

# HOUSE RESEARCH

## Bill Summary

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### Overview

This bill includes most of Governor Pawlenty's tax proposals.

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#### **Article 1: Individual Income and Corporate Franchise**

### Overview

This article imposes new withholding requirements on (1) partnerships with nonresident partners and S corporations with nonresident shareholders and (2) businesses that contract with individuals to do construction work and pay them more than \$600 during the year. It also phases-in single sales apportionment for multistate corporations over 8 years, starting in 2007 and allows a dairy investment credit.

- 1 1** **Payment of withholding on nonresident income.** Requires partnerships with nonresident partners (and S corporations with nonresident shareholders and trusts with nonresident beneficiaries) to pay Minnesota withholding tax on Minnesota source income on a quarterly basis during the year, like all other taxpayers, rather than paying with the entity's return

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filed after the tax year has ended.

Effective for tax years beginning after December 31, 2005.

- 2 Foreign operating corporation.** Requires a foreign operating corporation (FOC) to have 80 percent or more of its average of payroll and property, measured as those factors are determined for apportionment of income, outside of the United States. To be an FOC, a corporation also must have \$1 million of foreign payroll and \$2 million of foreign property. If the corporation seeking to qualify as an FOC has no payroll and it is a partner in partnerships with \$1 million or more in foreign payroll, payroll can be omitted from calculation of the averages.

Effective for tax years beginning after December 31, 2004.

- 3 Investment tax credit for dairy farms.** Allows a nonrefundable credit against individual income and corporate franchise taxes equal to 10% of the purchases of depreciable capital assets, other than farm animals, used in a dairy farm operation. The credit applies to purchases during a 6-year period (CY2005-11). The maximum credit available to any taxpayer over the 6-year period is \$30,000. The \$30,000 cap applies at individual, husband and wife, flow-through entities, and corporate levels. Credits that exceed the tax in a year can be carried over to later tax years for up to 15 years.

Effective for tax years beginning after December 31, 2005.

- 4 Long term health insurance credit.** Allows the long-term care insurance credit on premiums, regardless of whether the taxpayer claimed the premiums as an itemized deduction. Present law does not allow the credit on the premiums to the extent claimed as an itemized deduction, but does allow credit on premiums paid by self-employed individuals who can claim an "above-the-line deduction" for those premiums. This equalizes the treatment of self-employed and all other taxpayers.

Effective for tax years beginning after December 31, 2004.

- 5 Long term health insurance credit.** Is a complementary provision to section 0.

Effective for tax years beginning after December 31, 2004.

- 6 Single factor sales apportionment; regular corporations.** Provides for an 8-year phase-in of single factor sales apportionment of income beginning with tax year 2007 for regular corporations. The phase-in schedule is as follows:

Tax year	Sales Percentage
Present law	75%
2007	78%
2008	81%
2009	84%
2010	87%
2011	90%
2012	93%
2013	96%
2014	100%

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Effective for tax years beginning after December 31, 2006.

**7** **Single factor sales apportionment; financial institutions.** Phases-in single factor sales apportionment for financial institutions under the same schedule applicable to regular corporations under section 0.

Effective for tax years beginning after December 31, 2006.

**8** **Withholding for individual independent construction contractors.** Requires businesses that hire individual independent contractors to perform construction work in Minnesota to withhold and remit to Minnesota 2% for payments over \$600, as if the independent contractor were an employee. Under federal law, a Form 1099 must be issued to the independent contractors who receive payments over \$600 during the tax year.

Effective for payments made after July 31, 2005.

## Section

### Article 2: Federal Update

#### Overview

Minnesota income and franchise tax is based on "federal taxable income" (FTI) for regular Minnesota tax purposes; "federal alternative minimum taxable income" (AMTI) for Minnesota alternative minimum taxable income; and "federal adjusted gross income" (AGI) for household income used for the Minnesota dependent care credit, education credit, and property tax refund. Present Minnesota law references these federal concepts through June 15, 2003.

Since June 15, 2003, the federal government has enacted four laws that modified the definitions of FTI, AMTI, and AGI.

- ▶ **Military Family Tax Relief Act of 2003** provides a number of new exclusions and deductions for members of the military retroactively effective to the beginning of 2003.
- ▶ **Medicare Prescription Drug, Improvement, and Modernization Act of 2003** provides for the tax treatment of health savings accounts that were first allowed in 2004.
- ▶ **Working Families Tax Relief Act of 2004** extended the sunset dates of a number of expiring tax provisions (teacher material expense, Archer medical savings accounts, clean fuel vehicle deduction), modified the definitions of "dependent" and "qualifying child" to make them similar, increased the standard deduction available to married couples, and made a number of technical changes.
- ▶ **American Jobs Creation Act of 2004** contained a large number of business provisions, which limited some business deductions, created some new deductions and closed some perceived loopholes. It also allowed the itemized deduction of the greater of state income taxes or state sales taxes and limited the expensing of heavy sport utility vehicles (SUVs).

This article adopts these federal changes for Minnesota purposes with the following exceptions:

- ▶ The increase in the standard deduction for married joint filers
- ▶ The new deduction for manufacturing activities
- ▶ The extension of the higher limits on expensing for two additional years.

- 1 1 Update of tax administration provisions.** Adopts federal tax administrative provisions made between June 15, 2003, and December 31, 2004, that Minnesota references for state tax administration purposes under chapter 289A. None of the four federal acts mentioned in the overview changed federal provisions that Minnesota provisions refer to in chapter 289A.

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Effective the day following final enactment.

**2 Update to federal definition of taxable income.** Adopts all of the federal changes to taxable income effective at the same time the federal changes were effective. The important federal changes were:

- **The Military Family Tax Relief Act of 2003** increases the exclusion from income of the death gratuity benefit paid to survivors of members of the military who are killed in the line of duty from \$3,000 to \$12,000 (also increased the benefit from \$6,000 to \$12,000). Effective for deaths after September 10, 2001.

