

HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 1597

DATE: May 9, 2003

Version: Second Engrossment

Authors: Abrams

Subject: Tax Omnibus Bill

Analyst: Joel Michael, 651-296-5056
Karen Baker, 651-296-8959
Steve Hinze, 651-296-8956
Pat Dalton, 651-296-7434
Nina Manzi, 651-296-5204

This publication can be made available in alternative formats upon request. Please call 651-296-6753 (voice); or the Minnesota State Relay Service at 1-800-627-3529 (TTY) for assistance. Summaries are also available on our website at: www.house.mn/hrd.

Table of Contents

	<u>Bill Page</u>
Article 1: Job Opportunity Building Zones	3..... 3
Article 2: Biotechnology and Health Science Zones	12..... 40
Article 3: Income, Franchise, and Estate Taxes	19..... 63
Article 4: Sales and Use Taxes	21..... 72
Article 5: Property Taxes	29..... 122
Article 6: Intergovernmental Aids	39..... 160
Article 7: Levy Limits	45..... 189
Article 8: Truth in Taxation and Reverse Referendum	46..... 198
Article 9: Local Economic Development	48..... 212
Article 10: Minerals	55..... 257
Article 11: Special Taxes	59..... 276
Article 12: Department Income, Corporate Franchise, and Estate Tax Initiatives	62..... 288
Article 13: Federal Update	66..... 311
Article 14: Department Property Tax Initiatives	67..... 315
Article 15: Department Sales and Use Tax Initiatives	71..... 368
Article 16: Department Special Taxes Initiatives	74..... 385
Article 17: Department Collections and Compliance Initiatives	76..... 396
Article 18: Blue Waters	78..... 403

Article 19: Miscellaneous 79..... 409

Article 1: Job Opportunity Building Zones

Overview

This article authorizes the commissioner of the department of trade and economic development (DTED) to designate up to 10 job opportunity building zones in economically distressed rural areas. These zones could be divided up into separate noncontiguous subzones, located in one or more local government units.

Qualifying businesses operating in the zones are exempt from sales, income, and property taxes and a refundable jobs credit is available for the portion of increased payroll that exceeds \$30,000 per FTE. Individuals who invested in zone businesses would be exempt on their business income attributable to activity in the zone, as well as capital gain taxes on zone investments. The zones would have a maximum duration of 12 years. Designations would occur in 2003 and the tax reductions would be effective in 2004.

In addition, the article authorizes designation of up to 5 agricultural processing facility zones. These zones would be limited to the sites of the agricultural processing facilities themselves.

1 Job opportunity building zone property. Provides that commercial and industrial property (both real and personal) in a job opportunity building zone or an agricultural processing zone is exempt from property taxation. This exemption does not apply, however, to the following:

- Land
- Commercial-industrial property where neither the owner nor the lessee is a qualified business (See the summary of section 0 for the definition of a qualified business.)
- Debt service levies for general obligation bonds
- School operating referenda, if the voters approved the levy before designation of the zone.

The exemption applies to the first assessment year after designation of the zone by the commissioner of trade and economic development.

2 Wind energy production tax exemption. Provides that electricity generated in a job opportunity building zone is not subject to the wind energy production tax. This tax is imposed in lieu of the property tax.

3 Individual income tax exemption. Provides that income derived from investing in or operating a qualified business in a job opportunity building zone is exempt from individual income taxation. The qualifying rules for these exemptions are described in section 0.

4 Corporation franchise tax exemption. Provides income from operating a qualified business in a job opportunity building zone is deductible in calculating taxable income under the corporate franchise tax. The details of this exemption are described in the summary of section 0.

5 Individual income tax exemption, nonresidents. Provides that in calculating the Minnesota tax for a non-resident, job opportunity building zone income is excluded from both the numerator and denominator of the ratio. Nonresidents calculate their Minnesota tax by determining the Minnesota tax on their total income (both Minnesota and non-Minnesota).

The Minnesota liability is, then, determined by multiplying this amount by a fraction, the numerator of which is Minnesota source income and the denominator of which is total income.

- 6 Jobs credit. Provides that the jobs credit applies against chapter 290 taxes (regular and alternative minimum tax under both the individual income and corporate franchise taxes). A summary of the rules for this credit is found in section 0.
- 7 Dependent care credit. Clarifies that tax-exempt job opportunity building zone income reduces the amount of the dependent care credit that is allowed. For example, if one-quarter of the taxpayer's income were tax-exempt job opportunity building income, the otherwise applicable dependent care credit would be reduced by 25 percent. This is same treatment that applies to tax-exempt reservation income of American Indians and to part year residents.
- 8 Working family credit. Clarifies that tax-exempt job opportunity building zone income reduces the amount of the working family credit that is allowed. This is the same treatment described in section 0 for the dependent care credit and is consistent with the treatment of other forms of tax-exempt income.
- 9 Individual AMT exemption. Extends the individual income tax exemption to the alternative minimum tax or AMT.
- 10 Corporate AMT exemption. Exempts income from operating a business in a job opportunity building zone from the corporate AMT.
- 11 Minimum fee, complete exemption. Exempts a business from the minimum fee if all of its property and payroll is located in a job opportunity building zone.
- 12 Corporate minimum fee. Excludes property and payroll located in a job opportunity building zone from use in calculation of the minimum fee under the corporate franchise tax. This exemption applies to a business that has property and payroll outside of the zone.
- 13 Sales tax exemption. Provides a sales tax exemptions for businesses located in a job opportunity building zone. To qualify for this exemption, the goods or taxable services must be primarily used in the zone and purchased during the duration of the zone. The exemption extends to contractor purchases (if the final use of the property is in the zone) and to local sales taxes.
- 14 Motor vehicle sales tax exemption. Provides an exemption from the motor vehicle sales tax for vehicles used by a business in a job opportunity building zone. The vehicle must be both garaged in the zone and primarily used in support of zone operations of the business (e.g., delivering products produced in the zone or delivering supplies used in the zone). The exemption also applies to local sales taxes.
- 15 Definitions. Defines terms for purposes of the job opportunity building zone statute.

- Agricultural processing facility means a facility that transforms, packages, sorts, or grades agricultural, livestock, or plant products into goods for intermediate or final consumption.
- Applicant is a local government or governments applying for designation of a job opportunity building zone. A joint powers board, acting on behalf of two or more local government units, may be an applicant.
- Commissioner is the commissioner of trade and economic development.
- Development plan is a development plan adopted by the local government as part of its application for designation of a job opportunity building zone.
- Job opportunity building zone is a zone designated under the statute's

procedure and includes an agricultural processing zone.

- Job opportunity building zone percentage is a fraction used to apportion income to zone for business operating both within and outside of the zone. The percentage is the average of the zone payrolls and property over total Minnesota payrolls and property.
- Job opportunity building zone payroll factor is the wage and salaries paid to employees for services performed in the zone or to employees working from offices in a zone, if the work outside the zone is incidental to that in the zone.
- Local government unit is a city (either home rule charter or statutory), county, town, iron range resources and rehabilitation agency, regional development commission, or federally designated economic development district.
- Person means an individual or any type of legal entity (corporation, partnership, etc.).
- Qualified business means a trade or business operating within a job opportunity building zone. If a business relocates operations into a zone, to be a qualified business it must both:

- Meet an expansion test by either:
 - Increasing employment by 20% in its first full year of zone operations and maintaining that level of employment during the duration of the zone; or
 - Making a capital investment in the zone equal to 10% of its gross revenues in the prior year from the portion of the business it relocated to the zone; and
- Agree in writing to repay the tax benefits, if it does not meet the expansion test.

- Relocates means moving a Minnesota business operation from outside a zone into a zone or by locating an operation in a zone that supplants employment at an existing Minnesota business operation outside the zone. It does not include an expansion that does not replace or supplant another Minnesota operation.

16

Development plan. Requires applicants for zone designation to adopt a written development plan containing at least:

- A map of the zone with details on present uses and conditions in the area
- Evidence of community support and commitments to the zone
- Description of the plans and methods that will be used to stimulate development of the zone

- Description of the characteristics of the zone (e.g., social, economic, and demographic conditions)
- Description of the anticipated activity in the zone
- Any other information the commissioner requires.

17 Limitations. Establishes various rules governing job opportunity building zones:

- Maximum size is limited to 5,000 acres. For an agricultural processing facility zone, the maximum size is limited to the site of the facility, including space for ancillary facilities and expansion in the "reasonably foreseeable future."
- A zone may be divided into noncontiguous subzones.
- Zones must be located outside of the Twin Cities (7 county) metropolitan area.
- A zone cannot overlap with a border city development zone. A border city can, however, choose to seek designation of the area of a border city development zone as a job opportunity building zone by providing for removal of property from the border city zone. If property owners in the existing zone are receiving incentives under it, they must consent to the removal. The removal can be contingent upon designation of the zone as a job opportunity building zone. Border city development zone incentives cannot be provided to businesses for operations in a job opportunity building zone.
- The maximum duration of a zone is 12 years. A shorter duration can be requested by the applicant or specified by DTED in its designation of the zone.

18 Application for designation of zones. Provides rules governing applications for zone designations.

Who may apply. One or more local governments (city or town, county, and school district) may apply for designation of a zone. The zone must be located, at least partially, in each of the applicant governmental units. A local government can apply for only one zone designation.

Contents of application. The application must include:

- A development plan for the zone
- The proposed duration of the zone
- Resolutions approving the application by all of the cities, towns, and counties that include the zone (This is essentially an agreement to provide the local tax reductions-i.e., property tax or local sales tax exemptions.)
- Consents to removals, if the proposed zone includes a border city development zone
- Supporting evidence to help the commissioner of DTED evaluate the merits of

the application

Designation of job opportunity building zones. Directs the commissioner of DTED to designate no more than 10 job opportunity building zones. These designations are to be made based on need and likelihood of success in revitalizing economically distressed rural areas in Minnesota. The commissioner may also designate up to 5 agricultural processing facility zones. In designating the zones, the commissioner may modify the development plans, including the boundaries of the zones. Notice and a statement of reasons must be provided to the applicant for any modifications.

Need indicators. The commissioner must consider the following measures of need (generally measured relative to the averages for the state as a whole):

- Percentage of the population below 200% of the poverty rate
- Average weekly wage
- Deteriorating or underutilized property
- Median sale price of housing units
- Median household income
- Population loss in the last two decades
- Closing of businesses or major employers
- Physical characteristics of property that it make it difficult to develop
- Presence of existing public and private infrastructure to support expanded development
- Low business startup and expansion rates

In applying these indicators, the best available data is to be used. If data that is specific to the zone is not available, the commissioner may use data for the next smallest area that is available.

Success indicators. The commissioner may use the following as measures of likely success of a proposed zone:

- Viability of the development plan
- How creative and innovative the plan is
- Local public and private commitment to the effort
- Existing resources available in the zone

- Relationship of the designation to other projects and programs
- How regulatory burdens will be eased in the zone
- Job training efforts that will be linked to the designation
- The extent to which the plan is directed at and the designation of the zone will result in high paying jobs

Schedule. The designations are to be made during calendar year 2003 and will take effect beginning January 1, 2004. The bill sets out the following schedule related to the designations:

- DTED must specify the rules for applications by August 1, 2003.
- The application deadline is October 15, 2003.
- DTED must designate the zones by December 31, 2003.

Geographic distribution. Sets a goal of distributing zones around the state.

Ruling making exemption. The commissioner's actions in administering the program (e.g., setting application requirements and so forth) are not subject to rule making procedures under the Administrative Procedures Act.

20

Available tax incentives. The following tax incentives are available in job opportunity building zones:

- Business owners are exempt from the individual income tax on income from business operations and investments in a job opportunity building zone
- The corporate franchise tax does not apply to corporate income generated by zone operations
- State and local sales taxes (both general and on motor vehicles) do not apply to purchases used by businesses in a job opportunity building zone
- Property taxes do not apply to improvements in the zone
- The wind energy production tax does not apply to wind energy conversion systems in a zone
- A refundable jobs credit is available for higher paying jobs.

21

Individual income tax exemption. Provides income tax exemptions for individuals operating businesses in zones or investing in zones. These exemptions only apply if the income would otherwise be taxable.

Rents. Rents received for both real and tangible personal property located in the zone are exempt. Rents from personal property that is used both within and outside of the zone must

be apportioned based on the number of days the property was used in the zone.

Business income. Income from operating a business in a job opportunity building zone is exempt. If the business operates both within and outside of the zone, the income must be apportioned using the share of property and payroll located in the zone to the total property and payroll of the taxpayer. The exemption is limited so that the exempt income (determined by using the apportionment mechanism) cannot exceed 20 percent of the sum of the zone payroll and original adjusted basis of the investment in the zone.

Capital gains. Capital gains on real and tangible personal property located in a job opportunity building zone or sale of a business operated in the zone are exempt from taxation. Different rules apply to determine the amount of the exemption:

- **Real property.** Capital gains on real property located in a job opportunity building zone are exempt from taxation based on the share of the holding period that took place while the area was designated a job opportunity building zone. To illustrate, assume A purchased a piece of real property for \$1,000 and held the property for 10 years. A, then, sold the property for \$5,000. For 6 years of the 10-year holding period, the property was located in a job opportunity building zone. Of A's \$4,000 capital gain (\$5,000 sale price - \$1,000 purchase price = \$4,000), 60 percent or \$2,400 would be exempt from taxation ($\$4,000 * 60\% = \$2,400$), since 6 years out of the 10-year holding period occurred while the zone was designated a job opportunity building zone.
- **Tangible personal property.** Capital gains on tangible personal property located in a job opportunity building zone are exempt from taxation based on the share of the holding period that took place while the zone was designated a job opportunity building zone and the usage of the property in the zone. This calculation is essentially the same as that for real property. However, if the personal property was used both within and without the zone, the exemption amount must also be multiplied by a fraction. The numerator of the fraction is the number of days the property was used in the zone while it was designated as a job opportunity building zone and the denominator is the total number of days the taxpayer held the property.
- **Ownership in qualified business.** Capital gain on an ownership interest (e.g., stock or a partnership interest) in a qualified business is exempt from taxation. This exemption equals the job opportunity building zone percentage for the business multiplied by the capital gain. The zone percentage is calculated using as its denominator the total property and payroll (not just the Minnesota payroll and property). This exemption does not apply if the zone percentage is less than 25 percent. The business entity is responsible for notifying the owner of its qualification for the capital gain exemption.

22

Corporate franchise tax exemption. Provides that a corporation operating in the zone is exempt from the corporate franchise tax, if it is a qualified business. If the entire business operates in the zone, the corporation is fully exempt from taxation under the corporate franchise tax and would not be required to file a return. If the corporation does business both within and outside of the zone, the following rules apply:

- **Regular tax.** The corporation's taxable net income is multiplied by its zone

percentage (average property and payroll in the zone divided by total Minnesota property and payroll) and subtracted from its taxable income.

- AMT. The corporation's alternative minimum taxable income is multiplied by the zone percentage and this amount is subtracted from the taxable income.
- Minimum fee. Its zone property and payroll are excluded from calculating the minimum fee.

23 **Jobs Credit.** Provides a job credit to a qualified business operating in a zone equal to 7 percent of:

- The lesser of either:
 - The increase in the business payroll in the zone since the year of designation or
 - The increases in total Minnesota payroll since the year of designation; minus
- The increase in the number of FTEs in the zone since designation multiplied by \$30,000

Inflation adjustment. Starting for tax year 2005, the \$30,000 amount will adjusted for inflation.

Refundable. The credit is refundable.

24 Repayment of tax benefits. Requires a business to repay tax benefits or any non-tax amounts provided by the local governments, if the business:

- Did not meet the goals specified in a business subsidy agreement. The commissioner can extend by a year the time to meet the agreed goals.
- Ceased to operate in the zone or was not a qualified business.

The provision requires repayment of the last two years of benefits received before the business ceased its zone operations or failed to meet its agreed goals.

Disposition or repayments. Repayments of state tax reductions are paid to the state and deposited in the general fund. Repayments of property taxes are distributed to local governments in the same manner as delinquent property taxes. Repayments of local sales taxes are made to the unit imposing the tax.

Authority to collect. The commissioner of revenue is given authority to collect repayments in the same manner as unpaid taxes and the same interest and penalty rules apply. For individual income and corporate franchise taxes, the taxpayer files an amended return and must repay within 30 days after the triggering event. For property taxes, the county auditor is to prepare a tax statement using the otherwise applicable tax rates. If the amounts are not paid, they become liens against the property in the same way as any other unpaid property tax. Motor vehicle sales taxes are repaid to the motor vehicle registrar.

Waiver authority. The commissioner of revenue, after consulting with the commissioner of DTED and the affected local units of government, may waive all or part of a repayment if it is deemed to be in the best interest of the state and the business ceased operations for reasons

beyond its control, such as a natural disaster, unforeseen industry trends, or loss of a major supplier or customer.

25 Zone performance; remedies. Successful applicants for zone designation must annually report to the commissioner on zone performance. Based on these reports and other information, the commissioner may take action the commissioner considers appropriate, such as removing property from the zone or terminating the zone or a subzone. Before doing so, the commissioner must consult with the local governments and provide notice of the proposed action. The commissioner's action may be appealed as a contested case under the administrative procedures act. Income and property tax incentives provided in area removed from a zone or terminated zone continue for existing businesses. Sales tax exemptions continue for purchases made before the beginning the first calendar month beginning 30 days after termination of the zone or removal of the property.

26 Job opportunity building zone aid. Provides for the payment of state aid to partially reimburse cities and counties with job opportunity building zones for a proportionately large loss of tax base as a result of the zones. To qualify for this aid, a city or county must experience at least a 3% drop in tax capacity (as compared with a base year of 2003) as a result of the property tax exemption provided through the job opportunity building zone. The amount of aid is calculated using the following formula:

$$0.5 * \text{local unit's rate in 2003} * [\text{job opportunity building zone exempt tax capacity} - (0.03 * 2003 \text{ tax capacity})]$$

Certification by assessor. The county assessor is to certify entitlements to this aid to the commissioner of revenue. The commissioner notifies the each city and county of its entitlement to aid by August 20 of the assessment year. The aid is paid by July 20 of the payable year. An appropriation is made to the commissioner of revenue for the aid.

27 Appropriations. Appropriates the following amounts to DTED and DOR for the costs of administering the zone program:

Agency	FY 2004	FY 2005
DTED	\$100,000	\$30,000
DOR	53,000	29,000
Total	\$153,000	\$59,000

Article 2: Biotechnology and Health Science Zones

Overview

This article authorizes the commissioner of the department of trade and economic development (DTED) to designate one biotechnology and health science industry zone. In designating the zone, priority is given to locations close to and connected with a higher education or research institution, such as the Mayo Clinic or University of Minnesota. This zone could be divided up into separate noncontiguous subzones, located in one or more local government units. Qualifying businesses engaged in biotechnology or health sciences and operating in the zone may qualify for sales tax exemptions, corporate franchise tax exemptions, job credits, research credits, and property tax exemptions. The commissioner of DTED awards these incentives upon application by the businesses. The total amount of the incentives (state and local) is limited to \$1 million. The zone would have a maximum duration of 12 years. Designations would occur in 2003 and the tax reductions would be effective in 2004.

- 1 Legislative findings. Makes legislative findings on the desirability of providing incentives to biotechnology and health science industries to locate close to the University of Minnesota and the Mayo Clinic. The findings require that encouraging expansion of the industry include attention to the ethical, legal, and societal impacts of the industry.
- 2 Biotechnology and health science industry zone property. Provides that commercial and industrial property (both real and personal) in a biotechnology and health science industry zone is exempt from property taxation. This exemption does not apply, however, to the following:
 - Land
 - Commercial-industrial property where the neither the owner nor the lessee is a qualified business (See the summary below for section 0for the definition of a qualified business.)
 - Debt service levies for general obligation bonds
 - School operating referenda, if the voters approved the levy before designation of the zone.
- 3 The exemption applies to the first assessment year after designation of the zone by the commissioner of trade and economic development. The city and county can opt to not provide an exemption from their taxes. The exemption would apply in all cases to school and other special district property taxes (other than debt and referendum operating levies as noted above).
- 3 Corporation franchise tax exemption. Provides income from operating a qualified business in a biotechnology and health science industry zone is deductible in calculating taxable income under the corporate franchise tax. The details of this exemption are described in the summary of section 0.
- 4 Job credit. Allows the job credit under section 0to reduce corporate franchise tax liability.
- 5 Research credit. Allows the research credit under section 0to reduce corporate franchise tax liability.

- 6 Corporate AMT exemption. Exempts income from operating a business in a biotechnology and health science industry zone from the corporate AMT.
- 7 Corporate minimum fee. Excludes property and payroll located in a biotechnology and health science industry zone from use in calculation of the minimum fee under the corporate franchise tax. This fee applies to partnerships and S corporations, as well as traditional C corporations that are subject to the franchise tax.
- 8 Sales tax exemption. Provides a sales tax exemption for businesses located in a biotechnology and health science industry zone. To qualify for this exemption, the goods or taxable services must be primarily used in the zone and purchased during the duration of the zone. The exemption extends to contractor purchases (if the final use of the property is in the zone) and to local sales taxes. The tax will be paid by the purchaser and application made to the commissioner of revenue for a refund under the capital equipment refund provisions.
- 9 Definitions. Defines terms for purposes of the biotechnology and health science industry zone statute.

- Applicant is a local government or governments applying for designation of a biotechnology and health science industry zone. A joint powers board, acting on behalf of two or more local government units, may be an applicant.
- Biotechnology and health science industry facility means a facility involved in either (1) researching, developing or manufacturing a biotechnology product or service, (2) researching, developing, or manufacturing (or any combination of them) a biotechnology medical device product or service, or (3) promoting, supplying or servicing a facility engaged in activities under (1) or (2), if it derives more than 50 percent of its gross receipts from those types of businesses.
- Commissioner is the commissioner of trade and economic development.
- Development plan is a development plan adopted by the local government as part of its application for designation of a biotechnology and health science industry zone.
- Biotechnology and health science industry zone is a zone designated under the statute's procedure.
- Biotechnology and health science industry zone percentage is a fraction used to apportion income to the zone for qualified businesses operating both within and outside of the zone. The percentage is the average of the zone payrolls and property over total Minnesota payrolls and property.
- Biotechnology and health science industry zone payroll factor is the wage and salaries paid to employees for services performed for a qualified business in the zone or to employees working from offices of a qualified business in a zone, if the work outside the zone is incidental to that in the zone.
- Local government unit is a city (either home rule charter or statutory), county, town, or school district.
- Person means an individual or any type of legal entity (corporation,

partnership, etc.).

