

# HOUSE RESEARCH

## Bill Summary

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### Article 1: Property Taxes

#### Overview

Exempts the first \$100,000 of each commercial-industrial parcel from the state general levy, with a levy reduction so that the cost is not shifted to other properties.

Provides a property tax exemption for a Major League Soccer facility to be located in St. Paul.

Eliminates the eight year limit on the right of a surviving spouse of (i) a disabled veteran, or (ii) a service member who dies while in active service, to continue to receive the disabled veteran's exclusion.

Provides for state reimbursement of property tax abatements to economically distressed businesses in the Lake Mille Lacs area.

- 1 **County levy authority.** Requires that a county levy for soil and water conservation district (SWCD) operations must be certified separately from the county's general levy certification.
- 2 **County historical society; tax levy.** Allows the governing bodies of any city or town to appropriate funds from its general fund to be paid to the historical society of its respective city or town; current law provides that the funds must be paid to the historical society of its respective county only. Effective the day following final enactment.
- 3 **Property tax adjustment; cooperative association.** Allows a cooperative electric association that has elected to be subject to rate regulation to file with the public utilities commission for approval of an adjustment for real and personal property taxes, fees and permits. The Dakota Electric Authority (DEA) is the only electric cooperative that has elected to be rate-regulated.
- 4 **Electric generation facility personal property exemption.** Provides a property tax exemption for a new generation facility proposed to be built in or near Marshall. Also provides for the facility to make payments in lieu of taxes based on the number of kilowatt-hours produced.
- 5 **Electric generation facility personal property exemption.** Provides an exemption from taxes and payments in lieu of taxes for a new generation facility owned by a municipal power agency in or near Owatonna.
- 6 **Restrictions on transfers of specific parts.** Allows a county to review a deed or other instrument conveying a parcel of land for transfer or division for conformity with the county's land use regulations before the county auditor transfers or divides the land or its net tax capacity.
- 7 **Homestead of disabled veteran.** Provides that the surviving spouse of (a) a permanently and totally disabled veteran, or (b) a service member who dies due to a service-related cause, will receive the \$300,000 homestead market value exclusion each year, until the spouse

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remarries or disposes of the property. Under current law this benefit to the surviving spouse expires after eight years.

- 8 **State general levy amount.** Reduces the state general levy for commercial-industrial property by \$56.4 million annually, which is the amount of levy estimated to be paid by the property that is being exempted in section 9. Separately states the portion of the state general levy to be paid by commercial-industrial property and by seasonal-recreational property.
- 9 **Commercial-industrial tax capacity.** Exempts the first \$100,000 of market value of each parcel of commercial-industrial property from the state general levy.
- 10 **Apportionment and levy of the state general tax.** Eliminates the apportionment of the state general levy into a commercial-industrial share and a seasonal-recreational share since the levy amounts are separately stated in section 8.
- 11 **Proposed levy certification.** Requires special taxing districts to certify their proposed levies by September 30 of each year. Under current law, they are required to certify proposed levies by September 15. Specifically excludes the Metropolitan Council and the Metropolitan Mosquito Control District from the September 30 certification date, which have specific certification dates elsewhere in statute.
- 12 **Special taxing district definitions.** Treats county levies for soil and water conservation districts as a special taxing district levy.
- 13 **Certification of levy.** Requires counties to certify levies for soil and water conservation districts by December 20 each year.
- 14 **Property tax settlements.** Allows county auditors one extra day after the payment due date to issue property tax payments to taxing jurisdictions, in light of the change made to property tax due dates in section 19.
- 15 **Property tax settlements.** Allows county auditors one extra day after the payment due date to issue property tax payments to taxing jurisdictions, in light of the change made to property tax due dates in section 19.
- 16 **Refunds of overpayment.** Allows the county to refund taxes for overvalued property by providing a credit against future years' taxes, if agreed to by the property owner.
- 17 **Refunds of mistakenly billed taxes.** Eliminates the possibility of taxpayers challenging their property's classification using the "mistakenly billed taxes" provision, since they may appeal classification decisions directly to the local board of review or through tax court.
- 18 **Penalties for late payment of property taxes; non-agricultural property.** Equalizes the penalties for first and second-half late payments of property taxes for homestead and nonhomestead properties. Restructures existing law for clarity.
- 19 **Abatement of late payment penalty.** Allows taxpayers to avoid a late payment penalty if their payment is postmarked within one day of the due date, but only if the taxpayer has never before availed her/himself of this extra day grace period.
- 20 **Penalties for late payment of property taxes; agricultural property.** Equalizes the penalties for first and second-half late payments of property taxes for agricultural homestead

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and agricultural nonhomestead properties. Deletes a provision applicable to taxes payable in 2010 and 2011.

- 21**     **Installment payments.** Eliminates a restriction on interest rates available under contracts to repurchase tax-forfeited property.
- 22**     **Sales of tax-forfeited property.** Allows a county to sell tax-forfeited properties on a contract for deed at a rate equal to the rate allowed for installment payment agreements (confessions-of-judgement), which is the greater of five percent or two percent over the prime rate.
- 23**     **Sale; method, requirements, effects.** Requires that the interest rate on the unpaid balance of a tax forfeited property purchased under an installment contract is the same as the rate imposed for composite judgements.
- 24**     **Interest rate.** Allows a taxpayer and the county to enter into an agreement to repurchase properties with delinquent taxes at an interest rate equal to the rate allowable under installment payment agreements (confessions-of-judgement), which is the greater of five percent or two percent over the prime rate.
- 25**     **Early termination of agricultural preserve.** Allows a property's enrollment in the metropolitan agricultural preserves program to be terminated upon the death of an owner of the property. Provides that when an agricultural preserve is terminated under this provision, the property is subject to additional taxes equal to 50 percent of the current year's taxes.
- 26**     **Cook-Orr ambulance services.** Allows the Cook hospital district to use property tax levies to pay salaries and operating expenses of the Cook ambulance service and the Orr ambulance service.
- 27**     **Recreation levy for Sawyer by Carlton County.** Reinstates and makes permanent authority for Carlton County to levy a tax within the unorganized territory of Sawyer for recreational purposes, limited to \$2,000 per year.
- 28**     **Cloquet area fire and ambulance special taxing district.** Renames the district.
- 29**     **Cloquet area fire and ambulance special taxing district.** Cross reference to the renamed district in section 28.
- 30**     **Cloquet area fire and ambulance special taxing district.** Clarifies that the district may levy for the purposes of providing fire services or ambulance services, or both.
- 31**     **Cloquet area fire and ambulance special taxing district; debt issuance.** Modifies special laws relating to the Cloquet area fire and ambulance special taxing district by clarifying the district's ability to incur debt. Provides that the district may issue debt but only after obtaining approval of a majority of the electors voting on the question of issuing the obligation. The district is allowed to pledge its full faith and credit and taxing power without limitation as to rate or amount for the payment of the district's debt.
- 32**     **Cloquet area fire and ambulance special taxing district; withdrawal.** Provides that a levy on property located in a municipality that wishes to withdraw from the district will remain in effect until the obligations outstanding on the date of withdrawal are satisfied.

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- 33**      **2016 Appeals and equalization course township waiver.** Provides that if a city or town that conducts local board of appeal and equalization meetings wrongly certified for 2016 that it was in compliance with the requirement for attendance at appeals and equalization course training, the board shall have its powers reinstated for the 2017 assessment year by resolution of the governing body of the city or town and by certifying that it is has come into compliance with the requirement.
- 34**      **Town of Tofte; municipal housing.** Authorizes the town of Tofte to own and operate up to 12 units of housing for individuals over 55 years of age, or for low-income individuals and families. The town may levy a tax not to exceed 0.0185 percent of estimated market value for these purposes. The authority to undertake new projects under this authority expires on June 30, 2017.
- 35**      **Soccer stadium property tax exemption; special assessment.** Exempts the stadium and related facilities used for the primary purpose of providing a Major League Soccer stadium located in St. Paul from state and local property taxes. The property remains subject to special assessments. The exemption applies to property subject to a lease or use agreement between the city and a private party as long as the use is related to operation of the stadium and related parking facilities. The exemption does not apply to property under a lease or use agreement for residential, business, or commercial development unrelated to the operation of the stadium.
- 36**      **Cancellation of tax forfeiture for property in St. Louis County; appropriation.** Authorizes St. Louis County to combine parcel identification numbers (PINs) for buildings and the land upon which the buildings are located for certain properties in St. Louis county with separate PINs for buildings and land, upon approval from the county board and the commissioner of revenue. If the buildings are in tax-forfeiture, the county must cancel the certificate of forfeiture and cancel all unpaid property taxes, special assessments, and associated costs. \$1,000,000 is appropriated to St. Louis County in fiscal year 2017 only to be used for the demolition of buildings on these properties upon request of the landowner.
- 37**      **Lake Mille Lacs area property tax abatement.** Provides an appropriation to Mille Lacs County to act as the fiscal agent for a property tax refund program aimed at businesses experiencing economic hardship in the immediate area surrounding the lake. Eligible taxpayers may apply to receive an abatement of local property taxes that were payable in 2016. In addition, all commercial and industrial properties in the immediate area surrounding the lake and paying the state general tax (except utilities) receive a refund of the tax that was payable in 2016. Counties granting abatements and refunds must certify to Mille Lacs County the amounts refunded or proposed to be refunded and Mille Lacs County will reimburse the counties. A \$1,400,000 onetime appropriation is granted to the commissioner of revenue, for transfer to Mille Lacs County to provide the refunds authorized. After Mille Lacs County pays the reimbursements to counties, each county receives a pro rata share of any remaining funds, to be used for abatements in future years.
- 38**      **Repealer.** Repeals the property tax exemption for agricultural containment facilities, effective beginning with taxes payable in 2017.