Excludes from taxable income the cost of dependent care assistance provided by the military to a service member. Effective beginning in tax year 2003.

Excludes from taxable income payments from the Department of Defense Homeowner Assistance program, which offset the adverse effects of military base closings on housing values. Effective for payments made after November 11, 2003.

Suspends the running of the five-year period for purposes of meeting the two out of five year "use of house as principal residence" test used to qualify for the exclusion of the gain on sale of the residence for up to 10 years for members of the military on official extended duty. Effective for sales after May 6, 1997.

Provides a deduction from federal adjusted gross income (an "above the line" deduction) for unreimbursed travel, meal, and lodging expenses of members of the National Guard and reserves when they travel at least 100 miles and stay overnight to attend a guard or reserve meeting. Prior law allowed most of these expenses as a miscellaneous itemized deduction. Effective beginning in tax year 2003.

Exempts astronauts who lose their lives on a space mission from income tax. Effective for deaths after December 31, 2002.

- **The Medicare Prescription Drug, Improvement and Modernization Act of 2003** allows the deduction of contributions to a health savings account (HSA) for individuals with high-deductible medical health plan coverage. The maximum deduction is \$2,250 for individuals with self-only coverage and \$4,500 for individuals with family coverage. The maximum deduction is \$500 higher for individuals age 55 or older, and is increased by an additional \$100 per year until tax year 2009, when it will be \$1,000 higher than the maximum deduction for individuals under age 55. "High-deductible" plan is defined as having an annual deductible of at least \$1,000 for self-only coverage and \$2,000 for family coverage, and having a maximum combined deductible and out-of-pocket expense requirement of at most \$5,000 for self-only coverage and \$10,000 for family coverage. Earnings on amounts contributed to HSAs are tax-exempt. Distributions from HSAs are tax-exempt if used for medical expenses. Effective beginning in tax

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year 2004.

Exempts federal subsidies paid to employers who provide prescription drug coverage for their retirees. Provides for federal subsidies to be paid beginning in 2006.

- **Working Families Tax Relief Act of 2004** increases the standard deduction for married taxpayers starting in 2005 and ending in 2011 to twice the standard deduction of an unmarried single taxpayer. Old law was 174% for 2005; 184% for 2006; 187% for 2007; 190% for 2008; 200% for 2009 and 2010. In 2011, the deduction reverts back to 170%. (Section 0requires this additional deduction to be added back.)

Extends the \$250 deduction in the computation of federal adjusted gross income for teachers' unreimbursed expenses for material used in grades K-12 to apply to 2004 and 2005.

Extends the fair market value deduction for corporations donating computer hardware and software to charities to 2004 and 2005.

Provides that the deduction for purchase of a clean-fuel vehicle in 2004 or 2005 will not phase-out 25% and 50% respectively. The 75% phase-out in 2006 and complete phase-out of deductions after 2006 will still occur.

Removes the limit on percentage depletion deduction for marginal production oil and gas wells for 2004 and 2005.

- **American Jobs Creation Act of 2004** phases-out exclusion of net income generated by sales outside the United States (for Minnesota this directly affects some resident individuals and some corporations under Minn. Stat. § 290.01, subd. 19d(17)). The extraterritorial income exclusion phases out 20% in 2005; 40% in 2006; and 100% in 2007 and thereafter.

Phases in deduction for percentage of net income from manufacturing activities in the United States. For 2005 and 2006, deduction is 3% of the lesser of the taxpayer's taxable income or qualified production activity income. The percentage increases to 6% for 2007, 2008, and 2009, and becomes 9% in 2010 and thereafter. The deduction cannot exceed 50% of the wages paid by the taxpayer. (Sections 0and 0require these deductions to be added back by individuals and corporations respectively.)

Extends the ability to expense rather than depreciate up to \$100,000 of newly purchased business assets to 2006 and 2007. The \$400,000 investment limitation was also extended. Without the change, the \$100,000 would have been capped at \$25,000 and the \$400,000 would have reverted to \$200,000 starting with assets placed in service after December 31, 2005. (Sections 0and 0require these

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deductions to be added back by individuals and corporations respectively.)

Limits the ability to expense the business purchase of SUV's over 6,000 pounds to \$25,000 for SUV's placed in service after October 22, 2004.

Allows leasehold improvements to real property to be depreciated over 15 years on a straight-line basis rather than over the longer 39-year life of the buildings. Effective for improvements placed in service after October 22, 2004 and before January 1, 2006. Improvements to restaurants receive the same treatment as the leasehold improvements.

Extends first year 30% bonus depreciation for noncommercial aircraft used in a trade or business for new aircraft first put in service in 2005 but purchased before 2005 (same treatment as passenger and cargo aircraft under the old law).

Allows reforestation expenditures to be expensed in the year incurred or paid up to a \$10,000 limit. As under the old law, the remaining expenditures are amortized over 84 months. Effective for expenses incurred after October 22, 2004.

Allows mail carriers who use their own vehicles to deliver the mail to claim the excess of their actual vehicle expenses over their employer reimbursement as an itemized deduction of employee business expense starting in 2004.

Changes attorneys fees and court costs in wrongful discrimination cases where the recovery of damages is taxable income from an itemized deduction to a deduction allowed in the computation of federal adjusted gross income to the extent of the amount of taxable damages effective for costs paid after October 22, 2004.

Limits the charitable deduction for motor vehicles, boats, or planes donated to a charity is limited to the price the charity receives from selling the vehicle if the item donated is sold "as is" and is worth more than \$500, beginning in 2005. The charity must notify the donor of the use of the item by the charity or the proceeds of the sale, if sold.