- Qualified business means a trade or business operating at a biotechnology and health science industry facility within a biotechnology and health science industry zone. If a business relocates operations into a zone, to be a qualified business it must both:
 - Meet an expansion test by either:
 - Increasing employment by 20% in its first full year of zone operations and maintaining that level of employment for each year the zone designation applies; or
 - Making a capital investment in the zone equal to 10% of its gross revenues in the prior year from the portion of the business it relocated to the zone; and
 - Agree in writing to repay the tax benefits, if it does not satisfy the test.
- Relocates means moving a Minnesota business operation from outside a zone into a zone or by locating an operation in a zone that supplants employment at an existing Minnesota business operation outside the zone. It does not include an expansion that does not replace or supplant another Minnesota operation.

10 Development plan. Requires applicants for zone designation to adopt a written development plan containing at least:

- A map of the zone with details on present uses and conditions in the area
- Evidence of community support and commitments to the zone
- Description of the plans and methods that will be used to stimulate development of the zone
- Description of the characteristics of the zone (e.g., social, economic, and demographic conditions)
- Description of the anticipated activity in the zone
- Any other information the commissioner requires.

11 Limitations. Establishes various rules governing biotechnology and health science industry zones:

- Maximum size is limited to 5,000 acres.
- A zone may be divided into noncontiguous subzones.
- The maximum duration of a zone is 12 years. A shorter duration can be requested by the applicant or specified by DTED in its designation of the zone.

12 Application for designation of zones. Provides rules governing applications for zone

designations.

Who may apply. One or more local governments (city or town, county, and school district) may apply for designation of a zone. The zone must be located, at least partially, in each of the applicant governmental units. A local government can apply for only one zone designation.

Contents of application. The application must include:

- A development plan for the zone
- The proposed duration of the zone
- Resolutions approving the application by all of the cities, towns, and counties that include the zone (This is essentially an agreement to provide the local sales tax reductions. The resolution must indicate whether the city and county will provide the property tax exemption.)
- Supporting evidence to help the commissioner of DTED evaluate the merits of the application

13

Designation of biotechnology and health science industry zones. Directs the commissioner of DTED to designate no more than one biotechnology and health science industry zone. Priority is to be given to applicants that link a higher education or research institution to the industry facilities in the zone. In designating the zone, the commissioner may modify the development plan, including the boundaries of the zone. Notice and a statement of reasons must be provided to the applicant for any modifications.

Need indicators. The commissioner must consider the following measures of need:

- The extent to which land near a scientific research institution could be better used for biotechnology industry facilities
- The amount of deteriorating or underutilized property in or near the potential zone
- The extent to which property in the area would remain undeveloped due to physical characteristics of the property

The commissioner may require applicants to provide data demonstrating how the area meets these criteria.

Success indicators. The commissioner may use the following as measures of likely success of a proposed zone:

- Showing of a viable link between the higher education/research institution and the businesses
- The extent to which the area has property and infrastructure to support the

development

- Strength and viability of the development plan
- Whether the development is creative and innovative
- Local public and private commitment to the effort
- Existing resources available in the zone
- Relationship of the designation to other projects and regional initiatives and programs
- How regulatory burdens will be eased for biotechnology and health science businesses in the zone
- Job training efforts that will be linked to the designation
- Linking of job creation and training to the higher education institutions
- The extent to which the plan is directed at and the designation of the zone will result in high paying jobs

Schedule. The designations are to be made during calendar year 2003 and will take effect beginning January 1, 2004. The bill sets out the following schedule related to the designations:

- DTED must specify the rules for applications by August 1, 2003.
- The application deadline is October 15, 2003.
- DTED must designate the zones by December 31, 2003.

14 Application for tax benefits; limit on amount. Requires businesses seeking tax incentives listed in section 0 to apply to DTED for tax credit certificates. The business must agree to provide information sufficient to verify its eligibility for the tax benefits. DTED must provide verification to the Department of Revenue of the eligibility of the business. The business can only qualify for tax incentives equal to the credit certificates given. The certificates will indicate the amount and type of tax incentives available to the business. The authority to award these certificates is limited to \$1 million for the current biennium. No allocation is provided for award of tax reductions in future biennia. This limit apparently also applies to local taxes (i.e., property and local sales taxes).

15 Available tax incentives. The following tax incentives are available in biotechnology and health science industry zones:

- The property tax exemption under section 0
- The corporate franchise tax exemption under section 0

- State and local sales taxes under section 0
- The research credit under section 0
- The jobs credit under section 0

16 Corporate franchise tax exemption. Provides that a corporation operating in the zone is exempt from the corporate franchise tax, if it is a qualified business. If the entire business operates in the zone, the corporation is fully exempt from taxation under the corporate franchise tax and would not be required to file a return. If the corporation does business both within and outside of the zone, the following rules apply:

- Regular tax. The corporation's taxable net income is multiplied by its zone percentage (average property and payroll in the zone divided by total Minnesota property and payroll) and subtracted from its taxable income.
- AMT. The corporation's alternative minimum taxable income is multiplied by the zone percentage and this amount is subtracted from the taxable income.
- Minimum fee. Its zone property and payroll are excluded from calculating the minimum fee.

Limits. The exemption under this section cannot exceed the lesser of the (1) credit certificates that DTED awarded to the business and (2) 20 percent of the business' zone payroll and the basis of its property in the zone.

17 **Jobs credit.** Provides a job credit to a qualified business operating in a zone equal to 7 percent of:

- The lesser of either:
 - The increase in the business payroll in the zone since the year of designation or
 - The increases in total Minnesota payroll since the year of designation; minus
- The increase in the number of FTEs in the zone since designation multiplied by \$30,000

Inflation adjustment. Starting for tax year 2005, the \$30,000 amount will adjusted for inflation.

Refundable. The credit is refundable.

18 Research credit. Allows a credit for increases in expenditures by qualifying businesses on research. This credit essentially is the same as the research credit generally allowed under the corporate franchise tax with three exceptions:

- The research must be done in the fields of biotechnology or health sciences.
- The research must be done in the zone.
- The credit is refundable.

19 Repayment of tax benefits. Requires a business to repay tax benefits or any non-tax amounts

provided by the local governments, if the business:

- Did not meet the goals specified in a business subsidy agreement. The commissioner can extend by a year the time to meet the agreed goals.
- Ceased to operate in the zone or was not a qualified business.

The provision requires repayment of the last two years of benefits received before the business ceased its zone operations.

Disposition or repayments. Repayments of state tax reductions are paid to the state and deposited in the general fund. Repayments of property taxes are distributed to local governments in the same manner as delinquent property taxes. Repayments of local sales taxes are made to the unit imposing the tax.

Authority to collect. The commissioner of revenue is given authority to collect repayments in the same manner as unpaid taxes and the same interest and penalty rules apply. For individual income and corporate franchise taxes, the taxpayer files an amended return and must repay within 30 days after the triggering event. For property taxes, the county auditor is to prepare a tax statement using the otherwise applicable tax rates. If the amounts are not paid, they become liens against the property in the same way as any other unpaid property tax. Motor vehicle sales taxes are repaid to the motor vehicle registrar.

Waiver authority. The commissioner of revenue, after consulting with the commissioner of DTED and the affected local units of government, may waive all or part of a repayment if it is deemed to be in the best interest of the state and the business ceased operations for reasons beyond its control, such as a natural disaster, unforeseen industry trends, or loss of a major supplier or customer.

20

Zone performance; remedies. A successful applicant for a zone designation must annually report to the commissioner on zone performance. Based on these reports and other information, the commissioner may take action the commissioner considers appropriate, such as removing property from the zone or terminating the zone or a subzone. Before doing so, the commissioner must consult with the local governments and provide notice of the proposed action. The commissioner's action may be appealed as a contested case under the administrative procedures act. Income and property tax incentives provided in area removed from a zone or terminated zone continue for existing businesses. Sales tax exemptions continue for purchases made before the beginning the first calendar month beginning 30 days after termination of the zone or removal of the property.

Article 3: Income, Franchise, and Estate Taxes

Overview

Converts the political campaign checkoff to a contribution from the taxpayer rather than an appropriation from the general fund. Increases the maximum amount of the checkoff from \$5 to \$25.

Decreases the maximum political contribution refund from \$50 to \$25 (from \$100 to \$50 for a joint return), and limits the amount refunded to 50 percent of the contribution.

Extends the carryover period for the jobs credit for Northwest Airlines from 10 to 20 years.

Provides a regional angel investment network credit equal to 25 percent of the amount invested. Limits the total amount of the credit to \$2.5 million.

Increases the estate tax exemption amount to \$1 million.

Allows the full amount of charitable contributions to be deducted in calculating the alternative minimum tax.

Appropriates \$100,000 for grants to organizations providing taxpayer assistance services.

- 1 Political campaign checkoff. Provides that up to \$25, instead of \$5 may be designated on individual income tax returns to be paid into the state elections campaign fund. Provides that the designated amount is added to the amount of tax due or subtracted from the refund due. Under current law, the amount designated is appropriated from the general fund to the state elections campaign fund.
- 2 Income tax form. Makes changes to the income tax form to conform with changes to the political campaign checkoff in the previous section.
- 3 Return filing requirement. Modifies the estate tax return filing requirement to limit the obligation to file a Minnesota estate tax return to estates with a gross estate of \$1 million or more, and those that are required to file a federal estate return. This is consistent with the increased estate tax exemption under section 0.
- 4 Political contribution refund. Lowers the maximum allowable political contribution refund from \$50 to \$25, or from \$100 to \$50 for a joint refund claim. Also limits the refund to 50% of the contribution. Effective for that portion of any refund claim based on contributions made on or after the day following final enactment.
- 5 Jobs credit. Extends the carryover period for the jobs credit for Northwest Airlines (under the state refinancing package enacted in 1991) from 10 years to 20 years. Any portion of the credit that remains unpaid at the end of the carryover period would be refunded to the taxpayer. This refund authority would not apply, however, if Northwest Airlines or a successor corporation goes through bankruptcy.
- 6 Regional angel investment credit. Allows an individual income and corporate franchise tax credit equal to 25 percent of the amount invested in a qualifying regional angel investment network (RAIN) fund. The credit applies against both the regular and alternative minimum taxes. It is limited to the amount certified by the commissioner of the Department of Trade and Economic Development (DTED). The fund must provide a credit certificate to the investor for the investor to claim the credit.

Funds must meet the following qualifications:

- Be a limited liability company whose members qualify as accredited investors under the SEC Regulation D (essentially certain corporate investors or individuals with high net worths (\$1 million or more) or high incomes (\$200,000 or more per year in the last two years or \$300,000 per year for a married couple in the last two years)
- Primarily make equity investments in emerging and expanding companies located outside of the seven-county Twin Cities metropolitan area, excluding companies that invests in residential real estate
- Be certified by DTED

The commissioner of DTED may certify up to 10 funds and provide credit certificates of up to \$250,000 to each fund (for a total limit on certificates of \$2.5 million). The commissioner is directed to generally certify funds in the order that applications are received, but to also seek to certify funds that are broadly dispersed across the state.

If the credit exceeds the taxpayers' liability for tax, a 15-year carryover of the credit to later taxable years is provided.

The section is effective beginning for tax year 2003 and applies only to investments made after the certification of the fund by DTED.

7 Alternative minimum tax charitable contributions deduction. Allows individuals to deduct the full amount of charitable contributions from alternative minimum taxable income. Current law limits the deduction to contributions in excess of 1.3 percent of the taxpayer's adjusted gross income.

8 Increase estate tax exemption amount. Accelerates the increase in estate tax exemption amount to \$1 million, effective for decedents dying after June 30, 2003. This makes the exemption equal to the exemption under the federal estate tax for decedents dying in 2003. Under present law, the Minnesota exemption is scheduled to rise to \$850,000 for decedents dying in 2004, \$950,000 for decedents dying in 2005, and \$1 million for decedents dying in 2006 and later. The federal exemption is scheduled to rise to \$1.5 million in 2004, to \$2 million in 2006, and to \$3.5 million in 2009.

9 Appropriation. Provides a \$100,000 appropriation in fiscal years 2004-2005 from the general fund to one or more nonprofit organizations for the coordination and provision of taxpayer assistance services. Defines "taxpayer assistance services" to mean accounting and tax preparation services provided by volunteers to help low-income and disadvantaged taxpayers prepare and file federal and state income tax returns, and claims for the property tax refund. Authorizes taxpayer assistance services to represent their clients before the Department of Revenue and the Internal Revenue Service.

Article 4: Sales and Use Taxes

Overview

This article makes a number of changes in the sales tax. It:

- Makes the additional modifications necessary for the state to be in compliance with the Streamlined Sales and Use Tax Agreement developed by the Streamlined Sales Tax Project (SSTP). The purpose of the agreement is to reduce the burden on remote sellers of collecting state sales taxes. In 2001 the state adopted as much of the agreement as had been agreed to at that time. This article adopts the language that was developed by SSTP after that period. It would bring the state into compliance with the existing agreement. These changes make modest changes in the tax base, both making some sales taxable, while exempting others from taxation. Appropriates \$269,000 to the commissioner for the cost of implementing these changes.
- Temporarily repeals the sales tax exemption for the state fair.
- Eliminates the scheduled repeal of the June accelerated payment and increases the percentage from 75 to 85 percent.
- Delays payment of interest on sales tax refunds until 90 days after the claim for refund has been filed.
- Exempts the metropolitan public safety radio system equipment from taxation.
- Exempts education, religious and rehabilitation camp fees for adults.
- Authorizes Newport to impose a local lodging tax.

- 1 Sales to other dealers. Removes the requirement that limited use vehicle dealers may sell vehicles to customers only by way of vehicle auctioneers, and allows them to sell to other motor vehicle dealers. Allows limited use vehicle dealers to donate vehicles to individuals.
- 2 Registration tax. Authorizes, but does not require, the motor vehicle registrar to issue certificates of title for dealer vehicles that are exempt from the certificate for title requirements. Present law prohibits the registrar from issuing certificates of title for these exempt vehicles.
- 3 Sales and use tax returns. Requires sellers who voluntarily register in Minnesota under the Streamlined Agreement, who are not filing through a certified provider, using a certified automated computation system, or using a recognized proprietary system, to file a sales tax return annually by February 5 or by the 20th of the month after the seller's Minnesota state and local accumulated tax liability is \$1,000 or more.
- 4 Sales and use tax; time for payment. States that the tax for filers under section 0 must be remitted by the 20th of the month following the end of the reporting period. Also removes the sunset for the June accelerated sales tax payment. Under current law, the June accelerated sales tax payments were scheduled to sunset for liabilities due after fiscal year 2003.
- 5 State Fair ticket sales. Suspends language allowing the state agricultural society to retain the sales tax proceeds collected on sales of tickets to the premises or events sponsored by the society on events conducted on the fairgrounds during the state fair, provided that proceeds were matched by the society and used for capital improvements to the state fairgrounds. From July 1, 2003 to June 30, 2009, these sales tax proceeds will be remitted to the state and used for general fund purposes. Beginning July 1, 2009 the sales tax proceeds will again be

retained by the state agricultural society, subject to matching requirements and to be used for capital improvements at the fairgrounds.

6 Bad debt loss. Adds the SSTP definition of "bad debt loss" to the statute. "Bad debt" is the definition under Federal tax law but excludes (1) finance charges and interest, (2) sales or use tax, (3) uncollected amounts on property that remains in the possession of the seller, and (4) expenses incurred in trying to collect the debt. Eliminates the language allowing the bad debt loss to be claimed within one year of the filing of the federal income tax return on which the bad debt loss is claimed.

7 Certified service provider (CSP); bad debt claim. Adopts the SSTP provision allowing a CSP who collects and remits tax for a seller to file a claim for bad debt loss, provided that the full amount of the credit is passed on to the seller. Currently only the seller may claim a bad debt loss. The definition of CSP was adopted in phase I of the SSTP compliance effort.

8 Notice from purchaser to vendor requesting refund. Adopts the SSTP requirements regarding purchaser refunds. The purchaser has to provide written notice to the seller with all necessary information regarding the claim. The seller has 60 days to respond. States that a seller is presumed to be following reasonable business practice if it is using a CSP or certified computer system to collect and remit taxes and has remitted all collected taxes. The law is currently silent on what a purchaser must do to request a refund through the vendor.

9 **Interest on sales tax refunds.** Provides that interest on all refunds of sales tax bear interest from 90 days after the claim was filed with the commissioner. Under current law, the date at which interest on sales tax refunds begin to accrue varies with the type of refund. Refunds of purchaser claims bear interest from 20 days after the month of purchase, and for refunds of capital equipment and building materials interest begins to accrue on the date the claim is filed for some of these exemptions and 60 days after the claim is filed for other exemptions . Effective for claims filed on or after April 1, 2003.

10 June accelerated underpayment penalty; safe harbor. Provides that the penalty for underpayment of the June accelerated sales tax would not be imposed if 85 percent of the preceding May's liability or 85 percent of the average monthly liability for the previous calendar year is remitted. Effective for payments made after December 31, 2003.

Also makes a correction to clarify that the safe harbor percentage for tax year 2003 is 75 percent. This is consistent with other provisions in effect for tax year 2003 and with Department of Revenue policy.

11 Sale and purchase; prewritten computer software, telecommunications, and pen-raised game or poultry. Makes four changes:

- Adopts the SSTP definition of "prewritten computer software" as the definition of taxable computer software. This SSTP definition, which is contained in section 0, was developed after phase I of the state's SSTP compliance effort. It does not change current department interpretation of what computer software is taxable and what is exempt.
- Eliminates the current description of when telecommunication is subject to the state tax and moves it to a separate section on telecommunications sourcing (section 0). This does not change current practice;
- Exempts fees and charges for pen-raised game or poultry by a game farm or hunting preserve from sales tax when either charged separately at a game farm or hunting preserve, or included in the membership dues of a game farm or hunting

preserve; and

- Provides a rental of a motor vehicle is subject to the sales tax if the customer pays a separately stated amount for the rental or the dealer receives reimbursement under a service contract provided through a third party, regulated by the Commissioner of Commerce (i.e., not a manufacturer's warranty).

- 12 Sales price. Modifies the definition of sales price by changing "property" to "personal
property" to match the final SSTP version. Does not change current practice.
- 13 Tangible personal property. Adopts the SSTP definition of "tangible personal property which
was enacted after phase I of the state's SSTP compliance effort. Does not change current
practice.
- 14 Lease or rental. Adopts the SSTP definition of "lease or rental" which was enacted after
phase I of the state's SSTP compliance effort. Does not change current practice.
- 15 Prewritten computer software. Adopts all the computer-related SSTP definitions that were
enacted after phase I of the state's SSTP compliance effort and are needed to define taxable
computer software. Does not change current practice.
- 16 Delivered electronically. Adopts the SSTP definition of "delivered electronically" used in
defining taxable computer software which was enacted after phase I of the state's SSTP
compliance effort. Does not change current practice regarding the department's interpretation
of taxable computer software.
- 17 Load and leave. Adopts the SSTP definition of "load and leave" used in defining taxable
computer software which was enacted after phase I of the state's SSTP compliance effort.
Does not change current practice regarding the department's interpretation of taxable
computer software.
- 18 Delivery charges. Adopts the SSTP definition of "delivery charges" that was modified after
phase I of the state's SSTP compliance effort.
- 19 Prepared food. Replaces the temporary exemption for ready to eat meat and seafood with a
permanent exemption for all prepared food sold in an unheated state by weight or volume as
a single item. A pound of beef jerky or a pint of deli salad would be exempt. This would
bring the state into compliance with the SSTP definition of "prepared food."
- 20 Direct mail. Adopts the SSTP definition of "direct mail" which was enacted after phase I of
the state's SSTP compliance effort. This definition is used in the permanent exemption
granted for delivery charges on direct mail contained in section 0 which replaces the
temporary exemption enacted last year.
- 21 Withdrawal from Streamlined Sales and Use Tax agreement. Adopts the SSTP provision that
prohibits a state that withdraws from the agreement from using a seller's registration with the
central registration system, or its collection of state taxes under the agreement to determine
whether the seller has nexus in the state.
- 22 Amnesty provisions. Adopts the SSTP amnesty provisions which allow amnesty for
uncollected or unpaid sales and use taxes on sales if the seller was not registered in the state
in the year preceding the state participation in the streamlined agreement and if the seller
registers within one year of the state's participation in the agreement and continues to pay the
tax for at least 3 years after registration. Amnesty does not apply in the case of fraud or if the
seller is currently the subject of an audit or has received notice of an audit.
- 23 Sourcing rules. Adopts the SSTP sourcing rules which were completed after phase I of the
state compliance effort.

Subd. 1. States that the general sourcing rules apply to tangible personal property and digital goods and services.

Subd. 2. States that the general sourcing rules do not apply to leases and rental, which are subject to separate sourcing rules in subdivision 3. It also requires transfer location points to be disregarded when determining the siting of a digital transfer of a product, and defines when a good or service is "received."

Subd. 3. States the SSTP sourcing rules for leases of all tangible personal property except motor vehicles, trailers, semi trailers, and aircraft.

Subd. 4. States the SSTP sourcing rules for motor vehicles, trailers, semi trailers, and aircraft that don't qualify as transportation equipment. This applies to all transportation equipment except for interstate railroad equipment, and interstate motor carriers.

Subd. 5. States the SSTP sourcing rules for interstate railroad equipment, and interstate motor carriers.

Subd. 6. Modifies the existing sourcing rules for multiple-points of use that were adopted by SSTP after phase I of the states compliance effort. This section relates to digital goods including computer software.

Subd. 7. Adopts the SSTP sourcing rules for direct mail and states that if the purchaser of direct mail services provides the seller with a direct mail form or proof of direct pay authority, the duty to remit the tax is transferred from the seller to the purchaser.

The language matches current sourcing rules for leases except for subdivision 5. It is not clear that subdivision 5 will have any impact, since interstate motor carriers pay a pro-rated use tax rather than a sales tax and the sourcing rule has no effect on use tax.

24 Telecommunications sourcing. Adopts the SSTP requirements for sourcing telecommunication services. The only major change from current law is the sourcing of private communication services. Under current law the entire charge for private communication services is taxable in the state if (1) one or more of the termination points are in the state and (2) the service is billed to an account in the state. The SSTP sourcing rule would prorate the charges for private telecommunications services to different jurisdictions based on the number of termination points in each jurisdiction.