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### Article 2: Aids and Credits

#### Overview

Provides for a property tax credit for owners of agricultural property equal to 40 percent of the tax on the property attributable to school district debt levies.

Provides a permanent increase of \$20 million to city LGA.

Provides a permanent increase of \$10 million to county program aid (CPA).

Provides for state reimbursement to counties and tribes for the nonfederal share of out-of-home placement costs under the Indian Child Welfare Act.

Provides \$10 million in aid each year to counties and watershed districts to enforce and implement riparian protection and water quality practices.

Provides early payments of a portion of 2017 LGA to cities.

Provides aid to school districts for interest payments made under the maximum effort loan program.

Requires the state auditor to establish standard reporting requirements for towns and makes town aid contingent on timely filing of these reports.

Repeals the Debt service aid for the Lewis and Clark Water project.

- 1 School building bond agricultural credit computation.** Provides for a property tax credit on all agricultural land and buildings equal to 40 percent of the tax on the property attributable to school district bonded debt levies. Effective beginning with taxes payable in 2017.
- 2 Payment, school districts.** Provides for state payment of the credit amounts under section 1 to school districts.
- 3 Computation of net property taxes.** Includes the building bond agricultural credit in the list of property tax credits.
- 4 Notice of proposed property taxes.** Provides for the school building bond credit to be noted on the Truth-in-Taxation statement.
- 5 School district levies; special requirements.** Defines which school levies are considered to be debt service levies, for computing the school building bond agricultural credit.
- 6 Computation of tax rates.** Requires the county auditor to compute a school debt tax rate for each school district so that the school building bond agricultural credit can be calculated.
- 7 Contents of tax statements.** Provides for the school building bond credit to be shown on the property tax statement.
- 8 Reimbursement of county and tribes for certain out-of-home placement costs.** Provides that the commissioner of revenue shall reimburse each county for 100 percent of the nonfederal share of the cost of out-of-home placement of children under the Indian Child Welfare Act (ICWA). Also provides that the commissioner shall reimburse each tribe in an

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amount equal to five percent of the average reimbursement amount received by the tribe from the federal government for out-of-home placement under ICWA for the three most recent calendar years, or \$200,000, whichever is greater. Effective for aids payable in 2018 and thereafter.

- 9 **Payment dates.** Changes the LGA payment dates for aids payable in 2017 only. Cities will receive the aid in three installments—6.5 percent on June 15, 2017, 43.5 percent on the regular first payment date of July 20, 2017, and the remaining 50 percent on the regular second payment date of December 26, 2017.
- 10 **State auditor's duties.** Requires the state auditor to prescribe uniform reporting standards for all towns. Effective for financial reports for calendar year 2016 and thereafter.
- 11 **Conformity.** Requires towns to meet state auditor reporting requirements in section 10, in order to get town aid. Effective beginning with aids payable in 2017.
- 12 **Cities (appropriation.)** Permanently increases the city LGA appropriation by \$20 million beginning with aids payable in 2017. The appropriation increases from \$519.4 million to \$539.4 million.
- 13 **Counties (appropriation.)** Permanently increases the county program aid appropriation by \$10 million per year beginning with aids payable in 2017. The increase is split equally between the two parts of county program aid—\$5 million each to need aid and tax base equalization aid. (Also, the statutory appropriation of county program need aid is increased by \$3 million for aids payable in 2017 through 2024 to allow for supplemental payments to be made to Beltrami County under Laws 2014, chapter 150, Art. 4, Sec. 6.)
- 14 **Maximum effort loan aid.** Provides for aid payments to be made to school districts with outstanding loans in the maximum effort loan program, equal to the cumulative amount of interest payments paid to the state on the loans since December 1, 1997. Each district's aid each year is equal to 20 percent of the interest payments made by the district. The aid payments terminate after five years. Effective beginning with fiscal year 2018.
- 15 **Riparian protection aid.** Appropriates \$10,000,000 for aids payable in 2017 and thereafter to counties and watershed districts to enforce and implement the riparian protection and water quality practices required under section 103F.48. Aid to each county area is based on (1) the county's share of the total number of agricultural acres in the state, (2) the county's share of the number of miles of public water basins, (3) the county's share of the number of centerline miles of public watercourses, and (4) the county's share of the number of miles of public drainage ditches. Preliminary aid to each county area is split between the county government and watershed districts based upon the percentage of the county's area that the county or the watershed districts have affirmed their jurisdiction under section 103F.48, subdivision 7, paragraph (b). For areas of the county where neither the county nor the watershed district has affirmed its jurisdiction, the share of aid is given to the Board of Water and Soil Resources. Effective for aids payable in 2017 and thereafter.
- 16 **Red River watershed Board, PILT.** Allows the Red River Watershed Board to increase its payment in lieu of tax (PILT) payment to counties and towns to compensate them for the board's land acquisitions. This makes these payments comparable to state PILT payments on acquired land. The maximum payment is increased from \$4 per acre multiplied by 20, to \$5.133 per acre multiplied by 20. Effective in calendar year 2016 and thereafter.

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- 17 City penalty forgiveness; city of Oslo.** Provides an extra \$37,473.50 in LGA to the city of Oslo with the July 2016 LGA payment to compensate the city for the loss of one-half of its calendar year 2013 LGA payment due to the city not filing its 2012 financial reports in a timely fashion. In order for the city to qualify for the payment, the state auditor must certify that the city filed its 2012 financial reports by December 31, 2013. Effective the day after final enactment.
- 18 2014 aid penalty forgiveness.** Forgives penalties to the cities of Dundee, Jeffers, and Woodstock who lost all or part of their calendar year 2014 LGA payment as a penalty for not filing calendar year 2013 financial reports with the legislative auditor in a timely fashion. The penalty is only forgiven if the city has filed both its calendar year 2013 and 2014 financial statements with the auditor by June 1, 2015. The restored aid will be paid with the July 2016 LGA payment. Effective the day after final enactment.
- 19 Base year for newly incorporated city.** Provides a starting city LGA base amount of \$115 per capita for a town that incorporated into a city on October 13, 2015. The new city is Rice Lake in St. Louis County. Effective beginning with aids payable in 2017.
- 20 Repealer.** Repeals the debt service aid for the Lewis and Clark joint powers board. Effective the day after final enactment

### **Article 3: Income, Corporate, and Estate Taxes**

#### **Overview**

Retroactively conforms Minnesota's individual income tax and corporate franchise tax to most federal changes enacted since December 31, 2014.

Modifies the statutory residency test and the domicile test used to determine if an individual is a Minnesota resident for individual income and estate tax purposes.

Allows excess section 179 subtraction amounts to be carried over for ten tax years.

Allows an income tax subtraction for contributions to section 529 college savings plans, including prepaid tuition plans.

Increases the state dependent care credit to equal the federal credit for taxpayers with adjusted gross incomes (AGI) up to \$38,000.

Allows new refundable individual income tax credits for:

- principal and interest payments on student loans;
- contributions to section 529 college savings plans; and
- K-12 teachers who complete master's degrees in their field of licensure.

Expands the working family credit to filers without qualifying children who are age 21 to 24, and increases the credit rate so that claimants qualify for the maximum credit at lower income levels.

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Allows a refundable income tax credit for Minnesota residents who work in Wisconsin in years when an income tax reciprocity agreement is not in effect.

Provides that acquisition of qualified property by a governmental unit with eminent domain power does not trigger the recapture tax under the estate tax.

- 1 **Greater Minnesota internship program.** Removes the requirements that the employer certify that it would not have hired the intern without the internship credit, and that an internship required under an academic program does not qualify for the credit. Effective beginning in tax year 2016.
- 2 **Update of administrative tax provisions.** Adopts federal tax administrative changes made between December 31, 2014, and December 31, 2015, that Minnesota references for state tax administration purposes under chapter 289A. None of the federal acts enacted changed federal provisions referenced in chapter 289A.

**Effective date:** Effective retroactive to tax year 2015.

- 3 **Residency determination.** Modifies both the statutory residency test and the domicile test under the individual income tax:

**The statutory residency test** provides that an individual who maintains a permanent dwelling in Minnesota and is physically present in the state for 183 days or more in a calendar year is a resident for income tax purposes. This section provides that days spent in Minnesota by taxpayers who travel to the state primarily for the purposes of receiving medical treatment (for the taxpayer, spouse, or a dependent) do not count as Minnesota days. Requires travel to Minnesota for the treatment to have been claimed as a medical expense deduction on the income tax return for days to count as medical treatment days.

**The domicile test** provides that an individual is a Minnesota resident for income tax purposes if the individual intends to make Minnesota his or her permanent home. This section modifies the domicile test so that DOR or a court, in determining where the individual intends his or her permanent home to be, cannot consider the location of:

- the individual's attorney, certified public accountant, or financial adviser; and
- the place of business of a financial institution where the individual opened or maintains an account.

For example, using a Minnesota or an out-of-state lawyer would not be relevant evidence of the taxpayer's intent as to the location of his permanent home state.

The change to the statutory residency test is effective beginning in tax year 2017. The change to the domicile test is effective beginning in tax year 2016.

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**4** **Update to federal definition of taxable income.** Adopts all of the federal changes to taxable income, with the exception of the extension of bonus depreciation. The federal changes to taxable income are effective retroactively to when they became effective for federal purposes.

The four new federal laws and important changes are as follows.