Limits the deduction for charitable contributions of patents or other intellectual property to the donor's basis in the property or its fair market value, effective for contributions after June 3, 2004. After the property is donated, the donor is allowed to deduct a percentage of the net income generated by the charity from the donated property. The percentage starts at 100% the first two years after donation and decreases 10% each year thereafter until no deduction is allowed in the 13th year.

Considers livestock sold because of drought, flood, or weather related conditions to be involuntarily converted for the purposes of deferring the gain on the sale. The period for replacing the sold livestock increased from two years to four

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years. (Old law only allowed this treatment if livestock was sold because of soil contamination.)

Allows individuals are allowed to deduct as an itemized deduction the greater of the state income taxes they pay or the state sales and use tax they pay on consumer purchases in 2004 and 2005 only.

Current law provides a rural electric co-op is only a tax-exempt entity if at least 85% of its income is derived from its members. The new law, effective for tax years beginning after October 22, 2004, excludes from the income used in the 85% test, income derived from the sale of transmission service or ancillary service provided on a nondiscriminatory open market basis. Provision sunsets after December 31, 2006.

Requires a taxpayer to have owned a residence for at least five years to qualify for the exclusion of gain on the sale of a personal residence if the residence was acquired in a like-kind exchange. The old law only required at least two years of ownership to qualify. Effective for sales after October 22, 2004.

Limits the amount of deduction allowed to the lessor for property leased to tax-exempt entities under a lease entered into after March 10, 2004 to the amount of lease income for the tax year. Excess deductions are carried forward to succeeding tax years.

Allows a corporation to deduct entertainment expenses for amounts incurred for a corporate officer, 10% or more shareholder, or director only to the extent the expenses are included in the income of the officer, shareholder, or director. Effective for expenses incurred after October 22, 2004.

Allows the first \$15 million of production cost expense for movies and television shows made in the United States (75% of compensation paid for work in the United States) to be deducted in the current year rather than deducted on an income forecast method as prescribed under the old law. The \$15 million is increased to \$20 million if production is made in a low-income community. Effective for productions started after October 22, 2004, and sunsets after December 31, 2008.

Changes the income forecast method of depreciating the cost of a film or television show to include the cost of projected future residuals and participations in the adjusted basis of the film or show. Effective for films or shows placed in service after October 22, 2004.

Allows business start-up expenses of up to \$5000 to be deducted in the year the business starts, at taxpayer election. The remaining expense must be amortized over 180 months. The old law, which applies if the election is not made, provides for amortizing all the start-up expenses over 60 months. Effective for



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start-up costs paid after October 22, 2004.

Provides that the price paid for sports franchises and player contracts is treated as any other intangible business asset, amortized over a 15-year period. Old law allowed more rapid deduction of the purchase price. Effective for franchises and contracts acquired after October 22, 2004.

Allows an exclusion from income of a health care worker in certain areas for the amount of student loans paid by the National Health Service Corporation Loan Program. Effective for 2004 and thereafter.

Limits the ability of employees to defer the recognition of income from unqualified deferred compensation by making the requirements to define both funded and unfunded unqualified deferral compensation plans harder to attain. Effective for income deferred after December 31, 2004.

Changes the transferor's tax basis from the transferee's tax basis as under current law to the fair market value of the acquired assets, in cases where a corporation is transferring assets in a tax free transaction from an entity not subject to United States tax and the transferee's basis in the transferred assets is greater than the fair market value of the assets. Effective for transactions after October 22, 2004.

Expands the definition of disqualified debt instrument (debt that will be repaid in stock of the issuer of debt or in stock owned by issuer) so that the interest deduction by the debtor is not available for interest on disqualified debt instruments. Effective for debt issued after October 3, 2004.

Allows charitable contributions for tsunami relief made in January of 2005, at the election of the taxpayer, to be deducted as a charitable contribution for the 2004 tax year. Effective for the calendar 2004 tax year. (Note: this change was enacted in Laws 2005, chapter 1)

### **3 Additions to federal taxable income for individuals, trusts, and estates.** Requires individuals, trusts, and estates to add back to FTI

- the new manufacturer's deductions;
- the difference between the standard deduction for married couples allowed under the 2003 Internal Revenue Code and the deduction allowed under the current Internal Revenue Code;
- 80% of the difference between the I.R.C. section 179 expenses allowed under the 2003 Internal Revenue Code and the amount allowed under the current Code; and
- the amount of deduction a taxpayer claims for non-business state sales and use tax, but only to the extent the deduction generates a federal tax benefit using the 2003 Internal Revenue Code standard deductions.

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Generally effective for tax years beginning after December 31, 2004, except add-back of consumer sales taxes deducted is effective for tax years beginning after December 31, 2003.

### **4 Subtractions from FTI for individuals, trusts, and estates.** Allow subtractions for

- one fifth of the addition required for I.R.C. section 179 expenses in section 3 above which exceeds the taxpayer's net operating loss generated in the year of the addition, in each of the 5 years succeeding the year of the addition (similar to the subtraction for bonus depreciation).
- contributions made in January 2005 for tsunami relief when computing 2004 Minnesota charitable contributions (Note: this provision was enacted in Laws 2005, chapter 1); and
- all federal active service pay and compensation to National Guard members for state active service within the state of Minnesota.

Effective for tax years beginning after December 31, 2004, except that the charitable contribution change is effective for contributions made in January, 2005.

### **5 Additions to FTI for corporate franchise tax.** Requires "C" corporations to add to federal taxable income the new federal manufacturer's deduction and 80% of the difference between the I.R.C. § 179 expenses allowed under the code and the amount that would have been allowable under the 2003 Internal Revenue Code (similar to a modification made by individuals).

Effective for tax years beginning after December 31, 2004.