25 Medicines and medical devices. Makes substantial changes to the existing tax status of medicine and medical devices. The changes are necessary to achieve compliance with the following SSTP definitions without a loss in state tax revenue-prescription drugs, prosthetic devices, durable medical equipment, and mobility enhancing equipment. The changes are outlined in the following table.

Item	Current Law	New Language
Drugs/medicine	Currently exempt prescription drugs, aspirin, analgesics, insulin, medical oxygen, and over-the-counter medicines prescribed by a licensed health care professional.	The only change will be that aspirin and other analgesics will be taxed unless prescribed by a health care professional.
Prosthetic devices	Currently exempt replacement, corrective, or supportive devices to replace injured, diseased or missing parts of the human body; does not include nonprescription reading glasses.	Requires that the device be prescribed by a licensed health care professional or paid by Medicare or Medicaid. Since all are already prescribed, there is no change from current law. Nonprescription reading glasses remain taxable.
Mobility enhancing equipment	Currently exempt permanent ramps, lifts, elevators, and equipment to make vehicles handicapped accessible, in other parts of the	Will exempt everything that is currently exempt plus portable ramps and "lift chairs."

	statute.	
Durable medical equipment	Hospital beds, fever thermometers, reusable diabetes equipment and "therapeutic" devices.	The SSTP definition includes both currently exempt and taxable items. The bill exempts durable equipment for home use. Durable equipment purchased by nonprofit and government owned nursing homes and hospitals continue to be exempt under existing entity-based exemptions. A new entity-based exemption is created for all nursing homes. All items on the DOR list would be taxable except when purchased for home use or by these exempt entities.
Equipment for diabetics	Currently exempt finger pricking devices, glucose monitoring machines and diagnostic agents used to diagnosis, monitor, and treat diabetes.	All single-use devices and diagnostic agents will continue to be exempt. Multi-use equipment such as glucose monitoring machines will be exempt for home use as part of the definition of durable medical equipment.

- 26 Clothing. Minor technical change to conform current language, adopted in phase I of state compliance effort, to current SSTP wording. No change from existing interpretation.
- 27 Loaner vehicles covered by warranty. Exempts loans of vehicles by a dealer to a customer whose own vehicle is being serviced or maintained from the sales tax if the vehicle is loaned under a warranty contract that was included in the original purchase price (e.g., a manufacturer's warranty, but not an extended warranty that the customer purchased separately).
- 28 Inputs to industrial production. Clarifies current law that inputs used in producing computer software, both prewritten and custom software, are exempt. This is necessary because of the move to define prewritten software rather than computer software in other part of the statute.
- 29 Capital equipment. Clarifies current law that capital equipment used in producing computer software, both prewritten and custom software, is exempt. This is necessary because of the move to define prewritten software rather than computer software in other parts of the statute.
- 30 Delivery or distribution charges; direct mail. Replaces the temporary exemption for delivery charges on direct mail with a permanent exemption; adopting the language developed by SSTP. No change in current interpretation.
- 31 Durable medical equipment; nursing homes. Exempts purchases of durable medical equipment for all nursing homes.
- 32 Public safety radio systems. Extends by two years the period in which the sales tax exemption applies to public safety radio system purchases to August 1, 2005. This exemption applies to purchases in connection with constructing, operating, maintaining, and improving the backbone system of a region-wide public safety radio system. To qualify for this exemption, the system must consist of a shared infrastructure network, which is identified in a region-wide plan.
- Effective date: Day following final enactment
- 33 Sales tax exemption, camp fees. Expands the sales tax exemption for camps to eliminate the age restrictions on campers. Under present law, camp fees are exempt from the sales tax, if the camp:

- Is owned and operated by a charitable, 501(c)(3) organization.
- Provides educational and social activities primarily for people age 18 and under.

This section eliminates the age requirement for camps for education, religious, and rehabilitative activities. Camps for sports or social activities would continue to be limited to people under age 18.

Effective date: Sales after June 30, 2003

- 34 Interest on refunds. Provides that all refunds of sales tax bear interest from 90 days after the claim was filed with the commissioner. Currently refunds of certain building materials bear interest from 60 days after the claim is filed with the commissioner, while capital equipment and others bear interest from the date the claim is filed. Effective for claims filed on or after the day following final enactment.
- 35 Uncollectible debts; offset against other taxes. Explicitly lays out the rules for deducting uncollectible debt. Only subdivision 2, paragraph (e), and subdivision 3 are specific language requirements under SSTP. No change from current practice.
- 36 **Exemption; prepared food.** Exempts prepared food sold to commercial airlines from the sales tax, if they are prepared or brought into Minnesota and stored in Minnesota for use outside of Minnesota.
- 37 Tax rate. Imposes the SSTP requirement that no local jurisdiction may impose a local sales tax at more than one rate. This does not apply to the sale of utilities, motor vehicles, aircraft, watercraft, and manufactured homes. This is not an issue for existing local sales taxes. Lodging, food and beverage taxes are exempt as "tourism" taxes.
- 38 Use of zip code. Changes the imposition of local sales taxes in zip codes that include more than one local jurisdiction. Under current law, the tax would not apply if the purchaser notifies the seller that the delivery address is outside of the taxable jurisdiction. The bill would tax deliveries to the entire zip code area at the lowest local tax.
- 39 Effective date notification. Adopts the notification requirements of SSTP regarding changes in local tax rates. Currently the local jurisdiction has to notify the commissioner of revenue of the imposition of the tax 90 days before the calendar quarter in which it will go into effect. The bill requires the commissioner to notify sellers 60 days before the change is effective and for catalog sellers, 120 days before the change is effective.
- 40 Relief from certain liability. Enacts the SSTP requirement that sellers and certified service providers can not be held liable for incorrectly collected tax if the error is due to information provided by the state. Repeals an exemption for the sale of used farm tires which violates an SSTP prohibition on caps and thresholds.
- 41 Sales tax exemption. Expands the motor vehicle sales tax exemption for gifts between individuals, to include donation of a vehicle to an individual by a limited used vehicle dealer.
- 42 Motor vehicle sales tax; dealer option. Authorizes a motor vehicle dealer to pay the motor vehicle sales tax based on the reasonable rental value of the vehicle. This option applies only to a vehicle that meets two criteria. The dealer must

- Purchase vehicle for resale; and
- Not use it for demonstration purposes.

This option clarifies that the dealer can pay the sales tax on the rental value (e.g., for a fixed

period of time) while it owns the vehicle, rather than on the full purchase price. If a dealer fails to report the use tax on the rental, it is presumed that the dealer has elected to pay the motor vehicle tax on the entire purchase price.

43 Repealer; sunset of June accelerated. Strikes the repeal of the June accelerated sales tax payment, which is retained under this article.

44 State convention center. Restates the sales tax exemption for the Duluth convention center. This exemption was enacted in 1995, extended in 1998, and repealed in 2001. The restated exemption differs from the original exemption primarily in two respects:

- The restated exemption extends to "equipment" and to "equipping" the facility, while the original exemption was limited to building materials and supplies for constructing improvements. This will expand the exemption to various items of personal property for the facility that did not become improvements to real property.
- The restated exemption includes contractor purchases, while the original exemption was limited to purchases by the governmental unit.

Background information : The restatements make the Duluth Convention Center exemption consistent with the exemptions provided for Minneapolis Convention Center and the River Centre Arena. However, other public facilities (e.g., Lake Superior Center, Science Museum, and the Earle Brown Heritage Center) that are somewhat similar have had exemptions that were limited to building materials and supplies.

Legislative intent. States that this section is intended to clarify the original intent of sales tax exemption.

45 City of Newport; lodging tax. Allows the city of Newport to impose a lodging tax of up to 4 percent on hotel and motels with at least 25 rooms located in the city. If the city also imposes the tourism lodging tax allowed under general law, the combined rate of the two taxes cannot exceed 4 percent. The city must use the tax proceeds to fund economic development and redevelopment, including the development of open space, parks, and trails. The tax is administered in the same manner as the lodging taxes under general law. Effective upon approval by the Newport city council.

46 Study of local sales taxes. Directs the commissioner of revenue to prepare a study of local sales taxes. The study must report on:

- authorized uses of local sales taxes;
- local approval requirements;
- duration and adequacy of duration for funding authorized projects;
- if authorized uses are regional in nature;
- portion of revenue raised from residents of the jurisdiction, other Minnesota residents, and non-Minnesota residents;
- fiscal capacity of jurisdictions with local sales taxes;
- sources of funding for similar projects in jurisdictions without local sales taxes;

and

- compatibility of local sales taxes with the Streamlined Sales Tax Project.

The commissioner must make recommendations on

- the appropriate role of local sales taxes in the state and local revenue system;
- if local sales taxes should be limited to jurisdictions with below average fiscal capacity;
- criteria to be used in evaluating local sales tax proposals; and
- the feasibility of authorizing the commissioner of revenue to approve or deny applications from local jurisdictions seeking to impose a local sales tax.

The study is due by February 1, 2004.

47 Appropriation. Appropriates \$269,000 to the commissioner of revenue in fiscal year 2004 for
the costs of implementing the streamlined sales tax project provisions of this article.

48 Repealer. Repeals

- The definitions of leasing and conditional sales contract (Minn. Stat. § 297A.61, subd. 14 and 15) that are unnecessary with the adoption of the SSTP definition of leasing;
- Minn. Stat. § 325E.112, subd. 2a, which requires the commissioner of revenue to pay \$250 per year to as many as 200 operators of facilities that accept used motor oil and oil filters from the public;
- The exemption for used farm tires (Minn. Stat. § 297A.69, subd. 5), effective January 1, 2006. (The dollar limit on this exemption is not permitted under SSTP.)

Article 5: Property Taxes

Overview

Establishes a process for an owner of a residential parcel, located in two school districts, to petition the county to unite the parcel into a single school district.

Exempts the attached machinery and other personal property of proposed generation facilities and extends the dates for several facilities that were authorized in previous years.

Requires governmental entities to compensate taxing jurisdictions for lost tax base when property that is acquired is taxable and will subsequently be exempted (11/2 to 2 years of property tax). Effective July 1, 2005.

Requires the department of revenue to prepare a handbook for local boards of appeal and equalization; local boards must meet certain requirements if they want to continue holding local boards (otherwise powers are transferred to county).

Eliminates the education reserve account in the general fund which currently will receive growth in the statewide general property tax levy.

Sets the metropolitan council's levy amounts for its general levy, highway right of way, and livable communities levy for payable 2004 and 2005. In subsequent years, indexes those amounts by the implicit price deflator, rather than by market value growth.

Expands the mosquito control district to all of Carver County.

Permits the city of Medford to establish a special taxing area to finance improvements to city's wastewater treatment facility.

1 Realigning split residential property parcels.

Subd. 1. Definitions. Defines a "split residential property parcel" as a parcel of real estate that is located within the boundaries of more than one school district.

Subd. 2. Petition. Allows the owner of a split residential property parcel to petition the county auditor to unite the parcel in one school district. The petition must contain:

- description of property;
- which school districts the split parcel is located in;
- the school district in which the owner desires to have the whole parcel transferred into; and
- which school district any students residing on the property are attending.

Subd. 3. Auditor's duties. Requires the auditor to issue an order within 60 days of receipt of the petition to transfer the affected parcel to the school district as determined by the county board. The auditor must notify the affected school districts and the commissioner of children, families and learning (CFL).

Subd. 4. Commissioner. Requires the commissioner of CFL to modify the records of school district boundaries to conform to the auditors' orders.

Subd. 5. Taxable property. Unites the split residential property parcel into a single parcel in one school district. The property's total value is then subject to the taxes

imposed by the school district where the entire property is now located. None of the property will pay any school district taxes to the other school district where the parcel had partially been located in.

Effective for petitions filed on or after the day following final enactment. Orders issued before September 15, 2003, will be effective for taxes payable in 2004.

- 2 Tree growth replacement revenue. Provides that beginning with taxes payable in 2004, a school district may levy an amount up to the amount the school district received in 2002 from the tree growth tax.

The tree growth tax was repealed in 2002 and the property is now subject to property tax. To replace the revenue lost to school districts, the legislature allowed a comparable revenue amount to be added to their school district levy. The 2003 House Education Bill (H.F. 1404) repeals this levy.

Effective day following final enactment and supersedes any changes to this provision made in the Education Bill, regardless of order of enactment.

- 3 Reimbursement for fire services. Requires the commissioner of transportation to reimburse a municipal or volunteer fire department for ordinary expenses incurred in extinguishing a motor vehicle fire within a trunk highway or interstate right-of-way if the fire department is not reimbursed from some other source. Permits reimbursement of up to \$300 per fire call. Provides that reimbursement is from the motor vehicle fire account in the general fund.

Establishes a motor vehicle fire account in the general fund to receive money recovered by the department of transportation in reimbursements from persons causing motor vehicle fires. Appropriates money in the account to the department for the purpose of paying reimbursements to fire departments.

- 4 Effective for expenses related to motor vehicle fires occurring after June 30, 2003. Payment of property taxes. Specifies that all manufactured home personal property taxes levied on the unit in the name of the current owner must be paid before the manufactured home's title can be transferred by the registrar of motor vehicles.

The 2002 Omnibus tax law included a provision prohibiting the registrar of motor vehicles from issuing a certificate of title for a manufactured home unless the application is accompanied with a statement from the county auditor/treasurer, stating that all personal property taxes levied on the unit due from the current owner at the time of transfer have been paid. This section addresses the concerns raised by counties by requiring all of the manufactured home's personal property taxes levied on the unit in the name of the current owner at the time of transfer to be paid (current and delinquent).

Effective for certificates of title issued by the department (i.e., registrar of motor vehicles) on or after July 1, 2003.

- 5 Biomass generation facility; personal property exemption. Extends the date from December 31, 2002, to July 1, 2005, by which a wood-burning biomass generation facility must commence construction to be eligible for a property tax exemption on its personal property.

This exemption was initially enacted by the legislature in Laws 2001, 1st special session, chapter 5, article 3, section 13. It provided that the facility must be operational by December

31, 2002. The facility, proposed to be located in northern Minnesota, is designed to use residue wood, sawdust, bark, wood chips and brush to generate electricity. The power generated would qualify to satisfy a portion of the Prairie Island biomass mandate.

6 County assessors; class 1b homesteads. Allows the commissioner of revenue to disclose to assessors a listing of persons qualifying for class 1b homesteads (disabled, blind, paraplegic veterans).

7 Business incubator property. Extends the property tax exemption for business incubator property. Under current law, the exemption expires after taxes payable in 2005. Extends the sunset date through taxes payable in 2011.

8 Poultry litter biomass generation facility; personal property exemption. Extends the construction date by which a poultry biomass generation facility (Fibro Minn; city of Benson, Swift county) was to commence construction to be eligible for a property tax exemption on its personal property. Provides that the construction of the facility must be commenced after January 1, 2003, and before December 31, 2003.

Current law provides that the construction of the facility must begin after January 1, 2000, and before December 31, 2002. The facility is designed to use poultry litter as a primary fuel source and constructed for the purpose of generating power to satisfy a portion of power sold under the Prairie Island biomass mandate under section 216B.2424.

Effective for taxes levied in 2004, payable in 2005 and thereafter.

9 Waste tire cogeneration facility; personal property tax exemption. Extends the time by four years for a waste tire cogeneration facility to qualify for the property tax exemption on its attached machinery and other personal property.

Legislation enacted in 2001 granted this exemption, but provided that construction of the facility had to commence by January 1, 2004. This grants an additional four years until January 1, 2008. (Facility proposed to be built in Preston/Fillmore county)

10 Crown hydro; personal property tax exemption. Extends the time by one year for Crown Hydro(Minneapolis) electric generating facility to qualify for the property tax exemption on its attached machinery and other personal property.

Legislation enacted in 2002 granted this exemption, but provided that construction of the facility had to commence by January 1, 2004. This grants them an additional year until January 1, 2005.

11 Electric generation facility; personal property exemption. (a) Exempts attached machinery and other personal property which is part of a combined-cycle combustion-turbine electric generation facility that exceeds 550 megawatts of installed capacity and that meets the following criteria at the time of construction:

- (1) is designed to utilize natural gas as a primary fuel;
- (2) is not owned by a public utility as defined in section 216B.02, subdivision 4;
- (3) is located within five miles of an existing natural gas pipeline and within four miles of an existing electrical transmission substation;
- (4) is located outside the seven-county metro area; and
- (5) is designed to provide energy and ancillary services and has received a certificate

of need under section 216B.243.

The proposed generating facility is to be built by Calpine in Mankato, Blue Earth County.

(b) Construction of the facility must be commenced after January 1, 2004, and before January 1, 2007. Property eligible for this exemption does not include electric transmission lines and interconnections or gas pipelines and interconnections appurtenant to the property or the facility.

12 Effective date. Effective for assessment year 2005, taxes payable in 2006, and thereafter. Electric generation facility personal property. (a) Exempts attached machinery and other personal property which is part of a combined-cycle combustion-turbine electric generation facility that exceeds 150 megawatts of installed capacity and that meets the following criteria at the time of construction:

- (1) utilizes natural gas as a primary fuel;
- (2) is owned by an electric generation and transmission cooperative;
- (3) is located within ten miles of parallel existing 24-inch and 30-inch natural gas pipelines and a 345-kilovolt high-voltage electric transmission line;
- (4) is designed to provided intermediate energy and ancillary services, and has received a certificate of need under section 216B.243, demonstrating demand for its capacity; and
- (5) has received local approval from the county and city in which the site is located.

The proposed generating facility is to be built in Rosemount, Dakota county, by Great River Energy Cooperative for Dakota Electric, one of its member co-ops.

(b) Construction of the facility must be commenced after January 1, 2004, and before January 1, 2009. Property eligible for this exemption does not include electric transmission lines and interconnections or gas pipelines and interconnections appurtenant to the property or the facility.

(c) Provides that the exemption will take effect only if the owner of the facility enters into agreements with the governing bodies of the county and the city where the facility is located. The agreements may include a requirement that the facility must pay a host fee to compensate the county and the city for hosting the facility.

13 Effective date. Effective for taxes payable in 2006 and thereafter. Listing and assessment, time. Requires real property subject to taxation to be appraised at least every five years, instead of every four years as in current law. Effective for 2004 assessment and thereafter.

14 Assessor's duties. Requires the assessor to view and determine the market value of taxable real property at maximum intervals of five years, instead of four years as in current law. Effective for 2004 assessment and thereafter.

15 Requirements for valuation and tax deferral. Adds auto racing to the recreational uses

eligible for the valuation and tax deferment of open space.

The "Minnesota Open Space Property Tax Law" provides for a valuation deferment on private outdoor recreational open space and park lands, whose valuations have been increased by assessors to reflect the "highest and best" use of the land, which is typically a potential residential or commercial value of the property. The types of recreational use that qualify for this deferment include golf, skiing, lawn bowling, croquet, archery and firearms ranges. This section adds auto race tracks to the qualifying recreational property category.

The deferred taxes (often referred to as "additional taxes"), is the tax amount resulting from the difference in the two valuations, and it constitutes a lien on the property. The "additional" taxes, due when the property no longer qualifies for the deferment, are levied for the last seven years that the property was valued and assessed under the open space law. No interest or penalties are levied on the additional taxes if timely paid.

Effective beginning in assessment year 2003. For the 2003 assessment year, the application for deferment must be filed with the county assessor in which the property is located within 60 days after final enactment of this act.

16 Agricultural homesteads; special provisions. Clarifies that to be eligible for the special agricultural homestead, an initial full application must be submitted to the county assessor where the property is located (current practice). Provides that once they have initially qualified, they shall be required to complete only a one-page abbreviated version of the application in subsequent years, provided that none of the following items have changed:

- the day-to-day operation, administration, and financial risks remain the same;
- the owners and persons actively farming the property continue to live within the four townships or city criteria and are Minnesota residents;
- the same operator of the agricultural property is listed with the farm service agency;
- a Schedule F or its equivalent income tax form was filed for the most recent year;
- the property's acreage is unchanged; and
- none of the property's acres have been enrolled in a federal or state farm program since the initial application.

Further provides that if any of the specified information has changed since the full application was filed, the owner must notify the assessor, and complete a new application to determine if the property continues to qualify for the special agricultural homestead.

Effective for applications filed for the 2004 assessment and thereafter.

17 Class 1b, filing requirement for blind; class 1c, homestead resorts.

Paragraph (b) provides that claimants who are blind and qualify for 1b homesteads are not required to file annually for the class 1b classification, provided that the property is not sold, there is no change in occupancy, and no change in the occupant's vision. Failure to notify

within 60 days of any change in those items results in a penalty. Effective payable in 2005 and thereafter

Paragraph (c) allows the owner of homestead resort property classified class 1c to be a limited liability company or a member of a limited liability company (LLC).

Class 1c property is a classification for homesteaded resorts (sometimes referred to as "Ma and Pa" resorts). Under current law, the resort may be (1) occupied as a homestead by an owner as a sole proprietor, (2) homesteaded by a shareholder of a corporation that owns the resort, or (3) homesteaded by a partner in a partnership that owns the resort. However, the law does not specifically allow this resort property to be homesteaded by a LLC or a member of a LLC and qualify for this classification. This section adds LLC as a qualifying ownership type.

Effective payable in 2004 and thereafter.

18

Transition payments for tax base loss. Provides for transition payments to taxing jurisdictions for property tax base loss. Effective for property acquired on or after July 1, 2005.

Subd. 1. Definitions. (a) Provides the following definitions.

(b) "State" means a state agency, board, commission, or authority.

(c) "Political subdivision" means the metropolitan council or a metropolitan agency, county, statutory or home rule charter city, township, school district, or any other political subdivision with the authority to acquire real property.

(d) "Acquire" includes acquisition by purchase, gift, or eminent domain.

Subd. 2. Payment required. (a) Provides that when the state or a political subdivision acquires taxable real property and that property becomes tax exempt upon acquisition, the state or political subdivision must pay the taxes due on the property in the year that the property was acquired (payment must be made to county treasurer).

Depending upon what payment schedule is chosen (as described below) the taxing jurisdictions will receive all of the current year's taxes due on the property in the year of acquisition, and an amount equal to about 1 1/2 to 2 times the of tax of that property in the following years, depending upon the payment schedule chosen by the acquiring entity.