**The Slain Officer Family Support Act of 2015**, Public Law 114-7, enacted April 1, 2015, allowed taxpayers to elect to treat contributions for supporting the families of New York Police Department detectives Wenjian Liu and Rafael Ramos made before April 15, 2015, as though they were made on December 31, 2014. The effect was to allow individual and corporate calendar-year taxpayers to deduct contributions for the families of the detectives on their 2014 federal income tax returns, rather than on their 2015 returns. This section would allow deductions made by Minnesota taxpayers to flow through to their 2014 state returns. Without this change, taxpayers who deducted contributions for the families of the detectives on their 2014 federal returns would be required to add those contributions to Minnesota taxable income on their 2014 state returns and then deduct them from Minnesota taxable income on their 2015 state returns.

**The Don't Tax Our Fallen Public Safety Heroes Act**, Public Law 114-14, enacted May 22, 2015, clarifies that the exclusion of federal or state benefits paid to surviving dependents of a public safety officer killed in the line of duty also apply to state benefits that were payable without regard to whether the officer's death was in the line of duty.

**The Bipartisan Budget Act of 2015**, Public Law 114-74, enacted November 2, 2015, clarified the treatment of partnership interests created by gift.

**The Protecting Americans from Tax Hikes Act of 2015 (PATH)**, and **The Consolidated Appropriations Act of 2016 (CAA)**, of which PATH was a division, Public Law 114-113, enacted December 18, 2015, contained new provisions, modified existing provisions, extended some expiring provisions, generally for two years (tax years 2015 and 2016) and made others permanent. The major changes included in PATH were:

### *New provisions*

- Excludes from gross income compensation paid to individuals who were wrongfully incarcerated. This provision is effective retroactively for all tax years. PATH allowed affected individuals to file amended returns within one year of December 18, 2015 (the date of enactment).
- Allows rollovers from employer-sponsored retirement plans and traditional IRAs into SIMPLE (savings incentive match plan for employees) IRAs following the end of the two-year period that started when the employee first participated in the SIMPLE IRA.
- Allows contributions to agricultural research organizations to be claimed under the itemized deduction for charitable contributions.
- Clarifies valuation rules for charitable remainder unitrusts.
- Makes real estate investment trusts (REITs) ineligible to participate in tax-free spinoffs.

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- Allows non-corporate taxpayers to exclude from gross income clean coal power grants. The exclusion is already allowed for corporate taxpayers; in both cases the grant recipients must reduce the basis of any property acquired using the grant.
- Prohibits the transfer of losses from tax indifferent parties.

### ***Modifications to existing provisions***

- Expands the definition of qualified higher education expenses that can be paid for with distributions from section 529 college savings plans to include the purchase of computers and related equipment. Changes the manner of calculating the portion of a distribution that must be included in taxable income (in the case of amounts not used for qualifying expenses) to be made on a distribution-by-distribution basis, rather than aggregated over the taxable year. Enacts a new rule so that if a beneficiary receives a refund from a higher education institution of amounts paid with a distribution from a 529 plan, the refund is not subject to tax if it is recontributed to the 529 plan within 60 days.
- Extends the exclusion from gross income for qualified scholarships to apply to payments resulting from required participation in a comprehensive work-learning-service program at a work college. The exclusion does not generally apply to amounts paid to students for teaching, research, or other services.
- Allows the excise tax on high-cost employer-sponsored health coverage to be claimed as an itemized deduction. CAA also delayed the imposition of the excise tax to 2020.
- Extends the exclusion of reimbursements of medical expenses of a deceased employee's beneficiary who is not a surviving spouse or dependent under age 27 to apply to distributions from medical trusts. This exclusion is limited to certain governmental health plans.
- Allows ABLE (Achieving a Better Life Experience) accounts for a designated beneficiary to be opened in states other than the state of residency of the beneficiary.

### ***Provisions extended to tax years 2015 and 2016, unless noted***

- Higher education tuition expense deduction. The deduction applies to up to \$4,000 of qualifying expenses for taxpayers with adjusted gross income up to \$65,000 (\$130,000 for married joint filers), and to up to \$2,000 of qualifying expenses for taxpayers with adjusted gross income over \$65,000 but less than \$80,000 (\$130,000 to \$160,000 for married joint filers).
- Exclusion from gross income of discharges of indebtedness on principal residences.
- Itemized deduction for mortgage insurance premiums.
- Bonus depreciation, extended at 50 percent to tax years 2015 to 2017, 40 percent in tax year 2018, and 30 percent in tax year 2019 (*Minnesota would not conform to the extension of bonus depreciation, but would retain its current law requirement that taxpayers add-back to taxable income 80 percent of the increased depreciation amount in the first tax year, and then subtract one-fifth of the amount added back in each of the five following tax years.*)

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- Various provisions related to depreciation and expensing, including more generous rules for certain racehorses (three-year property), motorsports entertainment complexes (seven-year recovery period), mine safety equipment, accelerated depreciation for business property on Indian reservations, qualified film and television production expenses, and second generation biofuel plant property.
- Increased Section 179D deduction for energy efficient commercial buildings.

### *Provisions made permanent*

- Educator classroom expense deduction of up to \$250. The deduction was also extended to expenses for professional development.
- Option for taxpayers to claim an itemized deduction for sales taxes rather than income taxes paid. *(Minnesota taxpayers are not affected by this, since present law requires any deducted sales tax to be added back in computing Minnesota tax; the same add-back is required for income taxes deducted at the federal level.)*
- Increased federal adjusted gross income limit on the amount of qualified conservation easements that may be claimed as a charitable deduction. Permanent law limits deduction of contributions of appreciated property to 20 percent or 30 percent of adjusted gross income, depending on the type of recipient organization. Beginning in 2006, the limit was increased to 50 percent for donations of qualified conservation easements by most taxpayers, and to 100 percent for donations made by farmers and ranchers, defined as individuals with 50 percent of gross income from farming/ranching.
- Authority for individuals age 70½ or older to transfer up to \$100,000 from a traditional IRA or Roth IRA directly to a qualified charity, while excluding that amount from adjusted gross income.
- Enhanced deduction for charitable contributions of food inventory, which allows pass-through entities (S corporations, partnerships, and proprietors) to deduct contributions of food inventory under the same rules as C corporations. Instead of being limited to the basis in the food inventory, the enhanced deduction equals the lesser of basis plus one-half of the appreciation in the food inventory, or two times basis, but may not exceed ten percent of the taxpayer's net income from pass-through entities.
- Limit on basis adjustments in S corporation stock when S corporations donate appreciated property to the tax basis of the property rather than the fair market value (this reduces capital gain on later sales of the S corporation stock, compared with underlying law).
- Increased the section 179 expensing amount and phaseout threshold for tax year 2015 to \$500,000 and \$2 million; with the increased amounts indexed for inflation beginning in 2016. *(Minnesota would not conform to the increased section 179 expensing amounts, but would retain its current law requirement that taxpayers add-back to taxable income 80 percent of the increased expensing amount in the first tax*

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*year, and then subtract one-fifth of the amount added back in each of the five following tax years.)*

- More generous depreciation rules for leasehold and restaurant improvements, including new restaurant property and improvements to retail property (15-year straight-line recovery)
- Special rule limiting the amount of payments from controlled subsidiaries to parent exempt organizations that are subject to the unrelated business income tax to the amount in excess of allowable payments under the arm's-length transaction rules, if a binding written contract between the organizations was in effect as of August 17, 2006.
- Preferential treatment of dividends of regulated investment companies, under which dividends paid to foreign shareholders are exempt to the extent the dividends are derived from interest income that would be exempt if it had been earned directly by the foreign shareholder.
- Exception under subpart F, which allows U.S. shareholders with a ten percent or greater interest in a controlled foreign corporation that consists of banking, financing, and similar businesses to defer recognition of active income earned by the corporation but not distributed to the shareholders.
- The 100 percent exclusion for the gain on sale of qualified small business stock held for more than five years, which applies to stock acquired after September 27, 2010.
- Reduction in the minimum holding period to avoid the tax on built-in gains on sales of assets of S corporations that converted from C corporations from ten years to five years, allowing S corporations to sell assets held more than five years without being taxed on built-in gains.
- Parity in qualified transportation fringe benefits under which employers may exclude up to the same maximum amount per month per employee for vanpool and transit pass expenses as for parking. *(Minnesota taxpayers are not affected by this, since Laws 2014, chapter 308, provided for the increased exclusion to be allowed at the state level regardless of the amount allowed at the federal level. Section 6 deletes the Minnesota-only subtraction since under this bill Minnesota would conform to the now-permanent federal provision.)*

Extended the date for taxpayers to make rollovers to IRAs of payments in previous bankruptcy cases, including that of Delta Airlines, and to file claims for federal tax to 180 days after December 18, 2015 to accommodate the effects of Public Law 113-243, which amended the definition of "airline employee" thus expanding the pool of individuals eligible to make rollovers, and also expanded the definition of "airline payment amount".

5       **Additions to taxable income; individuals.** Makes a technical change to the reference to section 179 expensing amounts allowed at the federal level.

6       **Subtractions from taxable income; individuals.** Provides two new subtractions and replaces the section 179 expensing subtraction with a reference to section 22 which allows

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both the subtraction as under prior law and a new carryover provision. Strikes the subtraction for qualified transportation fringe benefits; PATH made this subtraction permanent at the federal level. This bill conforms to the definition of federal taxable income that incorporates the transportation fringe benefit subtraction, making the separate state subtraction obsolete.