### **6 Subtraction from federal taxable income for corporate franchise tax.** Allows a subtraction from federal taxable income for one fifth of the amount of add-back for I.R.C. § 179 expenses required in section 5 above, in each of the five years succeeding the year of add-back.

Effective for tax years beginning after December 31, 2004.

### **7 Update to other references to the Internal Revenue Code in chapter 290.** Adopts federal changes to federal adjusted gross income used for computing individual alternative minimum tax and household income which is used to compute the dependent care and education credit; changes to the definitions of "dependent" and "qualified child" used for the individual refundable credit; changes to the federal earned income tax credit; and the changes to qualifications for electing "s" corporation status. The main changes to federal adjusted gross income are described in section 2.

The federal changes to "dependent child" and "qualified child" were designed to make the two terms synonymous. The main change in "dependent child" is that under the old dependency test the taxpayer must have provided more than half of the support of the child. Under the new test the child meets the test if the child does not provide more than half their own support (scholarships are disregarded). The three tie breakers where more than one taxpayer can claim a child are: 1) closeness of relationship, 2) if two parents can claim child, the tie breaker goes to the parent whom the child lived with longer, or 3) if the child

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lived with each parent the same amount of time during the year, the child is the qualifying child of the parent with the higher adjusted gross income.

For the federal earned income credit that Minnesota uses as a basis for the Working Family Credit, the new federal law provides that combat pay which is excluded from federal adjusted income and earned income for employment tax purposes, if elected by the taxpayer, is nevertheless earned income for purposes of calculating the federal earned income tax credit for tax years 2004 and 2005.

For "S" corporations the main change increased the maximum number of shareholders from 75 to 100 shareholders and treated families (parents, children, grandchildren, aunts, uncles, nieces, nephews, as opposed to just husband and wife) owning stock in one corporation as one shareholder. Effective for 2005 and thereafter.

The proposed Minnesota changes would adopt the federal changes effective at the same time the federal changes were effective.

- 8** **Technical change to additional tax on certain lump sum pension plan distribution.** Corrects an obsolete cite to a section of the Internal Revenue Code that has been removed from the Code and made an uncodified provision of federal law.

Effective for tax years beginning after December 31, 1999.

- 9** **Technical change to additional tax on certain lump sum pension plan distribution.** Corrects an obsolete cite to a section of the Internal Revenue Code that has been removed from the Code and made an uncodified provision of federal law.

Effective for tax years beginning after December 31, 1999.

- 10** **Change in ratio nonresidents use to compute Minnesota tax.** Provides that the numerator of the ratio used by nonresidents, which is Minnesota assignable federal adjusted gross income, is modified for the portion of the additions for the manufacturing and I.R.C. § 179 expensing additions and subtractions to the extent the modifications are assignable to Minnesota. The denominator is modified by the total amount of the modifications.

Effective for tax years beginning after December 31, 2004.

- 11** **Household income change for dependent care credit and education credit.** Provides that the new manufacturer's deduction and deductions for contributions to health savings accounts are not allowed as deductions in computing household income for the dependent care and education credits.

Effective for tax years beginning after December 31, 2003.

- 12** **Old standard deduction used in the computation of marriage penalty credit.** Provides that in calculating the marriage penalty credit (additional amount a married couple pays in Minnesota tax over what they would have paid as two single taxpayers which is attributable to the tax brackets) the old federal standard deduction rather than the new standard deduction is used, since Minnesota is not adopting the new standard deduction.

Effective for tax years beginning after December 31, 2004.

- 13** **Change to the individual alternative minimum tax.** Includes the new additions for I.R.C.

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§ 179 expenses and the manufacturer's deduction and the new subtraction for I.R.C. § 179 expenses in the computation of Minnesota alternative minimum taxable income.

Effective for tax years beginning after December 31, 2004.

- 14** **Household income for property tax refund.** Makes parallel changes to the definition of household income for the property tax refund, as were noted in section 0.

Effective for property tax refunds based on household income for 2004 and thereafter.

- 15** **Update of references to Internal Revenue Code in the property tax refund chapter.** Adopts the federal changes that affect household income which uses the definition of federal adjusted gross income as a starting point and the definition of a dependent, as discussed in sections 2 and 7. The new federal exclusions and exemptions from federal adjusted income will still not be applicable to the computation of household income. Only new federal deductions from income that are not specifically mentioned in section 0 will lower household income from current law. Effective for property tax refunds based on property taxes payable on or after December 31, 2004, or rent paid after December 31, 2004.

## **Article 3: Sales, Use, and Special Taxes**

### **Overview**

Makes several changes to timing and collection level of the sales tax including:

- ▶ requiring the total sales tax due on certain long-term motor vehicle leases to be paid at the start of the lease, rather than at the time of each separate lease payment;
- ▶ replacing the extra 2.5 percent sales tax (currently expires December 31, 2005) on alcoholic beverages with a gross receipts tax of 2.5 percent on retail liquor sales;
- ▶ exempting cigarettes from the retail sales tax and replacing it with a tax at the wholesale level;
- ▶ eliminating the expiration date (currently December 31, 2005) for the 6.2 percent extra sales tax on short term motor vehicle leases.

In addition it changes the definition of industrial production to exclude pipeline transportation from both the industrial production input and capital equipment exemptions.

It also requires that beginning in 2006, state agencies and the legislature to cancel certain contracts with and bar contract bids from vendors who are not registered to collect the Minnesota sales tax.

- 1 1** **Contracts with foreign vendors.** Provides that the department of administration and the legislature must cancel a contract for goods or services with a vendor or bar a vendor from future contracts if the vendor is not registered to collect sales or use tax on its taxable sales in Minnesota. This section only applies to the executive and legislative branches of

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government and does not apply to the judicial branch contracts nor does it apply to contracts with Minnesota state colleges and universities. The commissioner of revenue periodically will provide a list of vendors who are subject to being debarred or having their contracts cancelled. The proposal provides that the cancellation and debarment provisions may be waived if the vendor is the sole source of goods or services, in the case of an emergency or when it is in the best interests of the state.