The payment schedules are as follows:

- (1) in the year in which the property is acquired, 100 percent of the taxes due on the acquired property, less any amount already collected before the property was acquired;
- (2) in the first full year after acquisition, 80 percent of the total amount that was due in the year of acquisition;
- (3) in the second year after acquisition, 60 percent of the total amount that was due in the year of acquisition;
- (4) in the third year after acquisition, 40 percent of the total amount that was due in the year of acquisition; and
- (5) in the fourth year after acquisition, 20 percent of the total amount that was due in

the year of acquisition.

(b) As an alternative to the "phase in" schedule of payments in paragraph (a) clauses (2) through (5) above, the state or political subdivision may pay to any taxing jurisdiction a single payment in the year of acquisition equal to 150 percent of the total taxes due on the acquired property in the year of acquisition.

(c) Provides that the payment under paragraph (a), clause (1), and under paragraph (b) must be made at the time of acquisition.

Payments under paragraph (a), clauses (2) to (5), must be made annually on or before May 15 of each year immediately following year of acquisition directly to each taxing jurisdiction.

Hence, the taxing districts will get the full amount of the property taxes on that property in the year of acquisition, and then either (1) an amount equal to another two years of the taxes "lost," phased in over the next 5 years; or (2) 150 percent of the tax paid in the year of acquisition.

Subd. 3. Waiver. Allows a city, county, town, or school district to waive the payments required under this section by resolution of the governing body. The decision to waive the payments must not be adopted by the governing body until the waiver is identified as an item of business in a meeting notice for the meeting at which the waiver will be voted on. Requires 10 days notice for that meeting.

Subd. 4. Payments are outside of levy limits. Provides that any payments received by the political subdivision are not included in calculation of the overall levy limits imposed under Chapter 275.

Subd. 5. Cost of acquisition. Provides that the payments made under this section are a cost of acquisition of the property.

19 Local boards; Appeals and equalization course and meeting requirements.

Subd. 1. Handbook for local assessors. Requires the commissioner of revenue by no later than January 1, 2005, to develop a handbook detailing procedure, responsibilities, and requirements for the local boards of appeal and equalization. Provides that the handbook must include:

- the role of the local board in the assessment process,
- the legal and policy reasons for fair and impartial hearings,
- local board meeting procedures that foster fair and impartial assessment reviews and best practices;
- quorum requirements; and
- explanations of alternate methods of appeal.

Subd. 2. Appeals and equalization course. Provides that by no later than January 1, 2006, and each year thereafter, there must be at least one member at each local board meeting who has attended an appeals and equalization course developed or approved by the commissioner of revenue within the last 4 years. Allows the course to be offered in conjunction with a meeting of the Minnesota League of Cities or the Minnesota Association of Townships. A review of the handbook must be included in the course.

Subd. 3. Proof of compliance; Transfer of duties. Provides that any city or town that

does not provide proof to the county assessor by December 1, 2006, and each year thereafter, of compliance under subdivision 2 and that it had a quorum at each local board of appeal meeting in the prior year, is deemed to have transferred its board of appeal powers to the county for the following year's assessment

Requires the county to notify taxpayers when the board for a city or town has been transferred, and prior to the county board of equalization meeting, shall make available a procedure for reviewing those assessments (e.g. open book meetings). This alternate review process shall take place in April or May.

Provides that a local board whose powers have been transferred to the county, may be reinstated upon proof of compliance. Resolution and proofs must be provided to the county assessor by December 1 to be effective for the following year's assessment.

Effective the day following final enactment.

20 **State property tax levy.** Eliminates the education reserve account in the general fund. Under present law, growth in the statewide property tax would be deposited in this account beginning in fiscal year 2004.

Directs the commissioner of revenue to increase or decrease the state general tax rate to account for errors and tax base changes that affected the rate in either of the two prior years. Adjustments are limited to the extent that necessary information is available at the time the rates must be certified. Adjustments may only be made for:

- (i) an erroneous report by a local official;
- (ii) an erroneous calculation by the commissioner; or
- (iii) increases or decreases in taxable value for commercial-industrial or seasonal residential recreational property determined by comparing the information reported on the abstracts of assessment with the information reported on the abstracts of tax lists for the same year.

The commissioner may, but need not, make adjustments if the total difference in the tax levied for the year would be less than \$100,000. Effective June 30, 2003, and thereafter.

21 Tax court; filing date. Corrects a date that was inadvertently not changed when the tax court filing deadline was changed in the 2002 omnibus. Effective for taxes payable in 2003.

22 Dismissal of petition; exclusion of certain evidence. (a) Changes the date when certain income and expense information must be provided to the assessor to no later than 60 days after the filing deadline, which is generally April 30th. Under current law, it must be submitted within 60 days after the petition has been filed.

Allows the court to grant a 30-day extension, if the petitioner was not aware of or informed of the requirement to provide the information. The petitioner will have an additional 30 days to provide the information from the time the petitioner became aware of, or was informed of, the requirement to provide the information. This change will allow the court some flexibility in granting additional time to the petitioner to provide the information, rather than dismissing the petition. These instances will most likely occur in cases when the petitioner is not represented by an attorney (i.e., pro se).

Effective for petitions filed on or after July 1, 2003.

23 Claimant; renters' property tax refund. Clarifies that residents of group residential housing (GRH) facilities with a portion of their rent paid through GRH under chapter 256I must

apportion the renters' property tax refund based on the ratio of income from sources other than public assistance to total household income. This apportionment is required of residents of nursing homes, intermediate care facilities, and long-term residential facilities who have a portion of their rent paid through other public assistance programs, but current law does not include a specific reference to group residential housing (chapter 256I).

Effective beginning with refund claims based on rent paid in 2003, filed in 2004.

24 **Charges for emergency service; collection.** Amends provision to conform to change in section 0.

25 **Collection of unpaid service charges.** Expands the authority of a town to seek reimbursement for emergency services it has provided. Permits a town that has not been paid for a service to collect the unpaid amount as a charge against any real property owned by the recipient, not only on property within the town. Allows the town to certify the amount due to the county auditor of the county in which the recipient owns real property. These charges shall be collected along with the property taxes levied against the property. When collected, the county auditor shall remit the amount to the appropriate town.

With regard to motor vehicle fires, limits the amount collected for fire services to \$300 per fire call, but allows a town to recover any additional expenses by other means, such as bringing a lawsuit.

Effective for taxes payable in 2004 and thereafter.

26 Metropolitan council levy; highway right of way. Sets the levy limit for the metropolitan council's highway right-of-way levy at \$2,828,379 for taxes payable in 2004 and \$2,828,379 for taxes payable in 2005. This represents a 10 percent levy decrease from the payable 2003 levy of \$3,142,643. Thereafter, the levy limit increases by the implicit price deflator for government expenditures and gross investment for state and local governments calculated by the U.S. Department of Commerce.

27 Council's submissions to legislative commission. Adds the requirement that the metropolitan council submit a report to the legislative commission on metropolitan government comparing its proposed levies and actual levies and providing explanations when the levy amounts approved by the council differ from the recommendations of the legislative commission.

28 Metropolitan council; general levy. Sets the levy limit for the metropolitan council's general purpose levy at \$10,117,123 for taxes payable in 2004 and at \$9,331,123 for payable in 2005. Thereafter, the levy limit increases by the implicit price deflator. This is a 10 percent reduction of the payable 2003 levy of \$11,130,137, excluding the \$1 million transfer to the livable communities housing incentives account, but including additional dollars required for the debt repayment on the \$45 million request to the 2003 Legislature for additional transit funding.

29 Metropolitan council; livable communities levy. Sets the levy limit for the livable communities demonstration account levy at \$6,933,163 for taxes payable in 2004 and 2005 (plus the \$5 million transfer from fiscal disparities). Thereafter, the levy limit increases by the implicit price deflator. This represents a 10 percent decrease of the gross payable 2003 levy amount of \$13,259,070, which includes the \$5 million from the fiscal disparities transfer.

30 Mosquito control district; establishment of district. Expands the metropolitan mosquito control district to include all of Carver county.

31 Mosquito control district; levy. Clarifies that the area subject to the levy will be expanded to include all of Carver county (see section 0).

- 32 Special taxing area; city of Medford.
- Subd. 1. Permits the city of Medford to establish a special taxing area to finance improvements to the city's wastewater treatment facility.
 - Subd. 2. Authorizes the city to include one or more parcels of commercial/industrial property in the area.
 - Subd. 3. Limits the area levy to 45 percent of the principal and interest payments on improvements to the wastewater treatment facility.
 - Subd. 4. Provides that the taxing area expires when the financing for improvements to the wastewater treatment facility have been fully repaid.
 - Subd. 5. Requires local approval by the Medford city council.
- 33 Appropriation. Appropriates \$16,000 in fiscal year 2003 and \$8,000 in fiscal year 2004 for the cost of printing and distributing the handbooks under section 0.
- 34 Repealer. Repeals an obsolete HACA adjustment for the mosquito control district.

Article 6: Intergovernmental Aids

Overview

Provides for city, county, town, and special district aid reductions totaling \$210 million in 2003 and \$361million in 2004. Implements new need-based aid formulas for cities and counties in 2004.

City and county aid reductions in 2003 are based on a percentage of levy plus aid. City reductions are limited to a 3.7 percent of spending for small cities, and 5.25 percent for larger cities. City reductions apply first to LGA and second to market value credits. County reductions are limited to 3.16 percent of levy plus aid. County aid reductions apply to HACA, attached machinery aid, criminal justice aid, and family preservation aid.

The new city aid formula is implemented in 2004. The new city formula is based on a calculation of need minus ability to pay. Need for a large city is based on population decline, pre-1940 housing, road accidents per capita, whether the city is located in the metro area, and household size. Need for a small city is based on the current formula factors, with updated coefficients. Ability to pay is measured using the city's tax capacity, average tax rate, taconite aids, and one-half of local sales tax revenues. Most of the city aid base (grandfathered aid) is eliminated. Only aid base granted since 1995 for specific purposes are retained. The cities of Red Wing and Comfrey are given additional city aid base beginning with aid payable in 2004.

The new county formula aid formula is implemented in 2005, and consists of two parts - need based aid and equalization aid. Need based aid is determined 40 percent by the relative proportion of a county's age-adjusted population, 40 percent by the relative proportion of a county's population receiving food stamps, and 20 percent by the relative proportion of part I crimes per capita in the county. Equalization aid is intended to compensate counties with low relative tax base.

City aid reductions in 2004 are based on the difference between 2003 aid after reductions and 2004 aid determined using the new formula. The 2004 reduction must be at least equal to a city's 2003 reduction and is limited to 18 percent of levy plus aids for cities with high per capita tax capacity, and to 13 percent of levy plus aids for cities with low per capita tax capacity.

County aid reductions in 2004 equal 5.27 percent of 2004 levy plus aids.

- 1 State demographer. Directs the state demographer to estimate the average household size for cities with population over 2,500 by May 1 of each year.
- 2 Aid offset for court costs. Locks in the estimate of the costs to be assumed by the state as part of the court takeover. This estimate is used to calculate aid and levy offsets during the transition period for the takeover in each judicial district. The HACA converted to the new county program aid is reduced by the total estimated costs. Each county receives a temporary aid payment until the courts in that county have been taken over by the state.
- 3 Temporary aid; court administration costs. Provides for temporary aid for court administration costs to continue as an independent temporary aid program after HACA is converted to county program aid. Under current law, temporary aid for court administration costs is included as "additional" HACA. Effective for aid payable in 2004

and 2005.

4 County HACA. Eliminates HACA payments for counties beginning in calendar year 2004 but provides for payments for the transition year aid and temporary court aids in the two previous sections. (Beginning in 2004, the new County Program Aid for counties created in section 0 below will incorporate the HACA amounts for each county at the 2003 levels, minus the district court costs aid payable in 2004 and the temporary court administration cost aid payable in 2004.) Effective for aid payable in 2004 and thereafter.

5 HACA appropriation. Deletes obsolete language providing appropriations to pay for local impact notes from HACA funding. These appropriations are directed to the new county aid program section 0.

6 City Revenue need. Defines the city revenue need for the LGA formula. The need measure for cities with a population of 2,500 or more is the governor's new need measure in which need per capita is equal to:

- 5.0734908 times the pre 1940 housing percentage; plus
- 19.141678 times the population decline; plus
- 2540.06334 times the road accident factor (*new*); minus
- the metropolitan area factor (*new*); minus
- 49.10638 times the household size (*new*); plus
- 355.0547 (includes the control variable effect).

The need measure for cities with a population less than 2,500 uses the same factors used in current law but with the governor's updated coefficients based on 2000 data.

7 City aid base. Eliminates the portions of city aid base consisting of

- grandfathered 1993 local government aid, equalization aid, and disparity reduction aid; and
- grandfathered amounts relating to transfers from city general funds to water and sewer funds in 1992 or 1993.

Adds \$200,000 of city aid base to a city with a nuclear dry cask storage facility (city of Red Wing only) and \$10,000 of city aid base to a city in a federal disaster area declared on April 1, 1998, which lost at least 40% of its pre-1940 housing stock (city of Comfrey only). Also strikes obsolete language related to a special payment to the city of Baxter for aids payable in 2000 to 2003.

8 Household size. Defines household size, which is a new factor in the large city formula. This will be determined annually by the state demographer.

9 Road accidents factor. Defines the "road accidents factor" as the average annual per capita number of motor vehicle accidents occurring in the city over the most recent three-year period. This is a new factor in the large city need formula.

10 Metropolitan area factor. This is a new factor in the large city need formula and is equal to 35.20915 for cities in the seven-county metropolitan area. It is a "dummy variable" that reflects that a city in the non-metro area has a higher spending "need" than a similar city in the metropolitan area.

11 County program aid.

Subd. 1. Calendar year 2004. Defines "county program aid" for aids payable in 2004 to be equal to the amount each county was originally certified to receive in 2003 from attached machinery aid, homestead and agricultural aid (HACA), manufactured home HACA, criminal justice aid and family preservation aid. The HACA set-aside for future court takeovers is excluded from county program aid.

Subd. 2. Definitions. Defines terms for county program aid for aids payable in 2005 and thereafter. County program aid consists of two major components, county need aid and county tax-base equalization aid.

Subd. 3. County need aid. County need aid has three subcomponents; for each subcomponent each county receives an allocation equal to its share of the state total for the relevant factor. Forty percent is allocated based on population (with extra weighting for the percentage of the population over age 65), forty percent based on households receiving food stamps, and twenty percent based on part I crimes.

Subd. 4. County tax-base equalization aid. The total appropriation for county tax base equalization aid is allocated based on each county's tax-base equalization factor relative to the sum of factors for all counties in the state. The tax-base equalization factor is defined as \$185 times the county's population minus 9.45% times the county's net tax capacity. For counties with a population less than 10,000, the factor is multiplied by a factor of 3. For counties with a population greater than 500,000, the factor is multiplied by a factor of 0.3.

12 City formula aid. The formula is similar to current law - need minus ability to raise revenue, except it expands the measure of revenue raising ability to include taconite aids and 50 percent of a city's local sales tax revenue. Currently "ability to pay" is determined solely by tax capacity and average city tax rate.

13 City aid distribution. States that the city aid is equal to the city's formula aid plus any remaining city aid base (grandfathered aid). The only remaining grandfathered aid is special aids granted to specific cities for specific purposes. It includes the regional center aid that was part of the 2001 reform.

Provides that for 2005 and later years cities with populations over 2,500 may not receive aid reductions from one year to the next greater than 10 percent of the previous year's levy.

Provides that for 2004 cities with populations under 2,500 may not receive aid reductions greater than 5 percent of certified 2003 aid or the amount of the 2003 aid cut, whichever is greater. Provides that for 2005 and later years cities with populations under 2,500 may not receive aid reductions from one year to the next greater than 5 percent of the certified aid amount for 2003.

14 Aid appropriations. The appropriation for city LGA in calendar year 2004 is equal to \$390 million (an additional \$16 million of transition aid is distributed under the 2004 city aid cuts). The appropriation for city LGA in 2005 and thereafter is equal to \$406.6 million. The appropriations for the new county program aids are \$100.5 million beginning in 2005 for the county need aid and \$105 million beginning in 2005 for the county tax-base equalization aid. The automatic inflation factor for aid appropriations under current law is eliminated.

Provides that the state costs currently subtracted from each city's LGA before payment are made, are now subtracted from the LGA appropriation before it is spread. Provides for

\$500,000 of the total county appropriation to fund public defender programs currently funded under county criminal justice aid (CCJA), and for up to \$214,000 to fund local fiscal impact notes prepared by the commissioners of finance and of children, families, and learning, currently funded through HACA to be taken off the top of the county aid appropriations.

15 Public Defense services; correctional facility inmates. Allows funding for these public defender programs to come from the portion of the new county program aid that is a substitute for the current county criminal justice aid (CCJA). This is currently funded from CCJA.

16 Cost of transcripts. Allows funding for certain costs of transcripts needed for public defender cases to come from the portion of the new county program aid that is a substitute for the current county criminal justice aid (CCJA).

17 Definitions. Defines the 2003 "levy plus aid revenue base" for a city as the sum of the city's property tax levy for taxes payable in 2003, plus the sum of the amounts the city was certified to receive in 2003 as:

- local government aid under section 477A.013;
- existing low-income housing aid under section 477A.06;
- new construction low-income housing aid under section 477A.065; and
- taconite aids under sections 298.28 and 298.282 including any aid which was required to be placed in a special fund for expenditure in the next succeeding year.

Paragraph (c) defines the 2003 and 2004 "levy plus aid revenue base" for a county as the sum of the county's property tax levy for taxes payable in 2003, plus the sum of the amounts the county was certified to receive in the designated year as:

- homestead and agricultural credit aid (HACA), excluding any amounts set-aside for future court takeovers;
- manufactured home HACA;
- criminal justice aid under section 477A.0121;
- family preservation aid under section 477A.0122;
- taconite aids under sections 298.28 and 298.282 including any aid which was required to be placed in a special fund for expenditure in the next succeeding year; and,
- county program aid under section 477A.0124.

Paragraph (d) defines total revenues for a city or county as total nondebt revenues as reported by the state auditor for the most recent year available, excluding grants between political subdivisions but including net transfers from an enterprise fund.

18 2003 city aid reductions. Provides aid reductions for cities in 2003 equal to 9.3 percent of the city's levy plus aid revenue base for 2003. The aid reduction is limited to 3.7 percent

of the city's total revenues for 2003 if the city has a population under 1,000 or if the city has a three-year levy plus aid revenue base increase average of less than 2 percent. For all other cities, the reduction is limited to 5.25 percent of the city's total revenues for 2003.

The reduction is further limited to the sum of the city's payable 2003 local government aid distribution and the city's payable 2003 market value credits reimbursement. The reduction is applied first to local government aid distributions, and then, if necessary, to market value credit reimbursements.

19 2003 county aid reductions. Provides aid reductions for counties in 2003 equal to 3.16 percent of the county's levy plus aid revenue base for 2003. The reduction is limited to the sum of the county's payable 2003 distributions for attached machinery aid, HACA, criminal justice aid, family preservation aid, and market value credit reimbursements. These aids are reduced as necessary in the order listed.

20 2003 township aid reductions. Provides aid reductions for townships in 2003 equal to one percent of the town's certified levy for taxes payable in 2003, limited to the amount of the town's payable 2003 market value credit reimbursements.

21 2003 special taxing district aid reductions. Provides aid reductions for special taxing districts in 2003 equal to 0.75 percent of the district's certified levy for taxes payable in 2003, limited to the amount of the district's payable 2003 market value credit reimbursements.

22 2004 city aid reductions. Provides for city aid reductions in 2004. Defines an initial aid reduction amount for each city equal to the amount that the city's local government aid decreased from 2003 to 2004. Provides for a minimum aid reduction equal to the city's reduction in 2003, except that the minimum reduction is reduced by the amount of any special city aid base increases.

Provides for a maximum aid reduction of 18 percent of the city's levy plus aid base if the city's ANTC per capita exceeds \$700, or 13 percent of the levy plus aid base if the city's ANTC per capita is less than \$700.

Provides that if a city's initial aid reduction is less than its minimum reduction, the difference is taken as a reduction in its market value credits reimbursements. If a city's initial aid reduction is greater than its maximum aid reduction, it receives an additional distribution equal to the difference.

Provides that the city's initial aid reduction is applied first to local government aid, and then to the market value credits reimbursements.

23 2004 county aid reductions. Provides for county aid reductions in 2004 equal to 5.27 percent of the county's levy plus aid revenue base for 2004. The reduction is limited to the sum of the payable 2004 county program aid amount and the county's market value credit reimbursements. The aid reduction is applied first to the county's program aid amount, and then if necessary to the county's market value credit reimbursements.

24 2004 township aid reductions. Provides for aid reductions for townships in 2004 equal to 1.5 percent of the town's certified levy for taxes payable in 2003, limited to the amount of the town's 2004 market value credit reimbursements.

25 2004 special taxing district aid reductions. Provides for aid reductions for each special taxing district in 2004 equal to one percent of the district's certified levy for taxes payable in 2003, limited to the amount of the district's 2004 market value credit reimbursements.

26 HACA adjustment; court takeover. Provides for a corrective aid increase for counties whose 2002 aid reduction was mistakenly calculated based on court costs not assumed by

the state.
Repealer. Repeals

- County and school district attached machinery aid (§ 273.138)
- County HACA (§ 273.1398, subd. 2)
- Manufactured home county HACA (§ 273.166)
- Local government aid base amounts (§ 477A.011, subd. 36)
- } Local government aid base reduction percentage (§ 477A.011, subd. 37)
- } County criminal justice aid (§ 477A.0121, subds. 2, 3, 4, 5, and 6)
- } County family preservation aid (§ 477A.0122, subds. 2, 3, 4, 5, and 6)
- } County out-of-home placement aid (enacted in 2001 and scheduled for implementation for aid payable in 2004 under current law) (§ 477A.0123)
- } Inflation adjustment for various aid appropriations including city local government aid, county criminal justice aid and county family preservation aid (§ 477A.03, subd. 3)
- } Additional appropriation for city local government aid of \$450,000 for 1999 through 2008 (§ 477A.03, subd. 4)
- } Low-income housing aid. (§ 477A.06)
- } New construction low-income housing aid (§ 477A.065)
- } Rental housing tax base replacement aid (§ 477A.07)

Article 7: Levy Limits

Overview

Imposes levy limits on cities with populations over 2500 and counties for taxes levied in 2003 and 2004, payable in 2004 and 2005. The starting point for calculating levy limits in Pay 2004 is the current levy limit law with the following modifications:

- } the levy limit base is reduced by the 2003 aid cuts;
- } the levy limit base is reduced by 65 percent of unused levy authority in Pay 2003; and
- } the inflation growth for the levy limit base is eliminated.

