

HOUSE RESEARCH

Bill Summary

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Authors: Abrams and others

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Analyst: Joel Michael (651) 296-5057 Nina Manzi (651) 296-5204

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Overview

Provides for a 2001 sales tax rebate that would be paid automatically to individuals who had income tax liability in 1999, or who filed an income tax return or property tax refund return in order to claim a refund of withheld or estimated taxes or a refundable tax credit. Dependents with wage income would receive a rebate equal to 35% of the table amount. Social security recipients who did not otherwise qualify would receive a rebate of \$136. The minimum and maximum rebates are \$240 and \$3,400 for married couples filing joint returns and heads of household, and \$136 and \$1,700 for other filers.

The bill modifies the "automatic rebate" law to provide for actual issuance of rebates when the surplus exceeds 0.5% of the general fund expenditures, even if the legislature does not enact a rebate. Under present law, the governor is required to recommend a rebate plan, but if the legislature does not enact a rebate, no rebate is paid.

Section

- Automatic rebate.** Extends from April 15 to May 23 the date by which the legislature must either enact, modify or reject the automatic rebate plan presented by the governor.
Provides for an automatic rebate based on the most recent rebate paid if the legislature does not enact a rebate plan. The rebate would be based on the most recent rebate schedule, adjusted for more recent tax expenditure data and so that the total amount paid would equal the amount of the surplus. Under present law, the automatic rebate requirement for the governor to submit a plan to the legislature applies only if the estimated surplus exceeds one-half of one percent of general fund biennial revenues.
- Appropriation for rebate.** Allows for an appropriation if a rebate is not enacted by the legislature but is implemented by the commissioner under the language in section 1.
- Statement of purpose.** Describes the Legislature's intent in enacting a sales tax rebate and asserts that it is:

reasonable to rebate sales tax;

reasonable to use estimates and averages to calculate individual rebates in the absence of a practical method of determining actual sales tax amounts paid by individuals; and

reasonable to use the Department of Revenue's *Tax Incidence Report*, which analyzes the relationship between income and tax burdens, to estimate sales tax liability.

4 **Sales tax rebate.**

Paragraph (a). Eligibility based on income tax. Defines a person eligible for a rebate as someone who was a resident of Minnesota for at least part of 1999 and filed a 1999 income tax return with at least \$1 of liability before refundable credits, before November 30, 2001, and was not claimed as a dependent on another return.

Paragraphs (b) and (c). Rebate schedule. Provide tables showing the rebate amounts by taxable income. The minimum rebate is \$242 for married couples filing joint returns and head of household filers, and \$138 for single and married separate filers. The maximum rebate is \$3,500 for married couples filing joint returns and head of household filers and \$1,750 for single and married separate filers.

Paragraph (d). Rebate for nonresidents. Provides that individuals who were not residents of Minnesota for any part of 1999 who paid more than \$10 of consumer sales tax in that year may apply for a rebate. The rebate for nonresidents equals the lesser of 42.85 percent of the amount for which a claimant has receipts or the amount the claimant would have qualified for if they had been Minnesota resident. Claimants must apply to the commissioner by November 30, 2001.

Paragraph (e). Income. States that the rebate tables are based on federal taxable income plus Minnesota additions, such as out-of-state tax exempt bond interest and the itemized deduction for state income taxes (line 4 on the 1999 form M-1). For part-year residents the rebate is apportioned by the percentage that the claimant's Minnesota assignable income is of total income.

Paragraph (f). Minimum rebate, social security recipients. Provides a rebate of \$121 to social security recipients who were Minnesota residents in 1999 but who did not have 1998 income tax liability. The rebate equals one-half the minimum rebate for married couples and heads of household. The department of revenue may direct deposit the rebate into the bank account of an individual who receives their social security benefits by direct deposit.

Paragraph (g). Rebate for dependents. Provides a rebate equal to 35% of the table amount for single filers for dependents who had wage income in 1999 (line 7 of federal form 1040). The rebate would be based on the dependent's 1999 federal taxable income plus Minnesota additions.