Effective for contracts entered into after December 31, 2005.

- 2** **Tricare program.** Exempts military payments received under the federal Tricare program from the MinnesotaCare tax. Tricare is a medical program for military active service members, retirees and their dependents. The new provision clarifies that enrollee deductibles, coinsurance, and co-payments are subject to tax.

Effective for gross revenues received under the federal Tricare program after December 31, 2004.

- 3** **Liquor gross receipts tax.** Replaces the additional 2.5 percent sales tax on alcoholic beverages (which is scheduled to end on December 31, 2005) with a 2.5 percent gross receipts tax on retail liquor sales.

**Subd. 1. Definitions.** Defines terms for purposes of the gross receipts tax: commissioner, gross receipts, liquor, liquor retailer, and retail sale.

**Subd. 2. Gross receipts tax imposed.** Imposes on each retailer a 2.5 percent tax on gross revenues from the sales in Minnesota of alcoholic beverage.

**Subd. 3. Use tax; credit for taxes paid.** Provides for a complementary use tax and a credit for taxes paid to another jurisdiction.

**Subd. 4. Tax collection required.** Requires retailers with nexus in Minnesota, who aren't subject to the gross receipts tax, to collect the use tax.

**Subd. 5. Taxes paid to another jurisdiction; credit.** Provides that a liquor retailer that has paid a similar tax to another jurisdiction qualifies for a credit for the tax paid to another jurisdiction.

**Subd. 6. Exemptions.** Provides that all the exemptions applicable to the sales and use taxes are applicable to the taxes imposed under this section.

**Subd. 7. Sourcing of sales.** Provides that all of the sourcing provisions under the sales and use taxes apply to the taxes imposed by this section.

**Subd. 8. Payment; reporting.** Provides that the reporting must be made on a form prescribed by the commissioner and that the tax must be filed and paid using the filing cycle and due dates provides for the taxes imposed under chapter 297A.

**Subd. 9. Administration.** Provides that the audit, assessment, refund, penalty,

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interest, enforcement, collection remedies, appeal and administrative provisions of chapter 270 and 289A that are applicable to the sales and use taxes apply to the taxes imposed under this section.

**Subd. 10. Interest on overpayments.** Provides that interest must be paid on an overpayment or credited to the taxpayer from the date of the tax payment until the refund is paid or credited; and the date of payment is the due date of the return or the date of actual payment of the tax, whichever is later.

**Subd. 11. Deposit of revenues.** Requires the commissioner to deposit revenues, including penalties and interest, from the tax imposed in the general fund.

Effective for sales and purchases on or after January 1, 2006.

- 4 **Retail sale (motor vehicle leases).** Excludes leases of motor vehicles with a gross weight rate of 10,000 pounds or less from the provision that treats each lease payment as a separate retail sale. This exclusion does not apply to vehicle rentals of not more than 28 days. The total amount of the sales tax on these leases will be due at the time that the lease is executed.

Effective for leases entered into after June 30, 2005.

- 5 **Sales price (motor vehicle lease).** Provides that the sales price for a lease of a motor vehicle, subject to the acceleration of sales tax under section 0, is the total amount paid during the term of the lease. If certain charges are not known when the lease is executed, the sales tax on those payments is due when the amounts are billed. For open-ended leases the payment is due upfront on the amount paid under the initial term of the lease, with additional payments due for the entire renewal period at the start of each renewal.

Effective for leases entered into after June 30, 2005.

- 6 **Sales tax on cigarettes.** Exempts the sale of cigarettes from the sales tax. Cigarettes will be subject to a new tax in section 0 that is imposed upon the sale of cigarettes by distributors to retailers and cigarette subjobbers.

Effective for sales and purchases made after July 31, 2005.

- 7 **Materials consumed in industrial production.** Provides that for purposes of this exemption, industrial production does not include transportation, transmission or distribution of petroleum, liquefied gas, natural gas, steam, or water through pipes, lines, tanks or main. This exclusion does not apply to blending of petroleum or biodiesel fuel. This reverses the Minnesota Supreme Court ruling in *Great Lakes Gas Transmission, L.P. v. Commissioner*, 638N.W.2d 435 (Minn. 2002).

Effective for sales and purchases made after June 30, 2005.

- 8 **Capital equipment.** Provides for purposes of this exemption, industrial production does not include transportation, transmission or distribution of petroleum, liquefied gas, natural gas, steam, or water through pipes, lines, tanks or mains would not qualify as capital equipment. This exclusion does not apply to machinery or equipment used to blend petroleum or biodiesel fuel. The change is consistent with the change in section 0.

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Effective for sales and purchases made after June 30, 2005.

- 9 Motor vehicle leases.** Provides how to calculate the motor vehicle lease price when an accelerated sales tax is due on a motor vehicle lease.

**Subdivision 1. Motor vehicle lease price; payment.** Bases the tax on the total amount of the lease minus manufacturer's rebates and trade-in allowances, and also excludes title and registration fees, and insurance which are currently excluded from the tax when paid upfront at the beginning of a lease. Restates the provisions in section 0 that deal with charges not known when the lease is executed and for open-ended leases.

The subdivision also provides that sales tax may be refunded when a lease is terminated within 90 days or when the vehicle is returned to the manufacturer under Minnesota's "Lemon Law."

**Subd. 2. Lease of Motor vehicle.** Provides that when a leased motor vehicle that is subject to the accelerated sales tax, is brought into the state and registered in Minnesota in mid-lease, the total tax on the remaining lease payments is due at the time of registration. A credit is provided for taxes paid to another state if the other state had previously taxed the lease payments.