Cities and counties will not be allowed to "levy back" for their Pay 2003 aid cuts but will be allowed to "levy back" for any increase in aid cuts between Pay 2003 and 2004. Special levy authority is not reduced from current levels.

Finally, the date is changed to allow local governments to seek an increase in their levy limit authority via referendum up until the first Tuesday in November and have it effective for that levy year. These referendum adjustments are in addition to authorized truth-in-taxation levies.

- 1 Special levies. Eliminates an obsolete special levy for redistricting costs. Adjusts the special levy for state assumption of court costs to reflect changes in how the aids related to the takeover are calculated. Allows a county to use the jail operating special levy for a new regional jail without adjusting its levy limit base for existing jail operating costs, provided that the new jail is an addition to rather than a substitution for existing facilities.
- 2 Levy limit base. Defines the levy limit base as the adjusted levy limit base less (1) the 2003 LGA and HACA cuts, (2) 65 percent of any "unused" levy authority in Pay 2003, and (3) any property tax replacement aid (for greater Minnesota transit programs) received in 2003.

(Note: Because market value credit cuts are a subtraction from certified levy, the reductions for those cuts occur automatically.)
- 3 Adjusted levy limit base. Eliminates the growth factor for inflation. The levy limit base will continue to grow based on growth in number of households and 50 percent of the growth in tax base due to new commercial and industrial construction. Allows growth for new construction in state assessed utility and railroad property.
- 4 Property tax levy limit. Removes the charter exception language that is made a separate section in section 0. Eliminates the offset for aids that are repealed in article 6. Reduces the levy limit by the amount of wind production tax payment received in lieu of property tax formerly paid by these properties.
- 5 Levies in excess of levy limits. Deletes an obsolete provision related to over-levy of jail special levies in Pay 2003.
- 6 Adjustments for changes in service levels. Provides for levy limit adjustments when there is an annexation.
- 7 Levy effective date. Allows a referendum held to exceed levy limits to be effective in the current levy year provided that the referendum is held by the first Tuesday in November.
- 8 Information necessary to calculate the levy limit base. Requires a small city subject to levy limits for the first time, to provide the commissioner of revenue with the information needed to calculate its levy limit base. Failure to provide the information will result in its total Pay

- 9 2004 levy authority, including special levies, being limited to its 2003 levy amount. Charter exemption for aid loss. Allows a municipality to permanently exceed its municipal charter limit or referendum requirements for levy increases if the increased levy is needed to offset reductions in city LGA. The increased levy may not exceed the levy amount allowed under state law. Effective beginning with levies payable in 2004.

Article 8: Truth in Taxation and Reverse Referendum

Overview

Effective for taxes payable in 2005, payable in 2006, and thereafter, advances most of the truth in taxation (TnT) dates for the certification of proposed and final levies, notices, and public hearings.

Effective for taxes levied in 2005, payable in 2006, and thereafter, provides for a reverse referendum for all counties and cities over 2,500 population whose property tax levy increases over the previous year's levy. That calculation excludes any levy required to pay general obligation bonds.

Effective for notices prepared in 2003, payable in 2004 and thereafter, eliminates the two columns on the TnT notice that contain the proposed tax changes due to spending factors and other factors.

- 1 to 6 Truth in Taxation (TnT) dates; notices. Advances most of the TnT dates for certification of proposed and final levies, notices and public hearings to accomplish two main purposes: (1) the notices are sent to property owners before the November general election and (2) to allow time for a reverse referendum, if required. The table below compares the current and proposed dates.

Task/Function	Current Date (on or before)	Proposed Date (on or before)
Adopt proposed budget/certify proposed levy All taxing districts except schools ¹ School districts	Sept. 15 Sept. 30	Sept. 1 Sept. 1
Home county auditor certifies joint taxing districts (located in more than one county) levy to other county	Sept. 20	Sept. 5
Two or more taxing districts that share/merge/consolidate services-may amend proposed levy	Oct. 10	Sept. 10
Auditor/treasurer send out proposed TnT notices	Nov. 11-23	Oct. 11-23
Market values used for computing TnT notices(as of this date)	Nov. 1	Oct. 1
TnT notice given to apartment tenants or posted in building	Nov. 27	Oct. 27
Hold public hearing: Counties, cities > 500 population, school districts, metro special taxing districts Counties: Initial hearing Additional initial hearings If continuation hearing needed	Nov. 29-Dec. 20 1 st Thurs. Dec. Dec. 20	Nov. 9-Dec. 1 2 nd Thurs. in Nov. Dec. 1

Metro Special Taxing Districts: Initial hearing	3 rd Tues. in Dec.	3 rd Tues. in Nov.
If continuation hearing needed	1 st Wed. in Dec.	2 nd Wed. in Nov.
Cities: Date reserved for cities	2 nd Wed. in Dec.	3 rd Wed. in Nov.
City of St. Paul/Ramsey County/School District 625	1 st & 2 nd Mon. in Dec.	2 nd Mon. in Dec.
	2 nd Tues. in Dec.	2 nd Tues. in Nov.
¹ Towns certify final property tax levy at this time.		

The date changes in the table above are effective for proposed notices and hearings held in 2005 and thereafter; payable 2006 and thereafter.

Section 4, in addition to various date changes, also includes the following:

- } eliminates the two columns currently on the TnT notice that show the tax change due to spending factors and changes due to other factors. Effective for notices prepared in 2003 for payable 2004, and thereafter;
- } removes the requirement that the St. Paul library agency's levy be listed separately, since the agency is abolished (see article 19, section 22); and
- } lastly, allows referendums approved by voters by the first Tuesday in November increasing a taxing district's levy limit under section 275.73 to be one of the allowable exceptions not included in the proposed amounts shown on the TnT notice.

7 Reverse referendum. Provides a reverse referendum procedure applicable to all counties and to cities of over 2,500 population that have adopted a property tax levy increase over the previous year's certified levy. If a petition signed by 5% or more of the voters in the last state general election is submitted within 21 days after the city or county holds its public hearing and adopts its levy, any levy increase is not effective unless a majority of the voters at a special election approves the increase. The election must be held on the second Tuesday in January.

Provides that the "property tax levy" used in calculating the increase shall not include the levy required to pay any general obligation bonds. If the increase is not approved, levies for the payment of bonded debt or judgments are extended in full, and other levy amounts are reduced as necessary so that the total does not exceed the preceding year's levy. Effective for taxes payable in 2006 and thereafter.

8 Certification of levy. Provides that those counties or cities to which the reverse referendum applies shall certify their taxes to the auditor by December 10, unless a petition for referendum has been filed, in which case they must certify the day following the election. Effective for taxes levied in 2005 and thereafter, for taxes payable in 2006 and thereafter.

9 Repealer.

Paragraph (a) repeals the definition of "constant spending" levy amount, which is no longer

needed due to the changes in section 4. Effective for taxes payable in 2004.

Paragraph (b) repeals a formula for allocating monies received from the state for administering TnT. This provision is obsolete and has not been used for many years.

Article 9: Local Economic Development

Overview

This article allocates an additional \$1.5 million for border city enterprise and border city development zones. It provides general authority for extension of the duration of pre-2001 TIF districts with deficits caused by the 2001 property tax changes. This article also makes a number of technical and minor policy changes in the tax increment financing and abatement laws. It also provides special TIF authority for the cities of Hopkins, Moorhead, and Duluth.

- 1 Border city allocations. Allocates \$1.5 million for border city enterprise zone and border city development zone tax reductions. This allocation is divided equally between the two programs (\$750,000 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.
- 2 Border city development zone. Provides border city development zone plans may take effect 30 days after they are filed with the Department of Trade and Economic Development (DTED). Under present law, these plans do not take effect until the next calendar year beginning 90 days after filing of the plan with DTED.
- 3 Interfund loans. Clarifies that the interfund loans only qualify as TIF "bonds" if they meet the statutory requirements (i.e., they must be approved by resolution and have their terms documented in writing).

Effective date: Same as the law adding interfund loans to the definition of tax increments
- 4 Definition of municipality. Clarifies that the county is the only municipality for county TIF districts and for a multi-county authority (e.g., a multi-county HRA), the municipality is determined by the location of the TIF district.

Effective date: Same as the original effective date for the TIF act
- 5 Cross reference. Corrects an erroneous cross-reference in the definition of redevelopment districts. This section also codifies part of the holding in the *Walser Auto Sales, Inc. v. City of Richfield*, i.e., that the failure of a building to be disqualified under the cost to correct test is a necessary, but not a sufficient, condition to determine the building is substandard.

Effective date: Both provisions are effective retroactive to the effective date of the underlying provisions.
- 6 Definition of increment. Clarifies that repayments of both principal and interest on loans made out of increments are also increments.

Effective date: Same as the original provision that made loan repayments increments.
- 7 Qualified housing districts. Adds a definition of "qualified housing district" to the statute. This definition was contained in the state aid reduction statute (section 273.1399), which was repealed in 2001. Several provisions of the law remained keyed to this definition. The

definition is similar to the language of the repealed definition with two exceptions:

- } The income limit for owner occupied housing is increased from 70 percent of the median income to 85 percent.
- } Rental housing projects need only meet the rent and income restrictions under the federal low-income housing tax credit. Prior law required all of the requirements of federal law to be satisfied.

Effective date: Same as the effective date of the repeal of section 273.1399

8 Administrative expenses. Requires TIF plans to separately state the amount of administrative expenses that will be paid with increments and non-increment revenues.

Effective date: Plans and modifications approved after June 30, 2003

9 But-for test. Makes five changes in the law requiring "but-for" findings before a municipality (usually a city) approves a TIF plan and the creation of a TIF district:

- } Imposes a maximum limit on the discount rate to be used in computing the present value of the projected increments for purposes of the market value finding. (The market value finding requires the municipality to find that the TIF assisted development will have a higher market value than the sum of the market value of the development that would occur without TIF plus the present value of the projected increments.) This interest rate may not exceed the higher of the rate on unpaid taxes or the judgment interest rate.
- } Corrects a cross reference to clarify that qualified housing districts are exempt only from the but-for finding on market value, not the entire but-for finding requirement.
- } Provides that the municipality's determinations and findings are presumed to be valid. The determinations are subject to judicial review as to whether they are in excess of statutory authority or are arbitrary or capricious. This is intended to codify the holding in the *Walser Auto Sales, Inc. v. City of Richfield* case.
- } Requires written documentation of the market value finding. This written documentation must include the city's estimate of the two market values (with and without TIF) and the present value of the projected increments. These are the three essential components to the but-for market value finding.
- } Clarifies that the "site" for the but-for findings means the parcels on which the developments to be assisted with TIF are located. The definition of "site" is retroactive to the original effective date of the market value finding, since it confirms the original intent and is the way the Office of State Auditor and most practitioners have been interpreting the law.

Effective date: TIF plans approved after June 30, 1995

10 Plan modifications, administrative expenses. Makes changes in the plan modification statute to be consistent with administrative expenses rules set out in section 0(i.e., that the administrative expenses must be allocated between increment and non-increment revenues). The rest of the changes in the section are intended to make the statute more readable without

making any substantive changes.

Effective date: Plan amendments adopted after June 30, 2003. The effective date provision also authorizes cities to make plan amendments adopting the new rules for administrative expenses without going through the published notice and hearing requirements. If a city does not elect to go through this process, a safe harbor is provided, so long as the district does not spend more than 9 percent of its increment on administrative expenses.

- 11 Reporting requirements. Deletes the requirement that the annual financial report include the amount budgeted under the tax increment financing plan and adds a requirement that the report include the estimated amount of the project cost, including administrative expenses, that will be paid with tax increments.

Effective date: Reports due in calendar year 2004

- 12 Pre-1979 districts, use of increments. Authorizes or clarifies the use of increments from these districts for the following purposes:

- } County administrative expenses
- } Transfers of increments to pay deficits in other districts caused by the 2001 property tax changes
- } Advances made by the authority or municipality to pay pre-1990 bonds

Under present law, the authority must pay county administrative costs using other revenues. The section also clarifies the interaction between the duration limit for pre-1979 districts and the deficit reduction pooling provisions. (The deficit reduction pooling provisions clearly provided that they apply to pre-1979 districts; the law is unclear as to how the spending limits in this section interact with the authority to use pre-1979 for deficit reduction pooling.) It provides that the increments must be used first to pay the pre-1979 district's bonds and county administrative expenses. If in any year increments remain after paying these costs, the excess can be used under the deficit reduction pooling provisions. The section also allows the authority to recover other moneys (e.g., a property tax levy) advanced to pay pre-1990 bonds after June 1, 2002 (e.g., to make up a deficit caused by the 2001 property tax changes); this parallels the authority for post-1979 districts under the duration extension provisions of section 0 (recovering these advances is a permitted use of increments generated by a duration extension).

The section also modifies the rules on refunding pre-1979 bonds and generally allows refunding of these bonds. Under present law, a refunding may not increase the average maturity of the bonds, even if they realize interest savings on a present value basis.

Effective date: Day following final enactment

- 13 **Excess increments.** Makes several changes in the excess increment statute. It requires the authority to annually determine if a district has excess increments, as of the end of the calendar year. It clarifies that the city receives distributions of excess increments for county TIF districts. Finally, it adds a definition of excess increments. Excess increments are essentially the amount of increments collected through the end of the calendar year, minus all of the costs authorized in the TIF plan to be paid with increments. The following adjustments are made:

- } Any amounts distributed in an earlier year as excess increments to the taxing districts are deducted in making the computations. This prevents double counting of these moneys.
- } Authorized costs in the TIF plan for the district are reduced by three amounts:
 1. The portion of the costs paid by non-increment revenues
 2. Other revenues dedicated or otherwise required to be used to pay those costs (and that have not already been used to pay those costs and thus are not included in #1)
 3. Debt service payments on bonds to be made in future years (the statute permits use of excess increments to prepay bonds, if the city chooses).

Effective date: Applies to all TIF districts and to determinations of whether there are excess increments made after August 1, 2003.

14 **Administrative expenses.** Clarifies that the limit on administrative expenses only applies to clause (1) increments (i.e., the amount of taxes paid by the district's captured tax capacity).

Effective date: Retroactive to the initial effective date of the TIF act

15 **Housing districts.** Confirms that increments from housing districts may be spent directly on the cost of publicly or privately owned housing units. The amount spent cannot exceed the cost of income-restricted units.

Effective date: Retroactive to the original effective date of the 1979 act

16 **Prohibited facilities.** Prohibits use of tax increments to assist a development requiring platting or subdivision, unless the developer notified the city when requesting the platting that it intended to request or accept use of tax increment financing.

Effective date: Developer agreements entered into after June 30, 2003

17 **Qualified housing districts.** Eliminates a statutory cross reference to qualified housing districts which is no longer necessary after moving the definition into section 469.174.

Effective date: Retroactive to the repeal of section 273.1399

18 **Pooling, definition of increments.** Limits the restrictions on pooling and other uses of increment to the clause (1) definition of tax increments (i.e., property taxes paid by captured tax capacity only).

Effective date: Retroactive to the original effective date for the pooling rules

19 **Pooling for housing.** Clarifies that the additional pooling authority for housing can be done by non-housing districts and that doing so does not violate the district-specific limitations on use of increments (e.g., blight correction for redevelopment and so forth).

Effective date: Retroactive to the original effective date for the pooling rules

20 **Five-year rule.** Provides that the five-year rule does not apply to expenditures under the expanded pooling rules for housing purposes by other types of districts.

Effective date: Expenditures made after June 30, 2003

21 **Use for decertification.** Clarifies that required use of increment revenues, under the pooling rules, for defeasing of bonds and pre-paying contracts is calculated and applies on an annual basis.

Effective date: All districts subject to the pooling rules (post-1990 districts)

- 22 **Pooling for deficit reduction.** Eliminates the requirement that the Department of Revenue approve pooling for deficits. This requirement was added to protect the state grant funds. The legislature repealed the 2001 fund and the 1997-98 fund expired.

Effective date: January 2, 2002

- 23 **Adjustments to original net tax capacity.** Provides that the adjustments to original net tax capacity apply to all districts. These adjustments are made for (1) legislative changes in the class rates and (2) changes in the use of property (e.g., residential property becoming commercial). Apparently some county auditors have not adjusted original net tax capacity on pre-1988 districts for the 2001 property tax changes, while others have. This would require the adjustments to be made for all districts.

Effective date: Classification changes enacted after January 1, 2001 (thus including the 2001 property tax changes), and use changes occurring after December 31, 2002

- 24 **Decertification.** Clarifies that a decertification request can specify a date for decertification. A literal reading of the statutory language would require decertification to occur on receipt of the request, even if it specified a later date.

Effective date: All districts, including pre-1979 districts

- 25 **Abatement of penalties.** Extends the court's authority to abate penalties to hardships that would fall on the TIF authority (as opposed to the city) and clarifies that the authority applies to sins of omission, as well as commission. To abate penalties for TIF violations, the court must determine that the action was taken in good faith and imposing the payment requirement would work an undue hardship.

Effective date: Retroactive to the effective date for the original provisions (violations after December 31, 1990)

- 26 **Limitations on actions.** Imposes a statute of limitation on legal actions challenging determinations and findings that are part of the adoption or modification of a tax increment financing plan. An action must be filed by the later of the (1) 180 days after approval of the plan or modification or (2) 90 days from the request for certification.

- 27 **Interfund loans.** Permits an authority to pass a general resolution authorizing interfund loans. Under present law, each loan or advance would be required to be approved by a separate resolution. Each loan or advance will still require a separate written agreement setting out its terms, entered before the advance or loan is made, but the governing body will not need to pass a separate resolution before the authority does so, if a general resolution is in place permitting the interfund loan. The section also clarifies that the interest rate limit on interfund loans (keyed to the floating rates on either judgments or unpaid taxes) is a fixed rate set at the time the loan is made, unless the loan agreement provides it is to float with changes in the specified index.

Effective date: Loans and advances made after June 30, 2001

- 28 **Qualified housing districts.** Eliminates a statutory cross reference to qualified housing districts which is no longer necessary after moving the definition into section 469.174.

Effective date: Retroactive to the repeal of section 273.1399

- 29 **Deficit reduction authority.** Clarifies that the authority to uncap the original tax rate and change fiscal disparities options for deficits in pay-as-you-go agreements applies only to

agreements entered into before August 1, 2001.

Effective date: Retroactive to the original effective date for the provision

30 Preexisting obligations. Changes the definition of preexisting obligations to include refunding bonds. This will allow refundings that reduce debt service costs. Payment of these obligations is a permitted use of increments from extension of the duration of district under section **Error! Unknown switch argument.**. The required date for contracts to issue bonds qualifying as preexisting obligations is changed from August 1, 2001, to July 1, 2001. This corrects a drafting error and makes the date consistent with the provisions in the pooling provisions for deficit reduction.

Effective date: Retroactive to the original effective date for the provision

31 Fiscal disparities option, economic development districts. Clarifies that the fiscal disparities option for an economic development district may be changed to clause (1) to offset a deficit. This was authorized in the 2001 tax bill, but it was unclear whether it applied to economic development districts. The law requires these districts to make their fiscal disparities contributions out of increment (the clause (2) option). The deficit reduction statute contains language suggesting its authority may be used only if the authority could elect clause (1).

Effective date: Day following final enactment for all pre-2001 districts.

32 Duration extensions to offset deficits. Authorizes a development authority to extend the duration of a pre-2001 TIF district to offset deficits caused by 2001 property tax changes. Before an authority may use this authority, it must first exercise all of the other available deficit reduction powers:

- } Uncapping the original tax rate;
- } Changing fiscal disparities options, if applicable; and
- } Transferring surplus increments from other districts in the municipality.

Formula extensions. The maximum duration extension is determined under a formula. This formula compares the tax paid by the district's original net tax capacity in 2001 with the average tax paid in 2002 and 2003. The percentage reduction is multiplied by the remaining duration of the district to determine the permitted extension (rounded up to the nearest whole number of years for fractional amounts greater than 1/3). For example, a district with 9 years remaining that experienced a 25 percent drop in taxes on its original net tax capacity would qualify for a 2-year extension ($9 \text{ years} * 25\% = 2.25 \text{ years}$ or rounded to 2 years). The maximum extension under this authority is limited to four years.

Additional DOR extensions. In addition, the commissioner of revenue may grant extensions of up to 2 more years upon a showing that the formula based extension would not be sufficient to offset the deficit and that it is unlikely that the district can "grow out of" the deficit. Application could not be made until the authority is within 3 years of the end of the duration limit (both the regular limit and the extension under the formula).

Procedures. The authority must provide public notice and hold a hearing before approving an extension. The county and school district in which the district is located must approve the extension.

Qualifying obligations. These obligations are preexisting obligations that are also bonds or interfund loans (an advance or loan made by the authority or city). The city may elect to include developer or "pay-as-you-go" obligations as qualified obligations. However, if it does so, the maximum formula extension is one-half of the regular length and it cannot apply to the commissioner of revenue for an additional extension.

Limits on use of increments. The authority may use increments from a district that receives an extension only to pay preexisting obligations of the district (i.e., generally obligations issued before August 1, 2001). During the extension period, increments may only be used to pay qualifying obligations (i.e., bonds and interfund loans). If increments from multiple districts are pledged to pay the qualifying obligations, then all of these districts (even if their terms have not been extended) are subject to this limit on the use of increments.

Effective date: Day following final enactment for all pre-2001 districts.

33 **Abatement levy limit; uncollected abatements.** Provides that uncollected abatement levies from a prior year that are added to the current levy are not subject to the levy limit on abatements.

34 **Uncollected tax abatement levies.** Clarifies that if a tax abatement levy is uncollected, the political subdivision can add it to the abatement levy for the next year. This portion of the levy would not be subject to the limit on the amount of the abatement levy.

Effective date: Property taxes payable in 2003

35 **Definition of increment, pre-1979 districts.** Clarifies that clause (1) definition of increment (property taxes paid by captured tax capacity) applies to pre-1979 districts. This likely is the universal practice, to the extent that the Act applies to pre-1979 districts.