Paragraph (h). Rebate for other income tax filers. Provides the minimum rebate amount by filing status for individuals who file a 1999 Minnesota income tax return in order to claim a refund of withheld income taxes or estimated tax payments, or in order to claim a refundable credit (i.e., working family tax credit, dependent care credit, K-12 education credit), and for individuals who filed a 1999 Minnesota property tax refund return as either a homeowner or a renter. The rebate under this paragraph is not allowed for individuals claimed as dependents.

Paragraph (i). Fiscal year taxpayers. Extends the filing deadline for fiscal year taxpayers based on the starting date of the taxpayer's fiscal year 1999.

Paragraph (j). Adjustment of rebate schedule. Directs the commissioner of revenue to adjust the rebate schedule and percentages proportionately to keep the total rebate estimated on the day the rebate is processed within the originally estimated cost of the schedule. These adjustments are made for returns filed after January 1, 2001, but before June 1, 2001, and for dependent and

other income tax filers.

Paragraph (k). Payment date; interest. Authorizes the commissioner to begin paying rebates by July 1, 2001. Interest accrues on unpaid rebates beginning January 1, 2002.

Paragraph (l). Amended returns. Provides that sales tax rebates will not be recomputed based on adjustments to a taxpayer's 1999 income tax return that are filed after the date the rebate is processed.

Paragraph (m). Married claimants. Directs the commissioner to issue a joint rebate to taxpayers who filed a joint return in 1999. Allows taxpayers who filed a joint 1999 return to request a check for one-half of the joint rebate, if the original check has not been cashed. Also allows the commissioner to issue separate rebate checks to taxpayers who filed a joint return in 1999 but separate returns in 2000, or who notify the commissioner of separate addresses.

Paragraph (n). Deceased claimants. Allows the commissioner to issue separate checks to beneficiaries of estates entitled to rebates if probate has closed before the rebate check was received. Requires the estate to provide documentation to the commissioner.

Paragraph (o). Application of other law. Provides the rebate is covered by the data practices law that applies to other tax data and that the commissioner may retain the rebate to offset delinquent taxes. Also provides that payment of the sales tax rebate is subject to revenue recapture. It is the responsibility of the claimant agency to remit non-debtor spouses' shares of offset rebates.

Paragraph (p). Rebate to offset delinquent liability. Provides that the rebate is may be used to offset delinquent tax liability.

Paragraph (q). Lapse of right to rebate. Provides that the right to the rebate lapses and the rebate reverts to the general fund for rebate checks not cashed by July 1, 2003.

Paragraph (r). Appeal of rebate amount. Provides a mechanism for taxpayers to protest if they did not receive a rebate or if they received an incorrect amount. The regular administrative and court appeal rights apply.

Paragraph (s). Rebate subject to revenue recapture. Provides that payment of the sales tax rebate is subject to revenue recapture. It is the responsibility of the claimant agency to remit non-debtor spouses' shares of offset rebates.

Paragraph (t). Fiscal year accounting; appropriation. Specifies the rebate is an adjustment to fiscal year 2001 sales tax revenues and appropriates the amount necessary to make the rebate payments.

Paragraph (u). Theft of rebates. Provides that the commissioner may issue an order of assessment for the appropriate amount for a rebate check that is forged, improperly endorsed, or determined to have been issued in error or overstated. The assessment must be issued within two years unless cashing the check constituted forgery or theft, in which case no statute of limitation applies. The assessment can be appealed administratively and judicially, and collection may be commenced under chapter 289A.

Paragraph (v). Commissioner's authority. Authorizes the commissioner to take whatever action is deemed necessary to pay the rebate. Allows the commissioner, in consultation with the department of finance and state treasurer, to contract with a private vendor to process, print, and mail the rebate checks and receive and disburse state funds when checks are cashed.

Paragraph (w). Payment by EFT. Authorizes the commissioner of revenue to pay the rebate by electronic funds transfer to individuals who received their 2000 income tax refund by electronic funds transfer.

5 **Appropriations.** Appropriates a \$500,000 in fiscal year 2001 and \$1,231,600 in fiscal year

2002 to the commissioner of revenue to administer the rebate.

Appropriates \$278,000 to the state treasurer to pay the cost of clearing rebate checks through commercial banks.