Effective for leases entered into after June 30, 2005, and for vehicles registered in Minnesota after June 30, 2005, if the lease originated in another state.

- 10 Bad debt.** Amends the cigarette tax bad debt provisions to clarify when the offset may be claimed and that any recovery of the debt must be reimbursed to the commissioner.

Effective for claims filed on or after July 1, 2005.

- 11 Cigarette sales tax.** Replaces the sales tax on cigarettes with a wholesale tax on the sale of cigarettes from distributors to retailers and cigarette subjobbers.

**Subd. 1. Imposition.** Imposes the tax at the rate of 6.5 percent of the weighted average retail price that must be determined annually by the commissioner of revenue by surveying cigarette retailers statewide.

**Subd. 2. Payment.** Provides that the tax payments must be made on the same dates prescribed for the cigarette excise taxes.

**Subd. 3. Return.** Provides that the tax return must be filed on the same dates prescribed for the cigarette excise tax returns.

**Subd. 4. Form of return.** Provides that the tax return must contain the information and be in the form prescribed by the commissioner.

**Subd. 5. Tax as debt.** Requires the distributor to collect the tax and specifies it is a debt of the retailer or subjobber to the distributor recoverable at law in the same manner as other debts and that retailers and subjobbers must pay the tax to the distributor before the 12th day of the month following the month in which the

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cigarettes were purchased from the distributor.

**Subd. 6. Sales tax stamp.** Provides that payment of the cigarette tax and of the tax imposed by this section is evidenced by a dual purpose single stamp affixed to each package.

**Subd. 7. Administration.** Provides that the administrative provisions of chapter 297F apply to this tax.

**Subd. 8. Deposit of revenues.** Provides that the tax and penalties and interest are deposited in the general fund.

- This section is effective for all sales made on or after August 1, 2005.
- 12 Allocation of revenues.** Changes the allocation of the revenues collected under the solid waste management tax to (1) appropriate annually to the department of revenue the amounts necessary to cover its costs in administering these taxes and (2) increases the revenues going to the environmental fund from \$22 million or 50 percent of the amounts remitted, whichever is greater, to \$33,760,000 or 70 percent of the amounts remitted, whichever is greater. The remainder goes to the general fund.
- This section is effective for amounts remitted on or after July 1, 2005.
- 13 Direct business.** Adds a definition of direct business that includes premiums related to stop loss coverage. This would overturn the Minnesota Supreme Court decision in BCBSM, Inc. vs. Commissioner of Revenue, 663 N.W.2d 531 (Minn. 2003).
- Effective for insurance premiums received after December 31, 2005.
- 14 Disposition of proceeds.** Authorizes the commissioner of revenue to deduct DOR's cost of collection from collections under the Metropolitan Solid Waste Landfill Fee. The amounts deducted are annually appropriated to DOR for its administrative costs.
- Effective for amounts remitted on or after July 1, 2005.
- 15 Rental motor vehicle tax.** Re-imposes the rental motor vehicle tax that is currently scheduled to expire on December 31, 2005.
- Effective the day following final enactment.
- 16 Floor stocks tax.** Imposes a floor stocks cigarette tax on all persons selling cigarettes as distributors, retailers, subjobbers, vendors, manufacturers, or manufacturer's representatives who have stamped cigarettes and unaffixed stamps in their possession at 12:01 am on August 1, 2005. The tax is imposed at the rate of 21 cents per pack of 20 cigarettes. The floor stock tax payments are due by September 7, 2005.
- Effective August 1, 2005.



## Section

### **Article 4: International Economic Development Zone**

#### **Overview**

This article authorizes designation of an international economic development zone within 60 miles (or 90 minutes of driving time) from the Minneapolis-St. Paul International Airport. This zone is intended to stimulate development of a regional distribution center that will increase the capacity and capability to handle international air freight. 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 invest 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 zone (and the tax incentives) would have a maximum duration of 12 years. The tax incentives are very similar to those available under the JOBZ program.

**1 1 Property tax exemption.** Provides that commercial and industrial property (both real and personal) in an international economic development 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.)

The exemption applies to the first assessment year after designation of the zone by the commissioner of employment and economic development and to each year the zone is designated. The qualified business must have a signed business subsidy agreement by July 1 of the assessment year to qualify.

Effective beginning for property taxes payable in 2008.

**2 Individual income tax exemption.** Provides that income derived from investing in or operating a qualified business in an international economic development zone is exempt from individual income taxation. The qualifying rules for these exemptions are described in section 0.

Effective for tax years beginning after December 31, 2006.

**3 Corporation franchise tax exemption.** Provides income from operating a qualified business in an international economic development 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.

Effective for tax years beginning after December 31, 2006.

**4 Individual income tax exemption, nonresidents.** Provides that in calculating the Minnesota tax for a nonresident, international economic development zone income is

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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.

Effective for tax years beginning after December 31, 2006.

- 5 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.

Effective the day following final enactment, but no credits will be allowed until tax year 2007.

- 6 Dependent care credit.** Clarifies that tax-exempt international economic development 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 international economic development 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.

Effective for tax years beginning after December 31, 2006.

- 7 Working family credit.** Clarifies that tax-exempt international economic development 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.

Effective for tax years beginning after December 31, 2006.

- 8 Individual alternative minimum taxable income.** Allows a subtraction from individual alternative minimum taxable income for tax-exempt International Economic Development Zone income.

Effective for tax years beginning after December 31, 2006.

- 9 Corporate alternative minimum taxable income.** Allows a subtraction from corporate alternative minimum taxable income for tax-exempt International Economic Development Zone income.

Effective for tax years beginning after December 31, 2006.

- 10 Minimum fee exemption.** Exempts any qualified business with all of its Minnesota payroll and property in the international economic development zone from the minimum fees that applies to businesses.

Effective for tax years beginning after December 31, 2006.