**Section 529 plan contributions.** Allows a taxpayer to deduct up to \$1,500 (\$3,000 for married joint filers) of contributions to any state's section 529 college savings plan or prepaid tuition plan for purposes of computing the Minnesota individual income tax. The subtraction excludes amounts that are rolled-over from other college savings plans, and is not allowed for amounts used to claim the credit in section 21.

**Subtraction for discharge of indebtedness for certain student loans.** Allows a subtraction for student loan indebtedness discharged by the lender following the borrower's completion of an income-driven repayment plan that sets monthly payments based on the borrower's income and family size, such as the Pay as You Earn (PAYE) or Revised Pay as Your Earn (REPAYE) program.

**Effective date:** tax year 2016.

- 7 **Additions to taxable income; corporations.** Makes a technical change to the reference to section 179 expensing amounts allowed at the federal level.
- 8 **Subtractions from taxable income; corporations.** Replaces the section 179 expensing subtraction with a reference to section 22, which allows both the subtraction as under prior law and a new carryover provision.
- 9 **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 determining withholding on wages. Federal adjusted gross income also is the starting point for calculating household income which is used to compute the dependent care and K-12 education credit. The main changes to federal adjusted gross income are described in section 4.
- 10 **Income tax credit for taxes paid to Wisconsin.** Makes the credit for taxes paid to other states refundable for Minnesota domiciliary residents who had personal or professional income taxed by Wisconsin. The credit would only apply in years in which Minnesota did not have an income tax reciprocity agreement with Wisconsin, and essentially provides the same tax treatment to Minnesota residents who work in Wisconsin that they would receive under a reciprocity agreement.
- Effective date:** tax year 2016.
- 11 **Dependent care credit.** Increases the state dependent care credit to equal the federal credit for taxpayers with adjusted gross incomes (AGI) up to \$38,000. The maximum state credit would increase from \$720 to \$1,050 for one dependent, and from \$1,440 to \$2,100 for two or more dependents. The credit will follow the phasedown of the federal credit for filers with adjusted gross incomes between \$15,000 and \$38,000, with the maximum credit at \$38,000 of income equal to \$690 for one dependent and \$1,380 for two or more dependents. The credit is reduced by ten percent of adjusted gross income over \$38,000 and is fully phased out when AGI reached \$44,900 for claimants with one dependent, and \$51,800 for claimants

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with two or more dependents. The \$38,000 income threshold for the phaseout will be adjusted annually for inflation beginning in 2017. The state credit remains refundable.

**Effective date:** tax year 2016.

**12 Dependent care credit; inflation adjustment.** Provides for the \$38,000 phaseout threshold for the dependent care credit in section 11 to be adjusted annually for inflation, beginning in tax year 2017.

**13 Working family credit.** Expands the Minnesota working family credit to filers without qualifying children who are 21 to 24 years of age; under current law filers without qualifying children must be at least age 25 to claim the credit. Modifies the credit percentage, the amount of earned income used to calculate the credit, the income level at which the credit begins to phase out, and the phaseout rate, so that claimants at lower income levels are eligible for larger credits, and so that the credit extends to higher income levels.

	Maximum credit	Income at which maximum credit reached	Income at which credit fully phased out
<b>No children</b>			
Current law	\$133	\$6,310	\$14,893
HF 848	\$195	\$6,500	\$18,500
<b>One child</b>			
Current law	\$1,061	\$11,350	\$39,248
HF 848	\$1,061	\$8,350	\$42,029
<b>Two or more children</b>			
Current law	\$2,047	\$18,610	\$44,560
HF 848	\$2,047	\$13,700	\$47,888

**Effective date:** tax year 2016.

**14 Working family credit; inflation adjustment.** Updates the inflation adjustment to the earned income amounts and phaseout thresholds in the working family credit to reflect the changes made in section 13.

**15 K-12 education credit; cross-reference.** Replaces a reference to household income used in calculating the dependent care credit with a reference to the new definition provided in section 16. The household income definition for the dependent care credit is repealed in section 30.

**16 K-12 education credit; income definition.** Defines household income for use in phasing out the K-12 education credit. Current law references the household income definition in the dependent care credit; that definition is being repealed in section 30. This new definition is the same as the household income definition previously used for the dependent care credit.

**17 Military retirement credit.** Increases the credit for past military service from \$750 to \$1,000, and increases the income level at which the credit begins to phase out from \$30,000 of adjusted gross income (AGI) to \$50,000. The credit is phased out by ten percent of

**Section**

adjusted gross income over the phaseout threshold, so that the credit is fully phased out when AGI reaches \$60,000.

**Effective date:** tax year 2016.

**Section**

**18 Research credit; base amount.** Provides for a base percentage of 16 percent when taxpayer accounting records for the base year are unavailable or inadequate. Effective for tax year 2016.

**19 Credit for attaining master’s degree in teacher’s licensure field.** Allows a refundable individual income tax credit of \$2,500 to licensed K-12 teachers who complete a master’s degree program in their field of licensure. Requires elementary school teachers to complete a master’s degree in a core content area in which the teacher provides direct classroom instruction. Core academic subjects defined in federal and state law include English, reading or language arts, mathematics, science, foreign languages, civics and government, economics, arts, history, and geography. Limited to teachers who begin a program after June 30, 2016, and teachers would claim the credit in the year they complete the degree. Teachers may claim the credit once for each master’s degree completed.

If the credit exceeds an individual’s tax liability, the amount in excess of liability will be paid as a refund. Provides an ongoing appropriation for payment of refunds.

**Effective date:** tax year 2016.

**20 Student loan credit.** Allows a refundable individual income tax credit of up to \$1,000 for principal and interest payments on student loans, equal to a specified percentage of student loan payments in excess of ten percent of adjusted gross income. Payments on loans related to an undergraduate or graduate degree program of the taxpayer at a postsecondary institution qualify. The percentage of payments eligible for the credit is 75 percent for individuals in an education profession, 65 percent for those in a public service job other than education, and 50 percent for all other loan holders. For married couples the taxpayer and spouse may each claim the credit.

**Effective date:** tax year 2016.

**21 Credit for section 529 plan contributions.** Allows a refundable income tax credit for contributions to any state’s section 529 college savings plan, including prepaid tuition plans. The maximum credit is \$500; the credit rate varies by federal adjusted gross income (AGI), with the income ranges adjusted annually for inflation. The table shows the credit rate and minimum contribution necessary to result in the maximum \$500 credit for married couples filing jointly. The credit rate for single and head of household filers with adjusted gross income up to \$80,000 is 50 percent; those with higher incomes are not eligible for the credit.

<b>Income range (AGI)</b>	<b>Credit rate</b>	<b>Contribution necessary to claim maximum \$500 credit</b>
Up to \$80,000	50%	\$1,000
\$80,001 to \$100,000	25%	\$2,000
\$100,001 to \$120,000	10%	\$5,000
\$120,001 to \$160,000	5%	\$10,000

Imposes a penalty on individuals who claimed credits under this section if the beneficiary of an account uses a distribution for other than higher education expenses (e.g., tuition, fees, books, or the student’s living expenses). The penalty equals the lesser of:

- ten percent of the nonqualified distribution; or

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- the total amount of credits the individual claimed under this section.

**Effective date:** tax year 2016

- 22 Section 179 expensing allowance.** Allows subtractions related to section 179 expensing in excess of taxable income to be carried over and applied against liability for up to ten tax years. The current law section 179 subtraction, allowing subtraction of one-fifth of amounts added in the previous five years, is moved to this subdivision so that it and the carryover subtraction may be coordinated.
- Effective date:** tax year 2016.
- 23 Alternative minimum tax; individuals.** Strikes a cross-reference to the transportation fringe benefit subtraction, which is eliminated as a state-only subtraction in section 6 (this bill conforms to the federal law that made the subtraction a permanent feature of federal taxable income making the state-only subtraction unnecessary.) Adds a subtraction for discharge of indebtedness on certain student loans under income-driven repayment plans parallel to the new subtraction allowed in section 6.
- 24 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.
- 25 Estate tax definitions; domicile.** Links the use of domicile under the estate tax to the income tax definition, including the limitations in section 3. Case law has applied a similar domicile test in estate tax cases, so the main effect of this is to adopt the new limitations. No statutory residency test (i.e., based on physical presence in Minnesota) applies under the estate tax. The changes are effective beginning for decedents dying in 2016.
- Also updates to changes in federal law made between December 31, 2014, and December 31, 2015. This change has no substantive effect on computation of the estate tax, but instead keeps the Internal Revenue Code date reference consistent with other sections of statute.
- 26 Estate tax; eminent domain.** Provides that recapture tax under the estate tax is not triggered by acquisition by a governmental unit with eminent domain power of the qualified property for a public purpose. Recapture tax applies when the heirs do not continue to own and use qualified farm or qualified small business property as required by the statute during the three-year period after the decedent's death.
- 27 Amended returns.** Extends the time for filing amended returns to September 1, 2016, if the 3½ year time limit on amending returns to make claims for refunds in statute has expired, for individuals who:
- ▶ became eligible to make retroactive IRA rollovers under federal amendments to the Federal Aviation Administration Modernization and Reform Act of 2012; and
  - ▶ received compensation for wrongful incarceration.
- 28 Estate tax; temporary limit on assessments.** Directs the commissioner to report to the 2017 legislature on alternatives to linking the definition of qualified farm property under the estate tax to the agricultural homestead rules and puts a hold on the commissioner assessing

## Section

recapture tax when a surviving spouse partially loses homestead status as a result of an ownership split between two trusts.