Effective date: Day following final enactment

36 **Effective date.** Modifies the effective date of the 2002 change allowing transfers of increments to pay deficits in bonds that were guaranteed by a developer or pay-as-you-go agreements. These changes are extended to apply to deficits occurring in calendar year 2000 and later. (This will allow the city of Detroit Lakes to transfer increments to pay a deficit, guaranteed by a developer, for one its TIF bond issues.)

37 **Moorhead, TIF.** Eliminates the expiration date for the 2002 special law allowing Moorhead to impose a special C/I levy to pay for a TIF district deficit caused by the 2001 property tax changes.

Background information . Under the 2002 special law, the maximum amount of this levy is limited to the reduction in the tax increments resulting from the class rate changes in the 2001 tax bill and the elimination of the state general education levy. Because C/I properties in Moorhead qualify for the border city, state-paid disparity credits, the state pays for the cost of this levy, rather than C/I property owners. The disparity credit pays all of the tax to the extent it exceeds an effective tax rate of 2.3 percent.

38 **Duluth TIF.** Authorizes the city of Duluth and its Economic Development Authority to create an economic development TIF district. The city can approve the district only after entering a development agreement providing for the construction of an aircraft maintenance facility with a minimum square footage of 150,000 and providing for employment of at least 200 employees with average compensation of \$30,000 per year.

This district would have a duration limit of 25 years of increment (as opposed to 8 years

under general law). General law limits use of increments from economic development districts to assisting limited types of businesses - manufacturing, warehousing, research and development, telemarketing, and tourism facilities in defined counties. Aircraft maintenance work would likely to meet this definition.

39 Effective date: Local approval by the city, county, and school district
Hopkins, TIF. Allows the city of Hopkins to extend the duration limit of TIF district 2-11 by up to 4 additional years. In addition, the 5-year rule is extended to 9 years.

Effective date: Local approval by the city

Article 10: Minerals

Overview

This article makes a number of changes in the taxes that apply to the mining of nonferrous minerals and taconite. It:

- } Reduces the taconite production tax rate by 30 cents and repeals the indexing of the tax rate. The reduced revenues will affect residual distributions of revenues (economic protection fund and environmental protection fund and other IRRRA funds).
- } Repeals the alternative minimum tax (AMT) under the occupation tax for both taconite and nonferrous mining companies.
- } Clarifies that refining operations of nonferrous mining companies are subject to the occupation and net proceeds taxes, rather than the mining and corporate franchise taxes.
- } Makes computation of the net proceeds tax (for nonferrous mining) more or less identical to the occupation tax. (The net proceeds tax is imposed in lieu of the property tax. The occupation tax is imposed in lieu of the corporate franchise tax.) This will expand considerably the number and type of deductions available in computing the net proceeds tax and make the tax more like an income tax than a severance or property tax.
- } Modifies the formula for distribution of the revenues produced by the net proceeds tax so that it is less like distribution of the taconite production tax and essentially distributes the proceeds in about the same way revenues from a property tax on the mine, production, and refining facilities would be distributed. Because of the state property tax, this will provide a share of the proceeds tax revenues to the state general fund. In addition, 40 percent of the revenues will be distributed under the taconite fiscal disparities program to all of the taxing districts in that program.

1 Property tax exemption. Exempts from property taxation, property that is subject to the net proceeds tax on minerals:

- } Deposits of ore, metals, and minerals
- } Property used in the mining or producing of ores, minerals, and metals
- } Production facilities

} Concentrate or direct reduced ore

The exemption applies each year the net proceeds tax is imposed.

Effective date: Taxes payable beginning in 2004

2 Corporate franchise tax exemption. Expands the definition of exempt mining entities under the corporate franchise tax and individual income taxes to include businesses engaged in producing or refining nonferrous metals or minerals. Present law is limited to those engaged in the business of iron mining. This clarifies that the exemption applies to the refining process (i.e., converting raw ore into metal).

Effective date: Tax year 2003

3 Exclusion from unitary business. Excludes income of a mining operation subject to the net proceeds tax from the income of a unitary business, of which it is a part.

Effective date: Tax year 2003

4 Treatment of apportionment factors. Excludes the apportionment factors of an exempt entity from both the numerator and denominator of a unitary group of which it is a part. This also applies to non-mining businesses that are exempt entities (e.g., an insurance company).

Effective date: Tax year 2003

5 Sales tax exemption, materials consumed in metal production. Expands the exemption for mill liners and grinding rods and balls that now applies to the taconite industry to nonferrous mining.

Effective date: Sales after June 30, 2005

6 Sales tax, construction exemption. Provides a sales tax exemption for construction materials, supplies, and equipment used in converting a taconite plant to extract and refine nonferrous ores, metals, and minerals. This exemption applies to the construction of a hydrometallurgical processing facility and also applies to delivery and installation charges.

Effective date: Sales and purchases made after June 3, 2005, and before July 1, 2010

7 Refining definition. Limits the definition of refining to refining of ores, metals, and mineral products the mining of which was subject to the net proceeds tax and was carried on by the same or an affiliated entity.

8 Net proceeds tax. Clarifies that the occupation tax applies to refining of nonferrous metals, including the application of the hydrometallurgical processes. This ensures that occupation tax (and not the corporate franchise tax) applies to these operations. Since the occupation tax and the corporate franchise taxes are computed in a very similar fashion, the main effect of this is to exclude these operations from being included in a unitary business. This will prevent the factors of the refining operations (i.e., its property and payroll) from attributing income of the rest of the unitary business to Minnesota and increasing the corporate franchise tax liability of the unitary business. This section (in conjunction with the repealer in section REF_Ref38725505 \r \h 21) repeals the alternative minimum tax (AMT) for purposes of the occupation tax. This will affect taconite mining companies as well. The principal preferences that must be added back in computing the AMT are depletion allowances.

Effective date: Tax year 2002

9 Occupation tax, sales factor. Deems sales of nonferrous metals and minerals to be non-Minnesota sales for purposes of the apportionment formula under the occupation tax. This is

comparable to the treatment given to taconite under the occupation tax. The ores must be converted to a commercially marketable quality before being shipped out-of-state.

10 Effective date: Tax year 2002
AMT, taconite companies. Eliminates the AMT under the occupation tax for taconite and iron mining companies.

11 Effective date: Tax year 2002
Net proceeds tax. Clarifies that the net proceeds tax is in lieu of the property tax on nonferrous mining.

12 Effective date : Taxes payable beginning in 2004
Net proceeds tax, deductions. Provides that the deductions in computing the net proceeds tax are the same as those under the occupation tax. Present law sets out a more limited set of deductions under the net proceeds tax. In particular, the following deductions are not allowed under current law, but would be allowed under the bill:

- } Sales and marketing expenses
- } Interest expenses
- } Insurance expenses
- } Research expenses prior to production
- } Money set aside for reclamation
- } Royalties
- } Depletion

13 References. Strikes reference to "energy resources" and inserts "ores" to be consistent with the terminology used throughout the rest of the statute.

14 Distribution of net proceeds tax revenues. Modifies the distribution of the net proceeds tax revenues. Present law distributes the proceeds as follows:

City or town where the mine is located	5%
Taconite municipal aid account	10%
School district where the mine is located	10%
Group of school districts where the mine is located or in which there is a qualifying municipality to be distributed under a formula based on pupil units and adjusted net capacity	20%
County where the mine is located	20%
Account to pay the taconite homestead credit	20%
Iron Range Resources and Rehabilitation Board	5%
Northeastern Minnesota Economic Protection Fund	5%
Taconite environmental protection fund	5%

The bill provides for deposit of the revenues in the state general fund and division of the money into three shares:

- ▶ A general fund share based on the portion of the property tax paid by C/I property in the area of the mine and production facility under the state (general) property tax.
- ▶ A fiscal disparities share equal to 40 percent of revenues after deducting the general fund share. The fiscal disparities share is distributed among the taxing districts in the taconite tax relief area in the same proportions as the fiscal disparities distribution levy (i.e., this revenue is treated the same as moneys distributed under the taconite fiscal disparities program and will go to all of those taxing districts).
- ▶ A local taxing district share is apportioned among the taxing districts that contain the mining and production facilities in the same proportion in which the revenues would be distributed if the facilities had paid property taxes.

15 Taconite production tax rate. Decreases the taconite production tax rate from the current \$2.103 per gross ton to \$1.85 per gross ton for concentrate produced in 2003 and to \$1.75 per gross ton for concentrate produced in 2004 and thereafter. Also eliminates the inflation index so that the \$1.75 per ton tax rate will not be increased in subsequent years. Currently, the inflation index was to take effect beginning in 2004.

Effective for concentrate produced in 2003 and thereafter.

16 Collection and payment of production tax. Makes permanent the payment of the taconite production tax in two installments. One-half of the amount must be paid by February 24 and the remaining amount by August 24.

Under current law the two payment schedule is only in effect for production year 2003. Beginning in 2004, 100 percent of the tax must be paid by February 24.

Effective for taxes payable in 2004 and thereafter.

17 Taconite economic development fund. Eliminates the restriction that distributions cannot be made out of this fund if annual production drops below 30 million tons.

18 IRRRB distribution. Repeals the distribution to the Iron Range Resources and Rehabilitation Board based on the amount it received in 1977.

19 Definition; borrow. Defines "borrow" to mean granular borrow, consisting of durable particles of gravel and sand, crushed quarry or mine rock, crushed gravel or stone, or any combination thereof.

Effective for borrow removed and transported on a public road, street, or highway on or after July 1, 2003.

Borrow was added to the list of "aggregate materials" subject to the aggregate materials tax (i.e., often referred to as the gravel tax) in the 2001 omnibus tax law. However, a definition for borrow was not included in that legislation. A definition is needed for uniformity of taxation by the counties.

20 Transition provision; AMT credit. Allows AMT credits to be claimed against the regular occupation tax after repeal of the occupation tax AMT.

Effective date : Day following final enactment

21 Repealer. Repeals the following statutes:

Paragraph (a) repeals AMT under the occupation tax and the AMT credit (Minn. Stat. § 298.01, subd. 3c, 3d, 4d, and 4e). Effective beginning in tax year 2003.

Paragraph (b) repeals the deductions and deduction limitation under the net proceeds tax (Minn. Stat. § 298.017). Effective for taxes payable in 2004 and thereafter.

Paragraph (c) repeals:

- } obsolete credit against the taconite production tax for school bonds that have been paid (Minn. Stat. § 298.24, subd. 3);
- } production tax distributions to the economic protection fund and environmental protection fund (Minn. Stat. § 298.28, subd. 9, 9b, and 10); and
- } the producer grant program and the advisory committee for the grants (Minn. Stat. §§ 298.2961 and 298.297). Effective for concentrates produced after January 1, 2003.

Paragraph (d) repeals a 1984 law that gave an exemption from the tax on aggregate materials imposed by Benton and Stearns counties, on aggregate that was (1) sold to the state of Minnesota and its political subdivisions and (2) purchased by contractors for use in projects for the state of Minnesota or its political subdivisions. Effective upon local approval for each of the counties.

Article 11: Special Taxes

Overview

This article:

- } Provides tribal casino aid to Goodhue county
- } Imposes a 35 cent per pack fee on cigarettes produced by manufacturers who have not entered a settlement agreement with the state
- } Repeals the discounts under the cigarette and tobacco products taxes
- } Accelerates the payment of June liability for cigarette, tobacco, alcoholic beverage, mortgage registry, and deed taxes
- } Dedicates 6.5 cents per pack of cigarette revenues to the academic health center special revenue fund
- } Dedicates 2.5 cents per pack of cigarette revenues to the medical education and research costs account in the special revenue fund
- } Provides a special tax rate for low-alcohol dairy cocktails

1 County tribal casino aid. Provides for payment of state aid to a county with a tribal casino, if

the tribal government has not entered into a tribal tax agreement with the state. The aid equals 5 percent of the commissioner of revenue's estimate of the excise taxes (tobacco, alcoholic beverage, and motor fuels) collected from activities on the reservation. This will provide aid to Goodhue County.

Effective date: Taxes collected after June 30, 2003

Background information. Present state law provides for aid payments to all of the counties with reservations and casinos, except Goodhue County. (Goodhue county does not qualify, because the Prairie Island band of the Dakota does not have a tribal tax agreement, a pre-condition to the county receiving aid.) Minnesota's tribal tax agreements provide that all state taxes are collected and, then, the state pays a share of the taxes back to the tribal government under a formula. These formulas follow the same general pattern for all of the tribes and have two components. The state pays the tribe:

- (1) A per capita amount that is an estimate of the state taxes paid by tribal members; and
- (2) One-half of the taxes collected that are paid by non-tribal members.

Under the tribal casino aid program, the state pays to the county in which the casino is located ten percent of the state's share of taxes collected under the tribal tax agreement. Because the tribal government receives one-half of the taxes collected (under item (2) above), the county, in effect, gets 5 percent of these shared taxes.

This section would pay equivalent aid to Goodhue County. Because there is no tax agreement, tribal businesses (e.g., the casinos, the hotel, marinas, and so forth) do not collect the state sales tax. However, the state excise taxes apparently are being paid on the reservation. These taxes include the cigarette tax, the alcoholic beverage taxes (non-sales taxes), and motor fuels taxes. These taxes are collected from wholesalers (who are neither tribal businesses nor located on the reservation) and, in effect, are passed along as higher prices to customers of the reservation businesses.

2 June accelerated mortgage registry tax. Requires counties to remit the state's portion of the mortgage registry tax collected by June 25th and the estimated amounts to be collected during the remainder of the month to the commissioner of revenue two business days before June 30th.

3 June accelerated deed registry tax. Requires counties to remit the state's portion of the deed tax collected by June 25th and the estimated amounts to be collected during the remainder of the month to the commissioner of revenue two business days before June 30th.

4 **Penalty for underpayment of June accelerated mortgage registry and deed taxes.**

Provides for a 10 percent penalty on counties for failing to timely remit their June mortgage registry or deed taxes. The penalty will not be imposed if the amount remitted in June equals either:

- } 90 percent of the state's portion of the preceding May's receipts; or
- } 90 percent of the average monthly amount of the state's portion for the previous calendar year.

Effective January 1, 2004.

5 Deposit of revenues and payment of refunds. Beginning July 1, 2005, requires the

commissioner of revenue to deposit all revenues from the health care provider taxes and the premium tax on nonprofit health plan companies in the general fund. Annually appropriates to the commissioner from the general fund the amount necessary to provide refunds under chapter 295.

6 Cross reference. Repeals a reference to the stamping discount under the cigarette excise tax that is repealed by section 0.

7 Cigarette tax discount. Repeals the discount for distributors who pay the cigarette excise tax. The discount equals 1 percent of the first \$1.5 million of stamps and 0.6 percent of the amount of stamps over \$1.5 million.

8 June accelerated cigarette tax. Requires a distributor to pay a June accelerated cigarette tax payment of 85 percent of the estimated June liability when they file their May return. Effective January 1, 2004.

9 Tobacco taxes; June accelerated payment and repeal of discount. Makes two changes:

- } requires a distributor to pay a June accelerated tobacco tax payment of 85 percent of the estimated June liability when they file their May return. Effective January 1, 2004;

- } repeals the discount for payors of the tobacco products tax. This discount equals 1.5 percent of the tax.

10 **June accelerated cigarette and tobacco taxes penalty.** Provides a penalty for underpayment of the June accelerated cigarette or tobacco products tax. The penalty would not be imposed if the amount received in June equals the lesser of:

- } 85 percent of the actual June liability; or

- } 85 percent of the preceding May's liability.

Effective for taxpayers having a liability of \$120,000 or more during the fiscal year ending June 30, 2003, and each fiscal year thereafter, and for accelerated payments becoming due in the year 2004 and thereafter.

11 **Cigarette tax; Minnesota Future Resources Fund.** Repeals the provision that requires a portion of cigarette tax revenue to be credited to the Minnesota future resources fund. Creates the academic health center special revenue fund for funding at the University of Minnesota and credits 6.5 cents of the tax per pack of 20 cigarettes to that fund. Creates the medical education and research costs account in the special revenue fund for funding at the department of health and credits 2.5 cents of the tax per pack of 20 cigarettes to that fund. Effective for all revenues received after June 30, 2003.

12 Fee in lieu of settlement. Imposes a fee equal to 1.75 cents per cigarette (35 cents per pack of 20 cigarettes) on cigarettes produced by manufacturers who have not entered a settlement agreement with the state. The purpose of this fee is to ensure that manufacturers of these cigarettes compensate the state for the costs that the use of cigarettes impose and to prevent sale of low priced cigarettes from undermining the state's policy of discouraging smoking by minors.

This fee is collected by the Department of Revenue from cigarette distributors in the same manner as the cigarette excise tax. The proceeds are deposited in the general fund. The fee does not apply, if the manufacturer enters an agreement with state. This agreement must be approved by the attorney general and include non-monetary terms similar to the preexisting settlement agreements (e.g., restrictions on promotions and so forth) and include payments

equal to at least 75 percent of the formula amount that applies to the four manufacturers who have already settled with the state.

13 Definition, low-alcohol dairy cocktails. Defines low-alcohol dairy cocktails as beverages or products that primarily consist of milk products and contain distilled spirits. The amount of alcohol may not exceed 3.2 percent by volume. This definition is intended to cover ice cream containing liquor. It would also include pre-mixed cocktails using milk or milk products as the mix.

14 Tax rate; low-alcohol dairy cocktails. Provides that a rate of 2 cents per liter applies to low-alcohol dairy cocktails. This has the effect of taxing these products at about the rate that applies to 3.2 beer. Under present law, the full rate that applies to distilled spirits would apply to these products (i.e., \$1.33 per liter).

Effective date: Sales made after June 30, 2003.

15 June accelerated liquor tax. Requires a liquor tax distributor to pay a June accelerated liquor tax of 85 percent of the estimated June liability when they file their May return. Provides a penalty for underpayment. The penalty would not be imposed if the amount received in June equals the lesser of:

- } 85 percent of the actual June liability; or
- } 85 percent of the preceding May's liability.

Effective for taxpayers having a liability of \$120,000 or more during the fiscal year ending June 30, 2003, and each fiscal year thereafter, and for accelerated payments becoming due in the year 2004 and thereafter.

16 Cigarettes in interstate commerce. Prohibits transportation of cigarettes from Minnesota to another state without first applying the tax stamps or paying the excise tax required by the state to which the cigarettes are to be shipped. The tax stamps may not be applied or tax paid, if the other state prohibits doing so or prohibits the sale of the cigarettes. Cigarette dealers must report quarterly to the attorney general on the amounts and brands of cigarettes shipped out-of-state, along with the names and addresses of recipients.

Effective date: Day following final enactment

17 Private cause of action. Provides for civil remedies for persons damaged by violation of the prohibition of trans-shipment of cigarettes in section 0.

18 Agreement to pay taxes. Provides that an organization which is recognized by federal law as a quasi-government organization that would otherwise be exempt from taxes under chapter 297E must agree to pay all taxes under chapter 297E on lawful gambling conducted by the organization as a condition of receiving or renewing a license or premises permit.

Article 12: Department Income, Corporate Franchise, and Estate Tax Initiatives

Overview

This article makes changes to the income, corporate franchise, and estate taxes, as recommended by the department of revenue.

1 Extension for filing estate tax. Allows the commissioner to grant extensions for the filing of estate tax returns for up to six months. The current law only allows the commissioner to extend the filing date if the federal filing date has been extended, which has the effect of preventing the commissioner from granting extensions when a Minnesota estate tax return is

required but a federal return is not. Effective for estates of decedents dying after December 31, 2001.

2 Liability of third-party vendor for repayment of refund. Relates to assignment of K-12 education tax credit refunds to third-party vendors (typically through execution of power-of-attorney rather than use of the assignment provision in statute, which limits assignments to nonprofit organizations and lending institutions). Authorizes the Department of Revenue to recover an income tax refund paid directly to a third-party provider, if the K-12 education credit that resulted in the refund is subsequently disallowed. Applies to situations in which the taxpayer qualified for a refund due to a K-12 education credit that was based on purchase of an educational service or product from the third-party vendor, who was assigned the taxpayer's refund. Effective for refunds paid to third-party vendors on or after the day following final enactment.

3 Interest on estate tax refunds. Changes the date from which the state pays interest on the overpayment of estate tax to the later of

- } the date of overpayment,
- } the due date of the return (9 months from date of death), or
- } the date the estate tax return is actually filed.

Present law provides that the starting date for interest accrual is the later of the date of overpayment, or the due date for filing. Effective for estates of decedents dying after December 31, 2003.

4 Penalty for frivolous returns. Increases the penalty for filing a frivolous return from the current flat \$500 penalty to the greater of

- } \$1,000 or
- } 25% of the tax which should have been shown on the return.

Effective for returns filed after December 31, 2003.

5 Addition for bonus depreciation; individuals. Provides for individuals that suspended depreciation deductions (e.g., under the passive loss rules) that the taxpayer that do not reduce federal taxable income for the taxable year are not required to be added back under the bonus depreciation add-back. The add back would be made when depreciation actually reduces federal taxable income.

6 Obsolete subtractions. Deletes two subtractions that will be obsolete after tax year 2003. The first gives self-employed taxpayers a Minnesota tax benefit for 100 percent of their payment of health insurance premiums. Starting in 2003 federal law will give self-employed taxpayers a 100 percent tax benefit at the federal level, which will make the Minnesota subtraction unnecessary. The second allowed a five-year income tax subtraction to low- and middle-income taxpayers who purchased homes in certain areas of Minnesota from 1995 to 1998. The five-year limit on the subtraction will run in 2003 and the subtraction will not be available after 2003. Effective for tax years beginning after December 31, 2003.

7 Addition for bonus depreciation; corporations. Provides for corporations that suspended depreciation deductions (e.g., under the passive loss rules) that the taxpayer that do not reduce federal taxable income for the taxable year are not required to be added back under the bonus depreciation add-back. The add back would be made when depreciation actually

reduces federal taxable income.

