus that exceeds 0.5 percent of general fund biennial revenues as available for a tax rebate.

The governor is to present a plan to the legislature to rebate the surplus beginning no later than the next August 15th. The legislature is directed to enact a rebate by April 15th. If the legislature does not enact a rebate and a surplus of more than 0.5 percent exists at the end of the biennium, the entire amount is to be refunded in the same manner as the preceding rebate. If the available balance is less than 0.5 percent, the money is to be deposited in a tax relief account. (The bill does not create such an account or specify what the money in the account may be used for.)

An open appropriation to pay the rebates is provided.

- 3 Effective date. Provides the article is effective September 1, 1999.

Article 3

1999 Rebate Financing

- 1 Purpose statement. Directs that the rebate is to be calculated based on the ending biennial balance for fiscal year 1999. The purpose of the article is to undo the allocation of the surplus forecast in November 1998 made under legislation enacted in the 1998 legislative session.
- 2 Tax reform and reduction account. Abolishes the tax reform and reduction account and transfers money in the account to the unrestricted general fund balance. This account was established by 1998 legislation. The first \$200 million of the surplus forecast in the November 1999 forecast was required to be deposited in this account.
- 3 Tobacco settlement proceeds. Establishes a tobacco settlement fund. All of the state's settlement payments from the tobacco litigation (including those already received and deposited in the general

fund) are to be deposited in this fund. Money in the fund is available for purposes authorized by future legislative appropriations. The governor is to make recommendations to the legislature regarding use of the funds.

- 4** Property tax reform account. Directs the commissioner of finance to abolish the property tax reform account on an unspecified date. (This account receives one-half of surplus revenues forecast in November of an odd numbered year.) All money is transferred to the general fund and is available for any purpose. Existing appropriations from the account are transferred to the general fund, but remain effective even though the account is repealed. On the effective date of the abolition of the account, transfers and appropriations to and from the account are canceled.
- 5** Repealer. Repeals the property tax reform account and the law allocating surplus revenues to it.
- 6** Effective date. Effective the day following final enactment.

Article 4

Capital Improvements

- 1** Purpose statement. States the purpose of the article is to reverse the November allocation of the general fund surplus to replace appropriations from the bond proceeds fund with general fund appropriations.
- 2** Capital improvement appropriations. Appropriates money from the bond proceeds fund for capital projects. These appropriation replace the appropriations from the general fund that were triggered by the November 1998 forecast. Under the 1998 Omnibus Tax Bill, the first \$400 million of a forecast general fund surplus in November (after depositing \$200 million in the tax reform and reduction account) were used to replace appropriations from the bond proceeds fund adopted in the 1998 Bonding Bill. The November 1998 forecast triggered the full \$400 million amount and the commissioner of finance converted the appropriations. This article reverses that conversion. The detail of these appropriations in contained in sections 3 to 11. The summary lists only the total amount of the appropriations by section.
- 3** University of Minnesota \$129,200,000
- 4** Minnesota State Colleges and Universities 15,960,000
- 5** DNR 3,430,000
- 6** Public Facilities Authority 30,300,000
- 7** Transportation 81,000,000
- 8** Indian Affairs 1,700,000
- 9** Trade and Economic Development 131,910,000
- 10** Minnesota Historical Society 6,500,000
- 11** Bond sale expenses 400,000
- 12** Purpose. States the purposes and uses of the appropriations are the same as in the 1998 Bonding Bill.
- 13** Bond sale authorization. Authorizes the sale of \$400 million of bonds (\$370 million for general purposes and \$30 million for the state transportation fund).
- 14** 1998 bond authorization. Reduces the 1998 Bonding Bill's bond authorization to reflect the conversion of projects to general fund appropriations.
- 15** 1998 bond expense appropriation. Cancels \$400,000 of the appropriation for bond sale expenses and of bond sale authorization in the 1998 bonding bill.
- 16** Effective date. Day following final enactment.