- 29 Individual income tax collection action prohibited.** Prohibits the commissioner from increasing the amount due from individual income taxpayers for tax year 2015 as a result of the adoption of changes to the Internal Revenue Code made from December 31, 2014, to December 31, 2015, provided that the taxpayer filed a 2015 return based on state law as it existed prior to enactment of this bill.
- 30 Repealer.** Repeals the phaseout of the dependent care credit, and the household income definition used in the dependent care credit. The dependent care credit as modified in section 11 instead uses adjusted gross income for its phaseout and includes the phaseout in the credit calculation, making the household income definition and current phaseout statute obsolete.

## Article 4: Sales, Use, and Excise Taxes

### Overview

Establishes sales tax collection duties for marketplace providers located in the state and most retailers using marketplace place providers located in the state with a delayed effective date.

Modifies and clarifies the definition of taxable admissions.

Expands the durable medical equipment exemption.

Changes the nonprofit fundraising limit on days from five to ten.

Provides expanded sales tax exemptions and reimbursements for Super Bowl LII.

Provides construction exemptions for a siding factory, buildings destroyed in the Madelia fire, and redevelopment of a school site in Duluth.

Modifies existing local sales tax authority for Duluth, Hermantown, Mankato, North Mankato and Proctor.

Allows the city of East Grand Forks to impose a local sales tax.

Provides retroactive validation of an existing local tax for the city of Marshall.

- 1 Sales and Purchases (admissions.)** Clarifies that the taxable sales price for an admissions or ticket to a place of amusement or sporting event does not include the price of nontaxable amenities if the amenities are stated separately and the purchaser can choose to include or decline the amenity. Effective the day after final enactment.
- 2 Definitions.** Modifies the definition of a “retailer maintaining a place of business in the state” to include having a storage facility in the state, employing a state resident who works from a home office in the state, or having a marketplace provider or other third party operating in the state under the retailer’s authority to facilitate or process sales in the state.

## Section

Defines a marketplace provider as a person who facilitates a sales for a retailer through any forum. This includes internet based sales sites.

3

**Retailer maintaining a place of business in this state.** States that the duty to collect and remit sales taxes does not apply to a retailer making less than \$10,000 of taxable retail sales into the state in a year if its sole physical connection to the state is through a marketplace provider located in the state. Does not apply if the retailer is, or previously was, registered to collect Minnesota sales tax.

4

**Affiliated entities.** Modifies the definition of “affiliated entities.” A retailer having an in-state affiliate is required to collect and remit sales and use tax. Adds criteria by which an affiliate entity is deemed to be a related party to the retailer (and thus required to collect and remit sales and use tax) to include:

- selling taxable products that are the same as or similar to the retailer;
- maintaining a facility such as an office, warehouse, distribution center, or the like to facilitate sales in the state made by the out-of-state retailer;
- using intellectual property with consent or knowledge, of the out of state retailer, that is the same or similar to the out-of-state retailer’s intellectual property;
- delivering, installing, assembling, performing maintenance or repair services on tangible personal property in the state if the property is sold to in-state customers by the out-of-state retailer;
- facilitating delivery of sales to in-state customers by the out of state retailer by allowing a customer to pick up the purchase at a facility in the state; or
- sharing management, business systems or employees with, or engaging in intercompany transactions with the out-of-state retailer in order to establish or maintain their market in the state.

Also deems two entities as related parties if the entities are related taxpayers under the Internal Revenue Code for purposes of certain disallowed deductions, or if the transactions are disallowed losses between partnerships and their owners under the Code.

Entities that have one or more ownership relationships designed with the purpose of avoiding establishment of affiliate nexus would also be deemed related parties.

5

**Collection and remittance requirements.** Establishes collection and remittance requirements for marketplace providers. Marketplace providers are required to collect and remit sales and use tax for retailers selling through their marketplace, except when a retailer for whom the marketplace facilitates a sale either:

- provides a copy of its registration to collect and remit sales and use tax to the marketplace provider before the marketplace provider facilitates the sale; or
- the marketplace provider establishes that the retailer is registered to collect and remit sales tax by contacting the Department of Revenue.

Relieves a marketplace provider of liability to collect and remit sales and use taxes, to the extent that the provider demonstrates that failure to collect and remit was due to incorrect or

## Section

insufficient information provided by the retailer. The relief does not apply if the retailer and marketplace provider are related entities.

- 6**      **Accessories and supplies.** Expands the sales tax exemption for accessories and supplies required for use of durable medical equipment to include purchases covered by any insurance plan. Currently these accessories and supplies are exempt when purchased for home use or if the purchase is covered by Medicare or Medicaid. Effective for sales and purchases made after June 30, 2016.
- 7**      **Suite licenses.** Excludes from the taxable price of admissions a suite, skybox, or private box seat license if (1) the lessee may arrange to use the suite, sky box or private box on non-game or event days, and (2) the sales price for the admission, excluding the license, is higher than the highest priced general admission ticket closest to the suite, or box. Effective the day after final enactment.
- 8**      **Stadium builder's license.** Excludes from the taxable price of admissions consideration paid for a stadium builder's license at the new Vikings stadium. Effective the day after final enactment.
- 9**      **Super Bowl admissions and related events.** (As corrected in the 2016 corrections bill H.F. 3980, section 4.) Expands the sales tax exemption for Super Bowl tickets to also exempt tickets and admissions to other Super Bowl related events sponsored by the NFL or Super Bowl Host committee, and to sales of nonresidential parking by the NFL to the Super Bowl and related events. Allows the Super Bowl Host committee to purchase nonresidential parking as a sale for resale. The expansion is effective for sales and purchases made after June 30, 2016, and before March 1, 2018.
- 10**     **Fundraising events sponsored by nonprofit groups.** Extends the allowed duration of a short term lease for premises used for tax exempt fund-raising events from five days to ten days. Currently if a non-profit holds an event on premises that they lease for more than five days but less than 30 days, the sales at the event are subject to sales tax.  
  
Effective for sales and purchases made after June 30, 2016.
- 11**     **Siding production facility materials.** Provides a sales tax exemption on building materials and supplies used to build a siding production facility that can produce at least 400 million square feet of siding per year. The exemption applies to purchases by a contractor, subcontractor, or builder as well as the owner. The tax must be paid at the time of purchase and the owner of the facility may apply for the refund of the tax.  
  
Effective for purchases made after June 30, 2016.
- 12**     **Properties destroyed by fire (Madelia).** Provides a sales tax exemption for construction materials, equipment and supplies used to construct or replace property affected by the February 2016 fire in Madelia. The exemption applies to purchases by the property owner or by a contractor, subcontractor, or builder. The tax must be paid at the time the material is purchased and the owner of the property must apply for a refund of the tax.  
  
Effective for purchases made after June 30, 2016, and before July 1, 2018.
- 13**     **Former Duluth Central High School.** Provides a sales tax exemption for materials and supplies used in and equipment incorporated into a redevelopment project on the site of the

**Section**

former Duluth Central High School. The exemption only applies if the redevelopment returns the property to the property tax rolls and the maximum amount of refunds under this section is \$5 million. Effective for purchases between June 30, 2016, and January 1, 2018.

- 14 Taxes collected.** Allows a refund of taxes paid on the materials exempted in sections 11 to 13.
- 15 Refund eligible persons.** States that the owner of the facility must apply for the refund of the taxes paid in sections 11 to 13.
- 16 Application.** Requires contractors, subcontractors, and builders to give the facility owner the information needed to apply for a refund of taxes paid under sections 11 to 13.
- 17 Motor vehicle lease sales tax revenue.** Provides that the portion of revenue from the motor vehicle lease sales tax that comes from the Legacy constitutional amendment is allocated in accordance with the constitutional distribution and is not included in calculating allocation to the transit or highway allocation accounts. Effective the day following final enactment.
- 18 Duluth food and beverage tax.** Changes the boundary line defining the area in which Duluth may spend revenues from its extra ½ percent food and beverage tax from 34th Avenue West to 14th Avenue west and the area south of and including Skyline Parkway. Effective upon the city filing approval with the secretary of state.
- 19 Duluth hotel and motel tax.** Changes the boundary line defining the area in which Duluth may spend revenues from its extra ½ percent lodging tax from 34th Avenue West to 14th Avenue west and the area south of and including Skyline Parkway. Effective upon the city filing approval with the secretary of state.
- 20 Use of Revenues (City of Mankato).** Allows the city to extend its sales tax for different projects, subject to voter approval.

Paragraph (b) allows the city, subject to voter approval at a general election held by December 31, 2018, and in conjunction with the North Mankato vote in section 28, to raise another \$47 million plus associated bond costs to fund:

- construction and improvements to regional recreational facilities including indoor athletic facilities;
- improvements to the flood control and levee system;
- water quality improvement projects in Blue Earth and Nicollet counties;
- expansion of a transit building and related transit improvements; and
- matching funds for regional facilities such as a historic museum, supportive housing, and a senior center.

Effective upon the city filing approval with the secretary of state.

- 21 Expiration of taxing authority and expenditure limitation; Mankato.** If the new uses in subdivision 1, paragraph (b) are authorized, the tax will expire at the earlier of December 31, 2038, or when revenues are sufficient to fund the current projects. Otherwise, the tax will expire at the earlier of December 31, 2022, or when revenues are sufficient to pay off the existing bonds.