- 8 Deduction for income received from a foreign operating corporation. Corrects an erroneous cross reference in the exclusion for foreign sales corporations that qualified as foreign operating corporations in prior tax years.
- 9 Nonresident ratio. Clarifies that nonresidents and part-year residents must adjust both the numerator and denominator of the ratio of Minnesota assignable federal adjusted gross income to federal adjusted gross income for expenses attributable to U.S. interest income or other income Minnesota does not tax. Effective for tax years beginning after December 31, 2002.
- 10 Inflation indexing of working family credit. Changes how the Working Family Credit income phaseout floor amounts are indexed for inflation. In 2001 the phaseout floor of the federal earned income tax credit was increased for married taxpayers in order to alleviate marriage penalties in the credit. The federal legislation increased the phaseout floor after it had been indexed for inflation, which means the 2001 federal increase is further increased for future inflation. In the 2001 Minnesota legislation, which was to mirror the federal change, the legislation increased the base amount and then the total was adjusted for inflation, which did not follow the federal approach. The change in this section clarifies that the phaseout floor is adjusted for inflation and then the increased amount is added. This section also provides that the increase is adjusted for inflation starting in 2009 in order to parallel the federal change made in the 2001 federal law. Effective for tax years beginning after December 31, 2002.
- 11 Earned income floor for marriage penalty credit. Deletes the minimum earned income floor on claiming the marriage penalty credit. This floor was tied to Minnesota's tax brackets in effect in 1999, when the credit was adopted. The brackets have been adjusted for inflation, but the floor has not. Further, the credit table that originally appeared in statute following the income floor has been replaced with a formula, making the floor unnecessary. Effective for tax years beginning after December 31, 2002.
- 12 Marriage penalty credit calculation. Clarifies that the computation of the marriage credit is based on the income tax brackets as adjusted for inflation. Effective for tax years beginning after December 31, 2002.
- 13 Conditions for assignment of refund. Requires the Department of Children, Families and Learning to certify that the educational service or product being purchased by a taxpayer qualifies for the education credit, in order to have a valid assignment to the lender financing the purchase of the taxpayer's future income tax refund based upon the credit. Allows the provider of the service or product to appeal a denial to certify using the administrative contested case procedure. Effective for assignments made on or after the day following final enactment.
- 14 Elderly or disabled subtraction. Deletes a reference to the now obsolete subtraction for early 1980s IRA and KEOGH subtractions from the elderly or disabled subtraction. Also deletes a definition used in the calculation of an additional subtraction amount last available in 1996. Effective for tax years beginning after December 31, 2002.
- 15 **Public employee pension exemption from gross estate.** Deletes the exemption from the definition of "gross estate" in the calculation of the Minnesota estate tax the following public employee pensions:
- } Minnesota State Retirement System (MSRS),
 - } Public Employee Retirement Association (PERA),
 - } Teachers Retirement Act (TRA),
 - } Teachers Retirement Fund Association (TRFA), and

} Higher Education Supplemental Retirement Plans (HESRA).

Conforms to federal legislative changes to federal taxable estate made in 2001 or 2002 that expanded the exclusion of 40% of value of land subject to qualified conservation easement to include land farther than 25 miles from a national park or wilderness area or metropolitan area. Effective for estates of decedents dying after December 31, 2002.

16 **Estate tax computation.** Provides that the Minnesota estate tax is the maximum state death tax credit allowable under the 2000 federal estate tax law multiplied by a ratio for the Minnesota sitused gross estate over the total federal gross estate. Current law provides that for residents the tax is the greater of the above amount or the state death tax credit allowable minus estate taxes paid to other states. This section also provides that if an estate elects to claim certain administrative expenses for federal and Minnesota fiduciary income taxes, those expenses cannot be claimed as a deduction in computing the Minnesota estate tax. Effective for estates of decedents dying after December 31, 2002.

17 **Exemption from estate tax; Minnesota state retirement system.** Removes the exemption from the Minnesota estate tax for public employee pensions received through the Minnesota State Retirement System (MSRS). With the removal of the exemption a pension would only be taxable to the extent it is payable after the deaths of the decedent and his or her surviving spouse. Effective for estates of decedents dying after December 31, 2002.

18 Exemption from estate tax; Minnesota state retirement system. Removes the exemption from the Minnesota estate tax for public employee pensions received through the Public Employee Retirement Association (PERA). With the removal of the exemption a pension would only be taxable to the extent it is payable after the deaths of the decedent and his or her surviving spouse. Effective for estates of decedents dying after December 31, 2002.

19 Exemption from estate tax; Teachers Retirement Act. Removes the exemption from the Minnesota estate tax for public employee pensions received through the Teachers Retirement Act (TRA). With the removal of the exemption a pension would only be taxable to the extent it is payable after the deaths of the decedent and his or her surviving spouse. Effective for estates of decedents dying after December 31, 2002.

20 Exemption from estate tax; Teachers Retirement Fund Association. Removes the exemption from the Minnesota estate tax for public employee pensions received through the Teachers Retirement Fund Association (TRFA). With the removal of the exemption a pension would only be taxable to the extent it is payable after the deaths of the decedent and his or her surviving spouse. Effective for estates of decedents dying after December 31, 2002.

21 Exemption from estate tax; Higher Education Supplemental Retirement Plan. Removes the exemption from the Minnesota estate tax for public employee pensions received through the Higher Education Supplemental Retirement Plan (HESRA). With the removal of the exemption a pension would only be taxable to the extent it is payable after the deaths of the decedent and his or her surviving spouse. Effective for estates of decedents dying after December 31, 2002. Certain public employee pensions exempt from estate tax.

22 **Sunset of K-12 credit assignment.** Removes the December 31, 2003, sunset on the assignment of refunds resulting from K-12 education credit.

23 Repealer. Paragraph (a) repeals

} the requirement that the Minnesota Working Family Credit be reduced by the amount of a taxpayer's Minnesota alternative minimum tax in excess of the Minnesota regular tax computed before the Working Family Credit. This limitation was enacted to mirror a similar federal limitation on the federal earned

income tax credit. The federal limitation and Minnesota limitation rarely applied and the federal limitation was repealed in 2001 and was missed in the 2001 Minnesota federal update.

- } the indexing of the marriage credit for inflation, which is no longer needed because of the changes in section 0.

Both repeals are effective for tax years beginning after December 31, 2002.

Paragraph (b) repeals obsolete or duplicative corporate franchise tax and withholding tax rules. Effective the day following final enactment.

Article 13: Federal Update

Overview

This article updates the references to Internal Revenue Code for purposes of the income and franchise taxes, property tax refund, and general tax administration to adopt federal changes made since the last update of March 15, 2002. These changes are all effective at the same time as the corresponding federal changes were effective.

Changes to the Internal Revenue Code from March 15, 2002, through December 31, 2002, were:

- } Public Law No. 107-181, clarifying the exclusion for parsonage allowances;
- } Public Law No. 107-296, recognizing Johnny Michael Spann Trusts as charitable entities;
- } Public Law No. 107-276, eliminating duplicative information reporting for state and local political campaign organizations; and
- } Public Law No. 107-358, permanently extending the income exclusion for holocaust damages

- 1 **Federal update; administrative.** Updates the administrative chapter Internal Revenue Code reference to federal changes through December 31, 2002. Removes duplicative information reporting for state and local political campaign organizations and parties.
- 2 **Net income.** Conforms to federal changes to the definition of net income. Changes include:
 - } clarifying that the exclusion for parsonage allowances paid to members of the clergy is limited to the fair rental value of residences occupied by the clergy member;
 - } providing that Johnny Michael Spann Trusts are charitable entities if the trusts meet certain conditions. These trusts provide for survivors of members of the military or federal agencies who have died in terrorist attacks or combating terrorism.
 - } makes permanent the exclusion of Holocaust damages and restitution from taxable income.
- 3 **Income tax definitions.** Updates the income tax chapter Internal Revenue Code reference to changes made through December 31, 2002. This conforms to changes enacted since March 15, 2002.

4 **Federal update; property tax refund.** Updates the property tax refund chapter Internal Revenue Code reference to federal changes through December 31, 2002. This conforms the property tax refund to changes in the definition of net income.

Article 14: Department Property Tax Initiatives

Overview

This article makes a variety of technical and policy changes in the property tax laws, as recommended by the Department of Revenue.

- 1 **Commissioner's rulemaking authority.** Clarifies that the commissioner of revenue may promulgate rules on nontax laws administered by the commissioner of revenue, as well as rules dealing with state tax laws. This will clarify that the commissioner has rulemaking authority for purposes of administering the Sustainable Forest Incentives Act. Effective the day following final enactment.
- 2 Notification to taxpayer. Deletes obsolete mandatory notices which state that taxpayers must appear before local and county boards of equalization before they can appeal a property tax notice, assessment, or order in the small claims division of tax court. Effective the day following final enactment.
- 3 Comprehensive health association; property tax exemption. Adds a cross-reference to clarify the exemption of property of Comprehensive Health Associations from the property tax. Effective the day following final enactment.
- 4 Private cemeteries; property tax exemption. Adds a cross-reference to clarify the exemption of the property of some private cemeteries from the property tax. Effective the day following final enactment.
- 5 Western Lake Superior Sanitary Board; property tax exemption. Adds a cross-reference to clarify the exemption from property tax of property owned or used by the Western Lake Superior Sanitary Board. Effective the day following final enactment.
- 6 Unfinished sale or rental projects; property tax exemption. Adds a cross-reference clarifying the exemption of some unfinished sale or rental projects from the property tax. Effective the day following final enactment.
- 7 Skyways and other structures; property tax exemption. Adds a cross-reference clarifying the exemption of skyways, underground tunnels, the people mover system and publicly owned parking structures from the property tax. Effective the day following final enactment.
- 8 Municipal recreation facilities; property tax exemption. Adds a cross-reference clarifying the exemption of property acquired and used by a city for municipal recreation facilities from the property tax. Effective the day following final enactment.
- 9 Water and wastewater treatment facilities; property tax exemption. Adds a cross-reference clarifying the exemption from the property tax of the related facilities owned by water and wastewater treatment providers who have contracted with a municipality to provide capital-intensive public services to the municipality. Effective the day following final enactment.
- 10 Taxes paid before recording. Changes the current provision, which allows an instrument amending or reinstating a common interest community (CIC) plan to be recorded without paying all delinquent and current year property taxes. With the change CICs will be allowed to record documents amending their plans without paying tax only if the unit or common area boundaries are not being changed. Effective for deeds or instruments accepted for recording or registration on or after July 1, 2003.
- 11 **Local assessor residency requirement.** Strikes the requirement that local assessors be residents of the state. Local assessors are those working for a town or a city, other than a city of the first class. Effective the day following final enactment with language to preserve the

validity of any existing employment contract between a Minnesota city or town and a nonresident.

- 12 **Assessors; compatible offices.** Provides that the person appointed as county assessor may also serve as the county auditor, county treasurer, or county auditor-treasurer if those offices are appointive, but then must not serve on the county board of appeal and equalization. Effective January 2, 2004, and thereafter.
- 13 Compatible offices in counties changing to appointed auditor. Provides that the person appointed as county assessor may serve as county auditor, treasurer, or county auditor-treasurer in a county in which the office of auditor, treasurer, or auditor-treasurer is changing to being an appointed office within five years.
- 14 Incompatible offices. Provides that appointed county, city, or town assessors may not also serve in certain elected positions. An assessor who accepts an incompatible elected position is considered to have resigned from the assessor position.
- 15 Seasonal residential recreational property; reference. Replaces "seasonal recreational residential" with "seasonal residential recreational," the current terminology for this type of property. Effective the day following final enactment.
- 16 Seasonal residential recreational property; reference. Replaces "seasonal recreational residential" with "seasonal residential recreational," the current terminology for this type of property. Effective the day following final enactment.
- 17 Seasonal residential recreational property; reference. Replaces "seasonal recreational residential" with "seasonal residential recreational," the current terminology for this type of property. Effective the day following final enactment.
- 18 Court expenditures; maintenance of effort. Deletes a provision in the county court maintenance-of-effort statute that would have required spending in excess of required amounts.
- 19 Utility and railroad valuation appeals. Clarifies that utilities and railroads whose taxability, classification, and valuation are determined by the commissioner, and whose property is typically located in multiple counties, may appeal their property tax by bringing a single action against the commissioner instead of having to sue in each affected county. Effective the day following final enactment.
- 20 **Power line credit; definition.** Specifies that a high voltage transmission line must have capacity of 200 kilovolts or more in order for property beneath it to qualify for the power line credit. In current law, the voltage is specified by reference to another section of statute, which was recently changed without consideration of the effects on the power line property tax credit.
- 21 **Local boards of equalization and review.** Clarifies that local boards of equalization and review do not have the authority to remove property from the property tax rolls. Effective the day following final enactment.
- 22 **County boards of equalization and review.** Clarifies that county boards of equalization and review do not have the authority to remove property from the property tax rolls. Effective the day following final enactment.
- 23 State general levy base amount; seasonal recreational property references. Clarifies that the state general levy amount stated in the statute is the base amount to be used in adjusting the levy annually for inflation.

Changes references from "seasonal recreational" property to "seasonal residential recreational" property. Effective for taxes payable in 2004 and thereafter, except that the

reference changes involving seasonal recreational property are effective the day following final enactment.

24 Seasonal residential recreational property; reference. Replaces "seasonal recreational" with "seasonal residential recreational," the current terminology for this type of property.

Effective the day following final enactment.

25 **State general property tax levy; date for certification.** Allows the commissioner of revenue to certify a preliminary rate for the state general property tax levy on or before October 10 for use in the "Truth in Taxation" process, and extends the deadline for certifying the final rate from November 1 to January 1. The current November 1 deadline for the final rate is too early because some of the necessary data is typically not available at that time. Also makes a technical change to the wording of a reference to "seasonal residential recreational property" (i.e., cabins). Effective for taxes payable in 2004 and thereafter, except that the change in wording for the reference to seasonal residential recreational property is effective the day following final enactment.

26 **Apportionment and issuance of warrants for payment property taxes.** Eliminates the state from the list of taxing authorities to which funds are apportioned on the various settlement days provided for in general law, and from the list of authorities for which the county auditor issues a warrant for payment. Effective for taxes payable in 2004 and thereafter.

27 **Payment of property taxes following settlement days.** Eliminate the state from the list of taxing authorities to which the county treasurer makes payment of property tax collections following issuance of a warrant by the auditor after each of the various settlement days that are provided for in general law. Effective for taxes payable in 2004 and thereafter.

28 **State general property tax levy; payment from counties.** Adds new language requiring county treasurers and auditors who collect the state levy amounts to transmit those collections to the commissioner of revenue (rather than the commissioner of finance) annually on or before June 29, December 2, and the following January 25 (these are the three settlement time when the treasurer distributes property tax revenues to all taxing districts). Requires the transmissions to be by electronic means. Effective the day following final enactment, which will affect settlement payments beginning in June 2003.

29 Personal property tax liens. Changes the place for filing lien notices that are related to the collection of personal property taxes of Minnesota residents from their county of residence to the office of the secretary of state. This is consistent with new commercial practices. Effective for liens filed on or after the day following final enactment.

30 Seasonal residential recreational property; reference. Replaces "seasonal recreational" with "seasonal residential recreational," the current terminology for this type of property. Also updates a cross-reference. Effective the day following final enactment.

31 Seasonal residential recreational property; reference. Replaces "seasonal recreational" with "seasonal residential recreational," the current terminology for this type of property. Effective the day following final enactment.

32 **Alternate sale procedures for tax-forfeited property.** Allows tax-forfeited property that consists of an undivided interest in land to be offered to the other owners for its appraised value without first having to be offered to the public at an open sale. Effective for sales on or after the day following final enactment.

33 **State general property tax levy; payment on tax-forfeited land.** Require county auditors to pay the unpaid state general property tax levy amount for each parcel of tax-forfeited land to the state from the net proceeds of the sale or lease of that parcel. Effective for taxes

payable in 2004 and thereafter.

- 34 "Claimant" for purposes of the Sustainable Forest Incentives Act. Clarifies that for purposes of the early termination penalties of the Sustainable Forest Incentives Act, "claimant" also includes persons bound by the covenant. Also clarifies that "one claimant per parcel" means there may be only one claimant for each parcel that has been assigned a unique identification number by the county. Effective the day following final enactment.
- 35 Sustainable Forest Incentives Act; terminology. Replaces "property" with "land" to make the statute more precise, consistent and easier to read. Effective the day following final enactment.
- 36 Sustainable Forest Incentives Act; terminology. Replaces "property" with "land" to make the statute more precise, consistent and easier to read. Effective the day following final enactment.
- 37 Sustainable Forest Incentives Act; terminology. Replaces "property" with "land" to make the statute more precise, consistent and easier to read. Effective the day following final enactment.
- 38 Sustainable Forest Incentives Act; terminology. Replaces "property" with "land" to make the statute more precise, consistent and easier to read. Effective the day following final enactment.
- 39 Sustainable Forest Incentives Act; terminology. Replaces "property" with "land" to make the statute more precise, consistent and easier to read. Effective the day following final enactment.
- 40 Sustainable Forest Incentives Act; terminology. Replaces "property" with "land" to make the statute more precise, consistent and easier to read. Effective the day following final enactment.
- 41 **Sustainable forest incentives act, death of claimant.** Provides that if the original claimant dies, the claimant's heir, devisee or estate would have one year to notify the commissioner of its choice to either terminate the program without penalty or continue without a break. If the commissioner is not notified within one year the land will be terminated from the program without penalty. Effective the day following final enactment, except that if a claimant has already died the election may be made within six months of the effective date or within one year of the claimant's death, whichever is later.
- 42 **Tax increment financing.** Requires development authorities that wish to exercise the "original tax rate" option under this statute to annually certify their election to do so by July 1 in order for the election to be effective for taxes payable the following year. The election allows increments to be computed based on captured net tax capacity and the tax rate in effect when the district was created. Effective for taxes payable in 2004 and thereafter.
- 43 **Distribution net tax capacity.** Removes an adjustment for municipalities with a large amount of manufactured home property.
- 44 Taxes paid before recording. Changes the current provision which allows an instrument amending or reinstating a common interest community (CIC) plan to be recorded without paying all delinquent and current year property taxes. With the change CICs will be allowed to record documents amending their plans without paying tax only if the unit or common area boundaries are not being changed. Effective for deeds or instruments accepted for recording or registration on or after July 1, 2003.
- 45 **"Use-deeds" for tax forfeited property.** Eliminates changes of use for so-called "use deeds" issued before the effective date of the 2001 laws. "Use deeds" convey tax-forfeited property to a political subdivision of the state, upon approval of the county board, for a specified public use without requiring a payment of money. Property not used for the stated

purpose within three years reverts to the state. However, for property held under a "use deed" issued before August 1, 2001, the recipient local unit of government that does not achieve the originally-proposed public use within five years can continue to hold the property for successive five year periods simply by proposing a different public use at the end of each five year period (subject to county board approvals). Under this change, property could not be put to a different use unless it was conveyed back to the state and reacquired specifically for the new use. Effective August 1, 2006, and thereafter for deeds issued before August 1, 2001.

46 **"Use-deeds" for tax forfeited property.** Eliminate changes of use for so-called "use deeds" issued before the effective date of the 2001 laws. "Use deeds" convey tax-forfeited property to a political subdivision of the state, upon approval of the county board, for a specified public use without requiring a payment of money. Property not used for the stated purpose within three years reverts to the state. However, for property held under a "use deed" issued before August 1, 2001, the recipient local unit of government that does not achieve the originally-proposed public use within five years can continue to hold the property for successive five year periods simply by proposing a different public use at the end of each five year period (subject to county board approvals). Under the proposal, property could not be put to a different use unless it was conveyed back to the state and reacquired specifically for the new use. Effective August 1, 2006, and thereafter for deeds issued before August 1, 2001.

47 Out-of-home placement cost aid. Clarifies that the 2002 amendments that delayed payment of this aid until 2004 were effective upon enactment. Effective retroactively to May 16, 2002, and thereafter.

48 Pre-1940 housing percentage. Clarifies that 2003 local government aid are to be calculated based on the pre-1940 housing percentages reported in the 1990 federal census.

49 Repealer. Paragraph (a) repeals new construction low-income housing aid. The aid is based on the value class 4d properties constructed after 1998. However, class 4d no longer has separate class rate or qualification requirements as of taxes payable in 2004. Effective for aid payable in 2004 and thereafter.

Paragraph (b) repeals obsolete and duplicative railroad valuation rules. Effective the day following final enactment.

Article 15: Department Sales and Use Tax Initiatives

Overview

This article makes a variety of technical and policy changes in the sales tax, as recommended by the department of revenue. It reorganizes and simplifies the exemptions for agricultural products and farm equipment.

1 Purchaser refunds. Relaxes the requirements for taxpayers to file a sales tax purchaser refund claim. Currently, taxpayers must be registered and have a claim in excess of \$500 to file a purchaser refund claim. With these changes taxpayers who were registered during the period of the overpayment may file a purchaser refund claim, and taxpayers may aggregate the amounts of a purchaser claim and a capital equipment refund claim to satisfy the \$500 requirement. Effective for claims filed on or after the day following final enactment.

2 **Penalty for incorrectly completing return.** Provides a five percent penalty for failing to report local sales tax on a return or for failing to report local sales tax on a separate line on the return. Imposes a new \$500 penalty for failing to report location information on a consolidated tax return. In addition, the commissioner may revoke the taxpayer's privilege to

file a consolidated tax return. Effective for returns filed after June 30, 2003.

3

Sales and purchases; services. Makes three changes:

- } Clarifies that only non-residential parking services are subject to the sales tax.
- } Clarifies the status of services added to the sales tax base in 1987 by providing that
 - all references to tangible personal property shall also include the 1987 taxable services unless otherwise provided,
 - services performed by a partnership that is owned or controlled by another partnership are not taxable, and
 - services performed by members of an affiliated group of corporations for other members of the group are not taxable.
- } Clarifies that the sales taxation of telecommunications is broader than telephone service.

Effective the day following final enactment.

4

Farm machinery. Clarifies that machinery and equipment used directly and principally in agricultural production qualify as farm machinery for exemption from the sales tax. Other items exempted from sales tax under the current definition of farm machinery are moved to other sections of statute; the intent is to retain the same exemptions as in current law but to improve how the exemptions are organized in statute. Effective for sales and purchases made after June 30, 2003.

5

Food sold in vending machines. Provides that food sold through vending devices includes food sold through honor boxes. Effective for sales and purchases made on or after the day following final enactment.

6

Agricultural production. Adds a definition of "agricultural production" to the section of statute providing definitions for the sales tax. This is part of the reorganization of exemptions relating to farming. The definition of "agricultural production" in current law is in the section dealing specifically with farm exemptions. Effective for sales and purchases made after June 30, 2003.

7

Exemption certificates. Provides that

- } a seller is relieved from collecting sales tax if the seller receives a fully completed exemption certificate from the purchaser at the time of the sale.
- } exemption certificates not accepted at the time of the sale but that are provided to the commissioner during an audit are subject to verification by commissioner as to their validity.
- } if the seller does not provide the certificates within 60 days after the commissioner requests them, the sale will be considered to be taxable.