- 11 Minimum fee modification.** Excludes zone payroll and zone property of a qualified business from the calculation of the minimum fee.

Effective for tax years beginning after December 31, 2006.

- 12 Sales tax exemptions.** Provides a sales tax exemptions for businesses located in an

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international economic development 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 sale and delivery must be made after the business has signed a business subsidy agreement.

Effective the day following final enactment.

**13** **Definitions.** Defines terms for purposes of the international economic development zone statute.

- **Foreign trade zone** means a foreign trade zone designated under federal law or an authorized subzone.
- **Foreign trade zone authority** is Greater Metropolitan Foreign Trade Zone Commission number 119. This is a joint powers organization formed by Hennepin County, Bloomington, Minneapolis, and the Metropolitan Airports Commission. The definition permits other local governments to join the agreement later.
- **International economic development zone** means a zone designated designed under section 0.
- **Person** includes individual, corporations, partnerships, limited liability companies, and any other entity.
- **Qualified business** means a person that is an international import or export business and that is certified by the authority as furthering the purpose of developing international distribution capacity and capabilities as a freight forwarder. To qualify, a business must sign a business subsidy agreement. Businesses must pay their employees a wage equal to 110 percent of the federal poverty level for a family of four. For CY2005 this is an annual income of \$21,285 (or an hourly rate of \$10.25). Unlike the JOBZ program, businesses that relocate from elsewhere in Minnesota (without increasing investment or jobs) can qualify for the tax incentives.
- **Regional distribution center** is a distribution center developed within a foreign trade zone. The center's primary purpose must be to centralize functions necessary to ship freight in international commerce, such as custom and security functions.
- **International economic development 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.
- **International economic development 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.

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- **Freight forwarder** is a business that transports goods made by another business.

**14 Application for designation.** Authorizes a local government unit or units, or by a joint powers board, to apply to the Foreign Trade Zone Authority for international economic development zone status. A local government unit, however, cannot submit more than one application. The zone must be located within the boundaries of the applying units.

The application must include a resolution or ordinance from each city, town or county in which the zone is located, agreeing to provide the property tax and local option sales tax benefits provided by the international economic development zone law. It must also include an agreement to treat international economic development zone tax benefits as business subsidies under the Minnesota business subsidy law, as well as supporting evidence necessary for the Foreign Trade Zone Authority to evaluate the application.

The applications must be submitted by December 31, 2005.

Effective the day following final enactment.

**15 Designation of international economic development zone.** Authorizes the foreign trade zone authority to designate one foreign trade zone that contains a regional distribution center as an international economic development zone. The zone must be between 500 and 1,000 acres in size and must consist of contiguous area (i.e., unlike JOBZ it cannot have noncontiguous subzones). The zone can be no more than 60 miles (or 90 minutes driving time) from the Minneapolis-St. Paul International Airport. In designating the zone, the authority is to consider :

- access to major transportation routes,
- consistency with current state transportation and air cargo planning,
- adequacy of the size of the site,
- access to airport facilities,
- present and future capacity at the designated airport,
- the capability to meet integrated present and future air cargo, security, and inspection services, and
- access to other infrastructure and financial incentives.

In applying these criteria, the goal is to maximize the security, efficiency and volume of Minnesota's export shipments.

Before designation, the Foreign Trade Zone Authority, in consultation with the applicant local government unit, must conduct a transportation impact study based on the regional model and utilizing traffic forecasting and assignments. The results must be used to

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evaluate the effects of the proposed use on the transportation system and identify any needed improvements. If the site is in the metropolitan area the study must also evaluate the effect of the transportation impacts on the Metropolitan Transportation System plan as well as the comprehensive plans of the municipalities that would be affected. The applicant must pay for the study.

Effective the day following final enactment

- 16 Foreign trade zone authority powers.** Directs the authority to develop a development plan for the regional distribution center with a goal of expanding international distribution capacity for the region. The authority must consult with municipalities that are interested in being the site for the zone and with businesses and federal and state agencies.

Requires the Authority to prepare a business plan for the international economic development zone. The plan must establish the amount of investment, the number of jobs, and the amount of freight handled at the end of three, five, and 10 year periods by the Zone. It must also include an analysis of the economic feasibility of the regional distribution center once it becomes operational and of the operations of freight forwarders and other businesses that choose to locate within the boundaries of the zone. If the Authority determines that the analysis does not establish the economic feasibility of the regional distribution center, a zone cannot be designated.

The foreign trade zone authority may establish a port authority and may exercise any city powers. This implies that the authority will have property taxing authority, but presumably only within the area of the zone.

Tax incentives under the section are treated as being paid by the local government for purposes of the Minnesota prevailing wage and business subsidy laws.

Effective the day following final enactment.

- 17 Available tax incentives.** The following tax incentives are available in international economic development zones:

- Business owners are exempt from the individual income tax on income from business operations and investments in an international economic development zone
- The corporate franchise tax does not apply to corporate income generated by zone operations
- State and local sales taxes do not apply to purchases used by businesses in an international economic development zone
- Property taxes do not apply to improvements in the zone
- A refundable jobs credit is available for higher paying jobs

- 18 Individual income tax exemption.** Provides income tax exemptions for individuals

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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 used by a qualified business (i.e., a freight forwarder) 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 qualified business in an international economic development 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 used by a qualified business in an international economic development zone or sale of a qualified 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 an international economic development zone are exempt from taxation based on the share of the holding period that took place while the area was designated an international economic development 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 an international economic development 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 ( $\$4,000 * 60 \text{ percent} = \$2,400$ ), since 6 years out of the 10-year holding period occurred while the zone was designated an international economic development zone.
- **Tangible personal property.** Capital gains on tangible personal property located in an international economic development zone are exempt from taxation based on the share of the holding period that took place while the zone was designated an international economic development 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 an international economic development 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

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the international economic development 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.