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- 22 **Bonds.** Allows Mankato to issue an additional \$47 million in bonds based on the required voter approval in section 1, paragraph (b).
- 23 **Reverse referendum; authorization of extensions.** Requires the Mankato city council to pass a resolution by July 1, 2016, if it intends to extend the tax to fund the new projects under section 20. However the extension is not effective without the required voter approval.
- 24 **Sales tax authorized; Hermantown.** Allows the city to use revenues from the local sales tax to fund debt service payments for construction of a regional wellness center if approved by the voters at the 2016 general election. .
- 25 **Termination.** Allows the city of Hermantown to extend its tax to the earlier of December 31, 2036, or when funds are sufficient to pay off the bonds for the specified projects, if approved by the voters at the 2016 general election.
- 26 **Sales and use tax.** Allows Proctor to increase the rate of its existing local sales tax from 0.5 percent to 1.0 percent, based on voter approval at the 2014 general election. The revenue from the increased tax would pay for the \$10 million in improvements to public utilities, sidewalks, bike paths and trails, and park and recreation facilities authorized in the 2008 and 2010 special laws. No additional spending is authorized.

Effective upon the city filing approval with the secretary of state.

- 27 **City of North Mankato; taxes authorized.** Allows the city to extend its existing sales tax to raise up to an additional \$9 million for current and new projects, subject to voter approval at the next general election.

**Subd. 2. Use of revenue.** Adds construction of indoor athletic facilities to the list of authorized projects and increase the amount that can be raised for all projects by \$9 million, plus associated bond costs, subject to voter approval in subdivision 2a. The existing projects include an interchange, trails, a library, riverfront development, and lake improvement projects.

**Subd. 2a. Authorization to extend the tax.** Allows the city to extend the tax to cover an additional \$9 million plus associated bond costs if approved by voters at a general election held by December 31, 2018, and simultaneously with the city of Mankato's sales tax extension vote.

**Subd. 3. Bonds.** Subject to the voter approval requirement in subdivision 2a, the city may issue an additional \$9 million in bonds to fund the authorized projects without an additional referendum.

**Subd. 4. Terminations of the taxes.** If the taxes are extended under this section, the new expiration date would be the earlier of December 31, 2038 or when revenues are sufficient to fund the total \$15 million plus associated bond costs. Currently the tax expires when revenues are sufficient to fund the current \$6 million and associated bond costs.

Effective upon the city filing approval with the secretary of state.

- 28 **East Grand Forks.** Allows the city of East Grand Forks to impose up to a one percent sales tax to finance improvements to the city swimming pool. The voters already approved the tax at a March 7, 2016, special election. Allows the city to bond for up to \$2.82 million for the

## Section

project without additional approval. The tax expires at the later of (1) five years or (2) when revenues from the tax are sufficient to pay for the \$2.82 million in improvements plus associated bond costs. Revenues not needed for the pool will go to the city general fund.

- 29 City of Marshall; validation of prior act.** Retroactively approves the imposition of the 2011 authorized local sales tax based on approval at the 2012 general election and the filing of local approval with the secretary of state by June 15, 2013.
- 30 Certain reimbursements authorized, considered operating or capital expenses.** Allows the Minnesota Sports Facility Authority to reimburse the NFL its affiliates and the Minnesota Super Bowl Host Committee for up to \$1.6 million in state and local taxes paid on purchases, nonresidential parking, and lodging in connection with the Super Bowl LII and related events from its reserve funds. Effective for sales and purchases made after June 30, 2016 and before March 1, 2018.
- 31 Severability.** Provides that if any provision in sections 2 to 5 are held invalid, other provisions not affected by the invalidity are given effect. Effective the day following final enactment.
- 32 Effective date.** Establishes that the provisions of sections 2 to 5 are effective at the earlier of (1) the U.S. Supreme Court overturning or expanding its 1992 *Quill* decision, which held that physical presence is required in a state for the state to require a retailer to collect and remit sales and use taxes, or (2) July 1, 2019. If Congress enacts a law authorizing states to impose collection and remittance requirements for retailers without physical presence in the state, Minnesota must enforce the provisions of sections 2 to 5 to the extent allowed under the federal law.

## Article 5: Special Taxes

### Overview

Imposes the aviation tax on gasoline used as a substitute for aviation gasoline instead of the gasoline tax.

Imposes a tax rate of 9 percent on paper pull-tabs sold at bingo halls and provides a new definition for “bingo halls.”

Imposes two new tax rates on vapor products based the concentration of nicotine in the solution used in vapor products. Currently, vapor products are taxed at a rate of 95 percent of the wholesale price. The new provisions tax vapor products at either (1) 300 percent if the nicotine concentration is 50 milligrams per milliliter or more, or (2) 45 percent if the nicotine concentration is less than 50 milligrams per milliliter.

Repeals the annual inflation adjustment on the cigarette excise tax and freezes the rate at 15 cents per cigarette (\$3.00 per pack).

## Section

- 1       **Compressed natural gas definition.** Changes the deemed energy content of compressed natural gas (CNG) in the definition of CNG, from 1000 BTUs to 900 BTUs.
- 2       **Dealer of gasoline used as a substitute for aviation gasoline.** Adds a definition to the fuel tax chapter defining “dealer of gasoline used as a substitute for aviation gasoline” as a person who sells gasoline on the premises of an airport to be dispensed directly into the fuel tank of an aircraft.
- 3       **Exemptions.** Exempts gasoline purchased by a dealer of gasoline used as a substitute for aviation gasoline from the fuel excise tax.
- 4       **Compressed natural gas tax rate.** Reduces the motor fuels tax rate for compressed natural gas (CNG) in the per thousand feet calculation of the rate from \$2.174 to \$1.974, and sets a gasoline equivalent (i.e., for comparing energy content of CNG to gasoline) in cubic feet.
- 5       **Gasoline tax imposed.** Applies the five cents per gallon aviation gasoline tax to gasoline used as a substitute for aviation gasoline.
- 6       **Exception for aviation use.** Provides that the aviation gasoline tax does not apply to gasoline used as a substitute for aviation gasoline purchased and placed in an aircraft fuel tank outside the state of Minnesota.
- 7       **Tax not on consumption.** Provides that the aviation gasoline tax is not a tax upon consumption of gasoline used as a substitute for aviation gasoline.
- 8       **Exemptions.** Exempts a licensed ambulance service from liability for the aviation gasoline tax, for gasoline used as a substitute for aviation gasoline.
- 9       **Monthly gasoline report; shrinkage allowance.** Requires gasoline taxpayers to include in their monthly reports to DOR a statement of the number of gallons sold to a dealer of gasoline used as a substitute for aviation gasoline.
- 10       **Failure to use or sell for intended purpose; report required.** Requires a person who buys gasoline from a dealer of gasoline used as a substitute for aviation gasoline and pays the aviation tax on it, then uses it in motor vehicles, or sells it knowingly to a person for use in motor vehicles, to report this to DOR.
- 11       **Aviation refund requirements.** Requires a person claiming a graduated refund or credit to set forth in the claim form the total number of gallons of gasoline used as a substitute for aviation gasoline on which tax was paid during the calendar year.
- 12       **Claim for refund; aviation tax.** Adds purchasers of gasoline used as a substitute for aviation gasoline to the eligible claimants for refunds of aviation taxes paid and not used in motor vehicles or in aircraft.
- 13       **Refund on graduated basis.** Adds taxpayers who have paid aviation tax on gasoline used as a substitute for aviation gasoline, and who have paid the airflight property tax, or who are aerial applicators, to the eligible claimants for refunds on a graduated basis.
- 14       **Intent; gasoline use.** Exempts gasoline sold to a dealer of gasoline used as a substitute for aviation gasoline from the presumption that all gasoline in this state is intended for use in motor vehicles.

## Section

- 15 Airports.** Provides that revenues from excise taxes on gasoline used as a substitute for aviation gasoline are credited to the state airports fund and appropriated to the commissioner as needed.
- 16 Retention.** Establishes recordkeeping and retention requirements for dealers of gasoline used as a substitute for aviation gasoline.
- 17 Tax rate for pull-tabs sold at bingo halls.** Imposes a rate of nine percent on the gross receipts received from the sale of paper pull-tabs at a bingo hall.
- 18 Combined net receipts tax.** Clarifies that pull-tabs subject to the new rate under section 17 are not subject to the combined net receipts tax.
- 19 Bulk nicotine.** Defines “bulk nicotine” as a solution having a nicotine concentration of 50 milligrams per milliliter or more.
- 20 Consumable material definition.** Defines “consumable material” as a solution containing less than 50 milligrams of nicotine per milliliter.
- 21 Tobacco products.** Includes “vapor products” in the definition of tobacco products.
- 22 Vapor products definition.** Defines “vapor products” as devices that produce vapor from nicotine, such as e-cigarettes and other similar devices. Also includes containers and cartridges of nicotine solution in the definition as well.
- 23 Cigarette excise tax.** Freezes the excise tax on cigarettes at the current rate of \$3.00 per pack.
- 24 Rates; tobacco products.** Excludes vapor products from the 95 percent of wholesale tax rate.
- 25 Rates; vapor products.** Imposes one of two rates on vapor products based on the concentration of nicotine that the vapor product contains. The rate is 300 percent of the wholesale price for bulk nicotine and 45 percent of the wholesale price for consumable material.
- 26 Use tax; vapor products.** Imposes a use tax on vapor products at the rates imposed as provided under section 25.
- 27 Solid waste management tax rate; construction debris.** Changes the tax rate for construction debris from \$2 per ton to 60 cents per cubic yard.
- 28 Bingo hall.** Defines “bingo hall” as a premises where a licensed gambling organization regularly conducts paper bingo, if more than 50 percent of the organization’s gross receipts are attributable to the conduct of bingo in the prior calendar year (or their receipts from lawful gambling were zero). This definition does not apply if more than one organization conducts lawful gambling on the premises.
- 29 Repealer.** Repeals the annual inflation adjustment on the cigarette excise tax. Repeals a subpart of Minnesota Rules that describes who may claim refunds for gasoline used as a substitute for aviation gasoline.