Also adopts the SSTP language that states that a retailer is not relieved from liability for non-collection of tax if the retailer fraudulently fails to collect the tax or solicits purchasers to unlawfully claim an exemption.

Effective for exemption certificates received for sales occurring after June 30, 2003.

8 Food and food ingredients. Clarifies that candy, soft drinks, and food sold in vending
machines and prepared food are considered food items but that they are not included within
the exemption. Effective the day following final enactment.

9 **Capital equipment.** Makes two changes:

- } Clarifies that concrete ready-mix equipment, regardless of whether mounted on
the vehicle, qualifies as capital equipment for a sales tax exemption, and that the
vehicle on which the equipment is mounted is not exempt. Also clarifies that the
lease of ready-mix trucks remains exempt.
- } provides a definition of the integrated production process and an explanation of
when the process begins and ends for manufacturing, mining, fabricating, and
refining.

Effective for sales and purchases made after December 31, 2003.

10 **Transition provisions for pre-existing contracts.** Provides for a transition period of six
months when the sales tax is imposed on additional goods or services and the bill imposing
the tax does not provide a transitional period for pre-existing construction contracts or bids.
The goods or services newly subject to the tax would remain exempt under pre-existing
contracts or bids for a six-month transition period from the date of the law change. Specifies
conditions that must exist before the six-month transition period applies. Effective the day
following final enactment.

11 **Agricultural production.** Strikes the definition of agricultural production in the section that
deals with farm exemptions. Section 0moved this definition to the general definitions section
of the sales tax statute as part of the reorganization of exemptions relating to farming.
Effective for sales and purchases made after December 31, 2003.

12 **Repair and replacement parts.** Expands the current exemption for "farm machinery repair
parts" to apply to "repair and replacement parts" and includes farm machinery, logging
equipment, maple syrup harvesting equipment, and aquaculture production equipment.
Repair and replacement parts for all of these types of equipment are exempt under current
law. This is part of the reorganization of exemptions relating to farming. Effective for sales
and purchases made after June 30, 2003.

13 **Machinery, equipment, and fencing.** Expands the current exemption for "farm machinery"
to apply to "machinery, equipment, and fencing," and includes farm machinery, logging
equipment, fencing for cervidae, primary and backup generators, aquaculture production
equipment, and maple syrup harvesting equipment. All of these items are exempt under
current law. This is part of the reorganization of exemptions relating to farming. Effective for
sales and purchases made after June 30, 2003.

14 **Noncollector vehicles.** Removes the requirement for the department of public safety to
prepare and distribute an above-market list of automobiles. The requirements for a vehicle to
qualify as a noncollector vehicle remain the same and transfers of vehicles that are ten years
or older and that are not above-market vehicles will continue to be taxed at \$10. Effective for
vehicles purchased after June 30, 2003.

15 **Collector vehicles.** Makes a technical conforming change to reflect that the department of
public safety would no longer be designating above-market automobiles. Effective for
vehicles purchased after December 31, 2003.

16 **Ordinary course of business.** Provides that only vehicles purchased by motor vehicle
dealers for resale in the ordinary course of business are exempt from motor vehicle sales tax

when purchased by the dealer. Vehicles used by the dealer for purposes other than resale or demonstration are subject to motor vehicle sales tax. Effective the day following final enactment.

17 Repealer.

Paragraph (a) repeals Minn. Stat. § 297A.72, subd. 1, regarding sales tax exemption certificates, and moves the language to Minn. Stat. § 297A.665. Effective for exemption certificates received for sales occurring after June 30, 2003.

Paragraph (b) repeals Minn. Stat. § 297A.97, which provided that non-Minnesota retailers did not have to collect local sales taxes. Effective for sales and purchases made after December 31, 2003.

Paragraph (c) repeals obsolete or duplicative sales and use taxes rules. Effective the day following final enactment.

Article 16: Department Special Taxes Initiatives

Overview

This article makes a variety of technical and policy changes to the special taxes (MinnesotaCare taxes, hazardous waste generator tax, cigarette and tobacco products taxes, and the insurance premiums tax), recommended by the Department of Revenue.

- 1 Penalties; enforcement; hazardous waste generator tax. Clarifies that the penalty provisions under the hazardous waste generator tax are the same as those that apply to the corporate franchise taxes. Effective the day following final enactment.
- 2 Patient services definition; gross earnings tax. Excludes certain services from the definition of patient services. Under current law, taxpayers providing these services must report their gross revenues and then are allowed an exemption. Under the proposed change, community residential mental health facilities, community mental health centers, taxpayers who provide community support programs and family community support programs, assisted living programs, congregate housing programs, and hospice care services would no longer be required to report gross revenues they receive for these services. Effective for gross revenues received after December 31, 2002.
- 3 Patient services definition; gross earnings tax. Removes the exemption for services provided by community residential mental health facilities, community mental health centers, taxpayers who provide community support programs and family community support programs, assisted living programs, congregate housing programs, and hospice care services, since revenues from these services will be excluded from the definition of gross revenues under section 0. Effective for gross revenues received after December 31, 2002.
- 4 **Unlicensed seller; cigarette and tobacco tax.** Deletes the reference to local licensing authorities from the definition of unlicensed seller. Effective July 1, 2003.
- 5 Wholesale sales price; cigarette and tobacco tax. Clarifies that "wholesale price" under the tobacco products tax means the manufacturer's price at which tobacco products are made available for sale to all distributors. Effective July 1, 2003.
- 6 **Tobacco products use tax.** Clarifies that the consumer exemption from the tobacco products use tax extends to the "possession" of tobacco products as well as their use and storage. Changes the exemption from specified quantities of tobacco products to the exemption of

products with an aggregate cost in a calendar month of \$100 or less. Effective July 1, 2003.

7 **Penalties for failure to file or pay; cigarette and tobacco tax.** Clarifies that consumers are subject to misdemeanor penalties for failing to file or pay the cigarette and tobacco tax. Effective for acts committed on or after July 1, 2003.

8 **Penalties for knowing failure to file or pay; cigarette and tobacco tax.** Clarifies that consumers are subject to gross misdemeanor penalties for knowingly failing to file or pay the cigarette and tobacco tax. Effective for acts committed on or after July 1, 2003.

9 **Penalties for false or fraudulent returns; cigarette and tobacco tax.** Clarifies that consumers are subject to felony penalties for

 } filing reports or returns or

 } aiding and abetting in the preparation of reports or returns

that are known to be fraudulent or false concerning a material matter. Effective for acts committed on or after July 1, 2003.

10 **Unstamped cigarettes; unstamped tobacco products.** Removes consumers and licensed distributors from the criminal provisions for possession of unstamped cigarette and untaxed tobacco products. Raises the tobacco products tax thresholds to make them roughly equivalent to the cigarette tax thresholds. Adds a presumption that an individual is not a consumer if in possession of at least 5,000 unstamped cigarettes or more than \$350 worth of untaxed tobacco products. Effective for acts committed on or after July 1, 2003.

11 **Purchases from unlicensed sellers; cigarette and tobacco tax.** Removes references to consumers, clarifies that retailers and subjobbers can purchase cigarettes and tobacco products only from licensed distributors or subjobbers, and raises the penalty thresholds for purchases from unlicensed sellers. Effective for acts committed on or after July 1, 2003.

12 **Gross premiums; definition.** Includes a new workers compensation surcharge created in 2002 in the definition of gross premiums for insurance premiums tax. Effective the day following final enactment.

13 **Offsets against premium taxes.** Provides a reference to the insurance premiums tax offset for joint underwriting assessments. Effective the day following final enactment.

14 **Revisor's instruction.** Instructs the revisor to delete references to chapter 294 (gross earnings tax) from the next edition of Minnesota Statutes. This chapter is proposed to be repealed in section 0. Effective day following final enactment.

15 **Repealer.**

Paragraph (a) repeals Minn. Stat. ch. 294. This chapter deals with the gross earnings tax, which is no longer in effect. Effective day following final enactment.

Paragraph (b) repeals obsolete petroleum tax rules regarding the identification of pumps, the ethanol development fund, and the road tax. These items are now administered by other departments, not the Department of Revenue. Effective the day following final enactment.

Article 17: Department Collections and Compliance Initiatives

Overview

This article makes a variety of changes, recommended by the department of revenue, to the laws governing the authority of the commissioner of revenue to collect taxes. It imposes penalties on nuisance common law liens filed against department employees, provides for attachment of insurance proceeds, and allows posting notices of sales on the Internet.

- 1 Penalty for filing certain documents. Current law prohibits filing nonconsensual common law liens (liens not authorized by court order or statute) against certain public officials and employees. This section addresses such liens filed against the commissioner of revenue or revenue employees. It allows the commissioner to impose a \$1,000 penalty per document filed, payable to the general fund. It makes a penalty order reviewable administratively and appealable to the tax court. The penalty in this section is in addition to other remedies that may be available.

Effective for documents filed on or after July 1, 2003.

- 2 Lien attachment to insurance proceeds. Provides that liens imposed under section 270.69 attach to the proceeds of property with the same priority that the lien has with respect to the property itself. "Proceeds of property" is defined to include insurance proceeds arising from the loss or destruction of the property.

Effective for all liens whether imposed prior to or on or after the day following final enactment.

- 3 Notice of sale. Amends the statute on notice of sale by DOR of seized property. Provides that for purposes of public notice of the sale, the Internet is a public posting place.

Effective for notices of sales posted on or after the day following enactment.

- 4 Sale of seized securities. Specifies a procedure for selling nonexempt publicly traded securities that are levied on by DOR. Provides that if the securities are worth not more than the tax obligation, the person who possesses or controls the securities will sell them in a commercially reasonable manner and transfer proceeds, less normal commissions and fees, to DOR. Provides that if the securities are worth more than the obligation due, the owner may instruct the person who possesses them which securities to sell. If the owner does not provide such direction, the person in possession is to sell the most recently acquired securities first. After liquidation and deduction of normal commissions and fees, the person in possession transfers to DOR the amount due.

Effective for sales of securities due on or after enactment.

- 5 Definitions. Amends the definition of license, which currently "includes" a contract for space rental at the state fair. Adds to this: any permit issued by the state or a local unit of government to carry out an occupation or do business.

Effective immediately.

- 6 **Claimant agency; revenue recapture.** Adds the Minnesota collection enterprise for the purpose of collecting the collection costs imposed under the debt collection act as a claimant agency under the revenue recapture act.

- 7 Limitation in transferee and fiduciary liability. Clarifies that overpaid property tax refunds are personal debts of fiduciaries and are recoverable from transferees and fiduciaries.
- Effective for taxes imposed and property tax refunds claimed on or after the day following final enactment.
- 8 Limitation in transferee and fiduciary liability. Clarifies that overpaid property tax refunds paid are personal debts of fiduciaries and are recoverable from transferees and fiduciaries.
- Effective for taxes imposed and property tax refunds claimed on or after the day following final enactment.
- 9 Application to court for enforcement of subpoena. Provides that disobedience of a commissioner's subpoena in connection with a tax audit of businesses located outside the state is punishable by the district court in Ramsey County in the same manner as contempt of district court. In addition, lets the court issue any order it deems necessary to enforce compliance with the subpoena.
- Effective immediately.
- 10 Access to records of businesses located outside the state. Lets DOR audit records of businesses located outside the state in order to determine whether the business is required to file a state tax return. Lets DOR subpoena records and files. Provides for serving the subpoena on the secretary of state, along with the company's address and a \$50 fee. Requires the secretary to forward the subpoena. Requires DOR to pay the reasonable costs of producing subpoenaed records if (1) the party cannot produce without undue burden, and (2) examination shows the party is not required to file a tax return.
- Effective immediately.
- 11 Penalty. Adds a penalty for violating a court order to comply with a DOR subpoena under sections 0and 0. Requires the court to impose \$250 a day up to \$25,000, upon request of DOR. Requires the court on request to enter the penalty as a judgment and makes the penalty payable after judgment is entered.
- Effective for violations of court orders to enforce subpoenas issued on or after enactment.
- 12 Sales tax permit cancellation. Adds cancellation for issuance pursuant to Minn. Stat. § 297A.86, subd. 2, paragraph (a), to the list of possible grounds for cancellation of a taxpayer's sales tax permit.
- Effective for cancellations of permits done on or after the day following final enactment.
- 13 **Repealer.** Repeals a sunset on a law that allows publication of a list of delinquent taxpayers who have owed at least \$5,000 for at least 180 days and against whom a judgment has been entered or tax lien has been filed.

Article 18: Blue Waters

Overview

This article establishes a new property class for certain unimproved real estate bordering certain public waters. The new class 2c has a class rate of 0.8 percent of market value if certain criteria are met. Under current law the class rate on this property is either 1.0 percent or 1.25 percent, depending upon ownership.

The owner must sign a covenant agreeing to keep the land in its undeveloped state for the duration of the covenant. The property owner may terminate the covenant, but needs to give an 8-year notice of termination. The covenant language is similar to the covenant on property enrolled in the Metropolitan Agricultural Preserve Program, Chapter 473H.

Upon termination of the covenant, if the land is sold and no longer qualifies, additional taxes are due for the last 7 years that the property was valued and assessed as class 2c property.

Effective for taxes payable in 2005, and thereafter.

1 Class 2c undeveloped lakeshore. Provides a new class 2c for certain unimproved real estate, excluding agricultural land, that meets all the criteria in clauses (1) to (5). Class 2c has a class rate of 0.8 percent. They are:

(1) the property consists of at least 200 contiguous feet of unimproved real estate that borders a "meandered lake" as defined under section 103G.005, subdivision 15, paragraph (a), clause (3);

(2) the unimproved real estate is located within 400 feet of the ordinary high water elevation of the water. "Unimproved" means that the property or portion of property qualifying contains no structures, no docks or landings on its shoreline, natural terrain and vegetation has not been disturbed, or has been restored to native vegetation;

(3) the property is either (i) the homestead of the owner, the owner's spouse, or the owner's or spouse's son or daughter; or (ii) has been in one of their possessions for at least seven years prior to application for benefits;

(4) the owner of the property files an application by July 1 with the county assessor for classification for the subsequent year's assessment; and

(5) the owner of the property signs a covenant agreement and files the covenant with the county assessor in the county where the property is located. The covenant agreement must include all of the following:

(i) legal description of the area included in the covenant;

(ii) name and address of the owner;

(iii) a statement that the land described in the covenant must be kept as undeveloped land for the length of the covenant;

(iv) a statement that the landowner may initiate expiration of the covenant agreement by notifying the county assessor. The date of expiration must be at least 8 years from the date of the expiration notice;

(v) a statement that the covenant is binding on the owner or owner's successor or assignee, and runs with the land; and

(vi) a witnessed signature of the owner covenanting to keep the land in its undeveloped state as it existed on the date of the covenant was signed.

Upon expiration of the covenant, additional taxes are due. The amount of additional taxes due equals the difference between the taxes actually imposed on the property and the taxes that would have been imposed for the last seven years if the property had been valued and assessed if class 2c did not apply. No interest and penalties are levied on the additional taxes if timely paid. The tax imposed is a lien on the property to the same extent as other real property taxes.

Effective date. This section is effective for the 2004 assessment and thereafter, taxes payable in 2005 and thereafter.

Article 19: Miscellaneous

Overview

This article

- } establishes a legislative commission on unnecessary mandates to review rules and laws affecting local governments and make legislative proposals to repeal or modify unnecessary mandates. Gives commission authority to temporarily suspend and object to rules.
- } provides for funding of the budget reserve at \$530 million
- } repeals the tobacco and medical endowment funds on July 1, 2003; transfers balances to general fund.
- } appropriates additional money to the department of revenue for compliance activities and directs the commissioner to establish an advance collection program.
- } repeals St. Paul Library agency retroactive to January 1, 2003

- 1 Objections to rules; legislative commission on unnecessary mandates. Permits the legislative commission on unnecessary mandates commission to object to a rule formally and thereby change the burden of proof to the agency in a proceeding for judicial review or enforcement of the rule. Permits the commission to petition for a declaratory judgment to determine the validity of a rule and to intervene in litigation arising out of agency action. The LCC and legislative committees currently have this authority.
- 2 Public hearings by state agencies; legislative commission on unnecessary mandates. Permits the legislative commission on unnecessary mandates commission to require an agency to conduct public hearings on rules. The LCC currently has this authority.
- 3 Local impact notes; jurisdictions. Adds "school district" to the list of political subdivisions covered by the local impact note law. Under current law, local impact notes may only be requested for legislation affecting counties and cities.

- 4 Local impact notes; who may request. Adds the chairs or ranking minority members of the House Ways and Means and Senate Finance committees to the list of people who can request a local impact note. Under current law, the chair or ranking minority member of the House or Senate tax committee may request local impact notes.
- 5 Legislative commission on unnecessary mandates; established.
- Subd. 1. Established. Establishes the commission.
- Subd. 2. Membership. Provides for 14 legislators to serve as the commission: seven senators and seven representatives.
- Subd. 3. Terms; vacancies. Provides for commission members to serve for a biennium and for vacancies to be filled so as to preserve the representation established by this section.
- Subd. 4. Chair. Provides for the commission members to select a chair from among the members at the beginning of each biennium. Requires the chair to alternate between the house and senate.
- Subd. 5. Compensation. Provides that members serve without compensation but may be reimbursed for expenses.
- Subd. 6. Staff. Directs the legislative coordinating commission (LCC) to provide administrative support to the commission.
- Subd. 7. Meetings; procedures; tie votes. Provides for calling the first meeting each biennium. Provides that commission action requires a majority vote of members from both the House and the Senate.
- Subd. 8. Funding. Provides for the LCC to annually bill the commissioner of revenue for costs of the commission and the grants authorized in section 3. Maximum amount per year is \$100,000, of which one-half is from LGA and one-half is from the new county program aid.
- 6 Legislative commission on unnecessary mandates; review and recommendations to legislature. Directs the commission to solicit from local governments information on laws and rules that may be unnecessary, including those that relate to local government property taxes. Directs the commission to prepare each year a bill to repeal or modify laws or rules it determines are unnecessary.
- 7 Legislative commission on unnecessary mandates; grants. Permits the commissioner of revenue, upon recommendation of the legislative commission, to make grants to local government associations, the University of Minnesota, MnSCU, or other accredited postsecondary schools to research and make recommendations on unnecessary mandates.
- 8 Legislative commission on unnecessary mandates; temporary rule suspension. Permits the commission to suspend any rule on which the commission receives negative testimony at a public hearing. Requires the commission to prepare a bill to repeal any rule the commission has suspended. Provides that the rule remains effective if the bill to repeal is not enacted (unless the agency repeals it). This section is based on prior law for the Legislative Commission to Review Administrative Rules.
- 9 Legislative commission on unnecessary mandates; sunset. Repeals the commission on June 30, 2007.
- 10 Attorney general approval of tax compromises. Requires attorney general approval of compromises of tax debts, if the debt is being reduced by more than \$50,000. Under present law, the attorney general must approve all compromises of tax debts. This change would give the commissioner of revenue that authority for amounts up to \$50,000.

- 11 Cash flow account. Strikes language relating to previous transfers to the cash flow account.
 12 Budget reserve account. Directs the commissioner of finance to transfer \$300 million from
 the general fund to the budget reserve on July 1, 2003, and an additional \$230 million on
 July 1, 2004.
- 13 Additional revenues; priority. Establishes priorities for unrestricted general fund balances at
 the close of a biennium:
- } first, to the cash flow account, until its balance reaches \$350 million;
 - } second, to the budget reserve account, until its balance reaches five percent of
 forecasted expenditures in the odd-numbered fiscal year of the most recently
 enacted budget.
- 14 Delay of payments. Authorizes the commissioner of finance to delay up to 15 percent of aid
 payments to cities and counties for up to 60 days for cash-flow purposes.
- 15 Medical endowment fund; sunset. Advances the sunset of the medical endowment fund from
 June 30, 2015, to July 1, 2003. Transfers the balance of the fund to the general fund.
- 16 Tobacco use and prevention fund; sunset. Advances the sunset of the tobacco use and
 prevention fund from June 30, 2015, to July 1, 2003. Transfers the balance of the fund to the
 general fund.
- 17 Offer-in-compromise program. Makes cross reference in the offer-in-compromise program
 statute to the authority of the commissioner to accept compromise without approval of the
 attorney general for amounts up to \$50,000 as provided under section 10.
- 18 Obsolete appropriation language. Strikes obsolete appropriation language relating to
 department of revenue compliance programs.
- 19 Advance collection program. Directs the commissioner of revenue to establish an advance
 collection program. In establishing and operating this program the commissioner is directed
 to:
- } Minimize the negative impacts on tax compliance
 - } Maximize collecting tax that otherwise would not be collected at all.

Under the program, the commissioner would use offer in compromise authority to provide discounts on debts, which are older than 2 years old on the department's account receivable system. The commissioner may select the debts that will qualify and to exclude debts that the commissioner determines are not appropriate to be included. Discounts could be offered, subject to the following limits:

Age of the original debt on AR	Maximum discount
2 years or less	Current practice
2 years to 4 years	35%
more than 4 years	50%

- 20 Legislative commission on unnecessary mandates; first meeting. Provides for the speaker of
 the house to designate a commission member to convene the first meeting. Provides for the
 first commission to serve until the beginning of the next biennium.
- 21 Mandated programs; funding adjustment. Allows counties to adjust funding for state
 mandated programs and services if state funding is reduced or terminated or if a county
 maintenance of effort requirement is increased or imposed. Requires a public hearing.

Expires June 30, 2005.

22 Repealer; St. Paul Library agency. Repeals the St. Paul Library agency effective the day following final enactment, retroactive to January 1, 2003. This law was enacted in 2002 to establish an independent library agency as a governmental subdivision. The St. Paul Library agency is responsible for all libraries and library operations in the city of St. Paul.

23 Appropriation.

- } Paragraph (a) makes appropriations related to revenue compliance efforts. Appropriates \$1.785 million for fiscal year 2004 and \$3.535 million for fiscal year 2005 to the commissioner of revenue for increased tax compliance efforts. The target for additional collections for this initiative is \$19.665 million. This is a permanent appropriation that is added to the budget base. This initiative is subject to the reporting requirements contained in the State Government Finance bill.
- } Paragraph (b) appropriates \$20,000 for the legislative commission on unnecessary mandates to make grants as authorized under section 0.