Effective for tax years beginning after December 31, 2006.

**19 Corporate franchise tax exemption.** Provides that a corporation operating in an international economic development 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.

The maximum exemption is 20 percent of the (1) corporation's International economic development zone payroll and (2) the adjusted basis of property when the property was first used by the corporation in the zone.

Effective for tax years beginning after December 31, 2006.

**20 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 (but excluding amounts paid to an employee in excess of \$100,000 per year) 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 2006, the \$30,000 amount will adjusted for inflation.

**Refundable.** The credit is refundable.

Effective for tax years beginning after December 31, 2006.

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- 21**      **Repayment of tax benefits.** Requires a business to repay tax benefits, if the business ceases to operate in the zone or ceases to be 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 of 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 authorized 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 and state and local sales 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 foreign trade zone authority and the 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.

- Effective the day following final enactment.
- 22**      **Zone performance reporting.** Requires the local government unit(s) receiving a zone designation to annually report to the commissioner of employment and economic development on its progress in meeting the zone performance goals under, and the applicant's compliance with, the business subsidy law.

Effective the day following final enactment.



**Section**

**Article 5: Miscellaneous**

**Overview**

This article repeals the political contribution credit and converts the state election campaign checkoff to a contribution (rather than a designation of state general fund money to be used for that purpose). It reduces the percentage of rent assumed to constitute property tax for the purposes of the property tax refund program from 19 percent to 16 percent (in FY2006) and 15 percent (in FY2007). The cuts in state reimbursement of homestead market value credit to cities, enacted by the 2003 legislature, are extended for an additional two years (FY2006 and FY2007). An additional \$1 million is allocated for tax incentives under biotechnology and bioscience zones.

- 1 1**     **Designation for political check-off.** Modifies the state elections campaign fund check-off so that amounts designated will no longer be paid from the general fund, but instead will be added to the tax or subtracted from the refund. The taxpayer may contribute \$1 to \$25 (\$50 for a joint return) on their original individual income tax return and on their original property tax refund return.

Effective for designations made on income tax returns filed for tax years beginning after December 31, 2004, and property tax refund returns based on property taxes payable in 2006 or rent constituting property taxes paid in 2005.

- 2**     **Political check-off instructions.** Removes the requirement that the political check-off appear on the first page of the income tax return and makes changes consistent with section 1.

Effective for designations made on income tax returns filed for tax years beginning after December 31, 2004, and property tax refund returns based on property taxes payable in 2006 or rent constituting property taxes paid in 2005.

- 3**     **Appropriation.** Removes the appropriation from the general fund for the taxpayer designations to the state elections campaign fund. Requires the amounts designated and paid by taxpayers to be transferred and credited to the state elections campaign fund. Three percent of contributions will be deposited in the general fund to cover the state's administrative costs. Repeals the \$1.5 million biennial appropriation from the general fund to the state elections fund.

Effective for designations made on income tax returns filed for tax years beginning after December 31, 2004, and property tax refund returns based on property taxes payable in 2006 or rent constituting property taxes paid in 2005. The repeal of the \$1.5 million appropriation is effective for elections occurring after December 31, 2004.

- 4**     **Political contribution refund, conforming changes.** Eliminates a reference to the political contribution credit, which is repealed in section 0.

Effective for political contributions based on contributions made on or after July 1, 2005.

- 5**     **Homestead market value credits.** Changes computation of homestead market value credits

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for fractional homesteads. These are homes that classified as part homestead and part nonhomestead (e.g., when one or more of the owners, or a spouse of the owner, does not use the property as their homestead). Present law computes the credit using only the value of the homestead portion. Because the credit is reduced by a percentage of market value over \$76,000, this often results in a larger credit (and lower taxes) for a fractional homestead as compared with a full homestead for a comparably valued home. This section computes the credit using the property's full value and, then, prorates the credit based on the occupant's percentage of ownership or by 50% for an absent spouse.

Effective for taxes payable in 2006 and thereafter.

- 6 **Political contribution refund, conforming changes.** Eliminates a reference to the political contribution credit, which is repealed in section 0.

Effective for political contributions based on contributions made on or after July 1, 2005.

- 7 **Political contribution refund, conforming changes.** Eliminates a reference to the political contribution credit, which is repealed in section 0.

Effective for political contributions based on contributions made on or after July 1, 2005.

- 8 **Rent constituting property taxes.** Reduces rent constituting property tax from 19% of gross rent paid under present law to 16% of gross rent paid in 2005, and 15% of gross rent paid in 2006 and thereafter.

Effective for rent constituting property taxes payable based on rent paid after December 31, 2004.

- 9 **Biotechnology and health sciences funding.** Allows the commissioner of employment and economic development to issue \$1,000,000 in tax benefit certificates in fiscal year 2006 to qualified businesses in the Biotechnology and Health Sciences Zone. Certificates not issued in 2006 can be awarded in fiscal year 2007.

- 10 **2005 and 2006 city aid payments.** Extends the market value credit reimbursement reductions for cities for CY2005 and CY2006 reimbursements (FY2006 and FY2007). Each city's reduction amount for 2005 and 2006 will be the lesser of its 2003 reduction or the amount of its current year reimbursement.

Effective the day following final enactment.

- 11 **Repealer.** Repeals the following provisions:

- Minn. Stat. § 10A.322, subd. 4: Candidate spending limits that are a condition for receiving funding from the state election campaign fund
- Minn. Stat. § 16A.1522, subd. 4: Transfer of unrestricted general fund balances to the tax relief account to be used for tax rebates
- Minn. Stat. § 290.06, subd. 23: The political contribution refund program

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Effective for political contributions based on contributions made on or after July 1, 2005.  
The repeal of section 16A.1522 is effective the day following final enactment.