## Section

### Article 6: Minerals

- 1       **TEDF; deposits redirected.** Provides that for concentrates produced by a plant subject to a reimbursement agreement dated September 9, 2008 (Essar), the amount of production tax that would have been paid to the taconite economic development fund is redirected and deposited in the Douglas J. Johnson economic protection trust fund until the commissioner of employment and economic development certifies that all requirements of the reimbursement agreement are satisfied.
- 2       **Cities; towns.** Adds six unorganized territories in St. Louis and Itasca counties to the township fund. Creates a new base year at the current distribution amount.
- 3       **Counties.** Clarifies the one cent per ton distribution to a county with a power plant that supplies power to a taconite mining and concentrating facility in another county.
- 4       **Iron range school consolidation and cooperatively operated school account.** Provides that the Iron Range school consolidation and cooperatively operated account fund shall continue to receive the amount equal to two-thirds of the sum of the increased proceeds attributable to the increase in the implicit price deflator for distribution years 2015, 2016, and 2017.

### Article 7: Local Development

#### Overview

This article makes a number of clarifying and minor changes in the tax increment financing (TIF) statute, as requested by the League of Minnesota Cities. It also grants special TIF authority to the following local government units:

- Anoka (city)
- Burnsville
- Coon Rapids
- Cottage Grove
- Edina (validating a previous special law)
- Northfield
- Seaway Port Authority (Duluth)
- Richfield
- St. Paul

- 1       **Definition of increment under 5-year and pooling rules.** Modifies the definition of tax increment that is subject to the 5-year Rule (imposing time limits on spending increments)

## Section

and the pooling rule (imposing percentage limits on increments that may be spent outside of the TIF district) to exclude increments that are repaid by developers.

**Effective date:** Districts for which the request for certification was made after the day following final enactment.

- 2 **Pooling limits; application to increments.** Clarifies that the percentage pooling rules only apply to increment derived from properties located in the TIF district.

**Effective date:** Districts for which the request for certification was made after the day following final enactment.

- 3 **5-year Rule; application to increments.** Modifies 5-year Rule reference to increments to be consistent with the change made in section 2.

**Effective date:** Districts for which the request for certification was made after the day following final enactment.

- 4 **Interfund loans.** Modifies the interfund loan provisions of the TIF statutes to make it easier for cites and development authorities to make and document interfund loans. The changes include:

- Allowing loans to be made up to 60 days after the money has already been transferred or spent. (Under present law, the loan terms must be set before the loan is made.)
- Authorizes passage of the resolution authorizing interfund loans before the TIF plan is approved. (Under present law, it is unclear whether the resolution can authorize interfund loans for TIF districts that have not yet been created.)
- Authorizes the development authority to rewrite loan terms after the loan has been made if it is done before the TIF district that provided increment is decertified.
- Requires an annual report on the amount of interfund loans made and any amendments of loan terms made in prior years.

**Effective date:** Day following final enactment for all TIF districts.

- 5 **Burnsville; TIF.** Modifies a 2008 special law that grants the city of Burnsville special TIF authority to help it develop the Northwest Quadrant, an area of the city that contains a quarry and closed landfill, bordering on the Minnesota River.

It allows the city two more years (from December 31, 2018 to December 31, 2020) to create TIF districts in the area and changes the special rules (i.e., the rules that deviate from the general TIF law) to create more exceptions:

- The city can create economic development districts in the area. Under the 2008 special law, only redevelopment, renewal and renovation, and soils districts could be created.
- The four-year knockdown rule is extended to nine years. The 4-year Rule drops parcels from a TIF district if no development or improvements are made to a parcel within four years after certification of the district.

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- 6 Seaway Port Authority; TIF.** Modifies a 2009 special TIF law for the Seaway Port Authority of Duluth by adding four parcels to the area in which the district may be created and authorizes the use of interfund loans prior to approval of the TIF plan for any purpose that tax increments may be spent for. This authority applies to a resolution of the port authority adopted on or after March 25, 2010, and preempts application of the rules adopted by section 4.
- 7 Maple Grove; TIF.** Modifies a special law, enacted by the 2014 legislature, for the city of Maple Grove. The 2014 special law allowed the city to establish TIF districts under various special rules (i.e., that differ from the general TIF law) to help develop the site of a gravel pit. The 2014 law defined an area of the city as the project area (i.e., the area in which the city could both expend tax increments and establish the TIF districts). Before proceeding under the law, the city was required to find that specific conditions existed in the defined area. This section amends the special law to allow the city to designate only part of the defined area. This will give the city more flexibility in determining whether the tests are met, but will also limit where moneys may be spent and TIF districts created under the special rules. Under this section, the city is allowed to include all of a property tax parcel in the defined area even if part of the parcel is outside the area.

In addition, the section allows the city to use money from soils deficiency districts for land acquisition and infrastructure outside of the TIF district that generated the increment, if it is for a development that does not include retail or housing developments. Under present law, these increments may only be used to pay for soils corrections or the additional costs of infrastructure that result from the soils deficiencies.

- 8 City of Anoka; TIF.** Extends the TIF law’s 5-year Rule to eight years for the Greens of Anoka redevelopment TIF district in Anoka. It does this by deeming the district to be certified on June 29, 2012, rather than its actual certification date three days later on July 2, 2012.

**Background information.** The 5-year Rule requires TIF development authorities to complete funding of in-district development activities within a 5-year period starting with certification of the district. After the period has run, the in-district share of the increments (75 percent of increments for a redevelopment district) may only be used to pay off outstanding bonds and contracts that were incurred during the 5-year period. During the Great Recession, the legislature extended the 5-year period because of the greater difficulty of completing developments. This was done in two laws that applied to districts certified during the periods of time shown in the table below.

<b>Year Enacted</b>	<b>District certified during period covered</b>	<b>5-year Rule extended to</b>
2009	June 30, 2003 to April 20, 2009	10 years
2014	April 20, 2009 to June 30, 2012	8 years

Thus, the section allows the Greens of Anoka district to qualify under the second set of these extensions, even though its certification occurred three days outside of the required window.

## Section

- 9 Edina; special law approval.** Gives the city of Edina until June 30, 2016, to file its certificate of local approval of the 2014 special TIF law for the city. The city needed to file the certificate with the secretary of state before January 6, 2015, for the law to take effect. Although the city council approved the special law, the required filing was not done.
- In addition, the section validates any actions that the city has taken under the special law prior to the effective date of the section.
- The 2014 special legislation enacted for the city of Edina allowed it to create one or more housing districts in its Southeast Edina Redevelopment Project Area through June 30, 2017, with a 20-year duration (as compared with 25 years under general law) and only 20 percent of the units were required to be low-income housing, as opposed to 40 percent under general law. The city is authorized to use up to 35 percent of the revenues from its Southdale 2 economic development district to assist these housing developments.
- Effective date:** Day following final enactment without local approval.
- 10 Coon Rapids; TIF.** Allows the city of Coon Rapids to extend the duration of its TIF District 6-1 (Port Riverwalk) by five years (to 2038).
- Effective date:** Local approval by the city, county, and school district.
- 11 Cottage Grove; TIF.** Extends the 5-year Rule for TIF District No. 1-12 (Gateway North) in the city of Cottage Grove to allow expenditures until January 1, 2017. This district was certified in 2002, so that the extension is a ten-year extension of the five-year period.
- 12 Northfield; TIF.** Extends the 5-year Rule for the Riverfront TIF district in the city of Northfield to 11 years (allowing “in-district development activities” to be funded through July 12, 2017). Under general law, this district had the rule extended to ten years, so this is a one-year extension. See the discussion in section 8’s for background on the general law extensions.
- 13 Richfield; TIF.** Authorizes the city of Richfield and its Housing and Redevelopment Authority (HRA) to extend the duration of the Cedar Avenue TIF district by ten years. This district was established under a 2005 special law as a redevelopment district and has a duration limit of 25 years after receipt of the first increment. As a result, the bill would authorize a 35-year duration.
- The 2005 special law exempted the district from the 5-year Rule and the requirement that 95 percent of redevelopment district increments must be used to correct the conditions that allowed designation of a redevelopment district (e.g., the presence of substandard buildings, abandoned rail yards, or similar).
- 14 St. Paul; TIF.** Allows St. Paul to waive increments for up to four years (but not beyond taxes payable in 2023) for the TIF district that it created for the Ford Motor Company plant site. This will allow the city some flexibility to increase the increment collected for the district by delaying the start of the 25-year duration limit until development of the site has begun. If the city elects to waive increments, the district’s certification date is deemed to be January 2 of the assessment year for the first year increment is received under the waiver for purposes of calculating the 5-year and 4-year rules.

**Section**

**Article 8: Public Finance**

**Overview**

This article makes various minor changes in the procedures and authority to issue local government debt obligations to finance capital facilities, based on recommendation made by the Public Finance Institute, a trade association of the professionals who advise local governments on these issues. Unless otherwise noted, the changes would become effective July 1, 2016, under the default rule for laws containing appropriations.

- 1 **Town certificates of indebtedness for Freon replacement.** Allows towns to issue 20-year certificates of indebtedness for projects to eliminate R-22 (Freon-based refrigerant). Under present law, a ten-year maturity limit applies to these certificates.
- 2 **Hennepin county capital notes for Freon replacement.** Allows Hennepin county to issue 20-year capital notes for projects to eliminate R-22 (Freon-based refrigerant). Under present law, a ten-year maturity limit applies to these notes.
- 3 **Home rule charter city capital notes for Freon replacement.** Allows home rule charter cities to issue 20-year capital notes for projects to eliminate R-22 (Freon-based refrigerant). Under present law, a ten-year maturity limit applies to these notes.
- 4 **Statutory city capital notes for Freon replacement.** Allows statutory cities to issue 20-year capital notes for projects to eliminate R-22 (Freon-based refrigerant). Under present law, a ten-year maturity limit applies to these notes.
- 5 **Maximum limit on HRA GO bonds.** Increases the maximum dollar limit on housing and redevelopment authority (HRA) general obligation bonds from \$3 million to \$5 million.
- 6 **Publication requirement; districts created by EDAs.** Allows an economic development authority (EDA) to publish hearing notices for creating economic development districts in any general circulation newspaper, not just “daily” newspapers.
- 7 **Metropolitan Council; transit bonds.** Authorizes the Metropolitan Council to issue up to \$82.1 million in additional certificates of indebtedness (bonded debt obligations) to finance the council’s transit capital improvement plan. \$40.1 million may be issued after July 1, 2016, and the rest after July 1, 2017.  
**Effective date:** day following final enactment and applies in the seven-county metropolitan area.
- 8 **Street reconstruction bonds.** Eliminates the requirement that street reconstruction bonds be approved by unanimous vote of the governing body in favor of a simple majority approval. These bonds are used to rebuild and replace streets and are exempt from the referendum approval requirement that otherwise would apply.
- 9 **Waiver of public sale requirement.** Modifies the required conditions to qualify for an exemption from public sale (i.e., public or competitive bidding) of bonds so that the municipality is required to retain an independent “municipal” advisor, rather than a

## Section

“financial” advisor. This change is consistent with the terminology used by the Securities and Exchange Commission. A municipal advisor is a person that provides a variety of types of financial advice to municipalities, including that provided by traditional fiscal consultant on how to structure bond issues (e.g., entities like Springsted and Ehlers).

### **Article 9: Iron Range Resources and Rehabilitation Board**

#### **Overview**

This article provides that the Iron Range Resources and Rehabilitation Board (IRRRB) is advisory to the commissioner of Iron Range Resources and Rehabilitation. If the statute provides that IRRRB itself has executive authority, the article transfers that authority to the commissioner and makes the IRRRB advisory. This follows recommendations made by the Office of Legislative Auditor in its March 2016 program evaluation of the IRRRB.

**Unless otherwise noted, the table below lists, by sections of the article, the programs and authority for which a transfer is made from the IRRRB to the commissioner.**

- |    |  |
|----|--|
| 1  | Purchase of insurance for IRRR facilities  |
| 2  | Match and investment by the 21 <sup>st</sup> Century Minerals Fund   |
| 3  | Public utility area development rate participation   |
| 4  | Inclusion of a municipality in the Iron Range fiscal disparities program when some but not all of its geographic area is in the taconite assistance area |
| 5  | School fund allocation under the Iron Range fiscal disparities program   |
| 6  | Assisting in carrying over long range forest development projects  |
| 7  | <b>Commissioner definition.</b> Defines “commissioner” as the commissioner of IRRR for the sections of the mining tax chapter relating to IRRR.          |
| 8  | <b>Appropriations to IRRRA.</b> Authorizes the commissioner of IRRR to expend appropriations made to the IRRR agency.                                    |
| 9  | Approval of IRRR program expenditures and projects   |
| 10 | Purchase of forest trust land  |
| 11 | Acquisition of equity interests in various IRRR projects   |
| 12 | Allocating priorities to IRRR spending projects  |
| 13 | Sale or privatization of Ironworld Discovery Center or Giants Ridge  |

**Section**

- 14 Preparation of IRRRA's annual budget
- 15 Expenditure of IRRR enterprise fund appropriations
- 16 Operation as a development authority (e.g., HRA, EDA, and similar powers)
- 17 Approval of Northeast Minnesota Economic Development Fund projects
- 18 Consultation of technical advisory committee for Northeast Minnesota Economic Development Fund projects
- 19 Appropriations from Northeast Minnesota Economic Development Fund
- 20 Approval of Taconite Environmental Protection Fund projects
- 21 Waiver of requirements for Taconite Environmental Protection Fund projects
- 22 Approval of Taconite Economic Development Fund projects
- 23 Approval of expenditures from the Iron Range consolidation and cooperatively operated school account
- 24 Approval of expenditures from the Iron Range higher education account
- 25 Sale of forest lands purchased using money from the Douglas J. Johnson Economic Protection Trust Fund
- 26 Expenditures from special account in the Douglas J. Johnson Economic Protection Trust Fund
- 27 Approval of projects funded by the Douglas J. Johnson Economic Protection Trust Fund
- 28 Approval of expenditures from the corpus of the Douglas J. Johnson Economic Protection Trust Fund
- 29 Use of the corpus of the Douglas J. Johnson Economic Protection Trust Fund for loans, loan guarantees, grants, and equity investments
- 30 Producer grants from the Douglas J. Johnson Economic Protection Trust Fund
- 31 Approval of grants and loan under the producer grant authority in the Douglas J. Johnson Economic Protection Trust Fund
- 32 Prohibition of approving projects inconsistent with the long-range plan
- 33 Authority to petition assessors for changes in the valuation of unmined ore
- 34 **Early separation incentive program.** Directs the commissioner of IRRR to offer a targeted, early separation program to employees of the IRRRA who meet one of the following requirements:
- Their work is for or relates to Giants Ridge.
  - They are 60 years old or older.

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- They have worked 30 years or more for the agency.

The program is voluntary and is offered at the sole discretion of the commissioner and may be tailored to specific programs or include other eligibility requirements. Implementation of the program is not an unfair labor practice under state law.

35

**Revisor's instruction.** Instructs the Revisor of Statutes to prepare a bill transferring board authority to the commissioner of IRRR for introduction in the 2017 legislative session.

## Article 10: SFIA

### Overview

This article revises the Sustainable Forest Incentive Act in response to the 2014 report from the Office of the Legislative Auditor. The revisions are intended to provide greater accountability and oversight, and align current land use practices with the purposes of the act.

1

**Purpose.** Adds to the purposes provision of the Sustainable Forest Incentive Act (SFIA) to emphasize economic and ecological benefits.

2

**Application.** Extends the applicability of the definitions to include all of the sections in the SFIA chapter.

3

**Claimant definition.** Deletes a provision requiring a buyer of enrolled land to notify the commissioner of the sale. Changes the date by which certain claimants must provide written notice to the commissioner of revenue.

4

**Forest land.** Removes the prohibition on land exceeding 60,000 acres that is subject to a single conservation easement from participation in the program and allows land with a paved trail under an easement, lease, or license to the state to qualify as forest land.

5

**Eligibility requirements.** Adds eligibility requirements related to nonmotorized access, plan registration, property classification restrictions, exclusions, and restrictions on eligibility based on enrollment in certain federal or state programs, certain agricultural land, or land subject to agricultural controls or the Metropolitan Agricultural Preserves Act.

6

**Applications.** Adds application requirements regarding registration numbers, covenant termination, recording of eligible areas, and notifications between the commissioners of revenue and natural resources.

7

**Annual certification.** Provides that the claimant under SFIA is the current property owner and requires the current owner to report each year on management practices. Requires the commissioner of natural resources to monitor certain claimants. The monitoring requirement is effective July 1, 2019.

8

**Length of covenant.** Provides for different covenants with durations of eight, 20, or 50 years.

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- 9        **Calculation of incentive payment.** Provides that the annual payment for land enrolled in the program equals a percentage of the property tax that would be paid on the land determined by using the previous year's statewide average total tax for all taxes levied within townships or unorganized territories, the estimated market value per acre, and a class rate of one percent. Allows an additional payment for claimants required to allow public access.
- 10       **Annual incentive payment; appropriation.** Provides that the commissioner of natural resources will certify the annual payment to each claimant to the commissioner of revenue.
- 11       **Withdrawal procedures.** Allows for early withdrawal from SFIA when a government or nonprofit entity acquires a conservation easement on the property, or when the land is subject to a fee or easement acquisition, or lease to the state for the purpose of a paved trail.
- 12       **Transfer of ownership.** Requires notice to the new owner of lands enrolled in the SFIA. If the new owner does not submit a new forest management plan within two years of the transfer, the commissioner of natural resources will terminate enrollment in SFIA.
- 13       **Penalties for removal.** Clarifies that the penalties apply to the current owner of enrolled land and bases the penalty amounts on the value of the land. For land removed due to the construction of a building, the penalty is 25 percent of the market value of the property with the structure, plus certain payment amounts based on the length of the covenant. For land removed due to changes in the use of the land, the penalty is 30 percent of the market value of the property based on the new use, plus certain payment amounts based on the length of the covenant.
- 14       **Determination of appeal.** Requires the commissioner of revenue to consult with the commissioner of natural resources on appeals relating to forestry and nonforestry use of land and forest management plans.
- 15       **SFIA transition provision.** Allows current owners of enrolled lands to change the length of their covenant and delay compliance with the new provisions until 2018.
- 16       **Administrative appropriation.** Provides an ongoing appropriation of \$600,000 to the commissioner of natural resources to administer the new provisions.
- 17       **Repealer.** Repeals obsolete definitions and provisions related to calculating the current use value and estimated market value.

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### Article 11: Miscellaneous

## Overview

This article:

- Establishes a felony criminal penalty for the sale, purchase, installation, transfer, possession, accessing, and use of a sales suppression device or “zapper”- devices designed and used to avoid sales tax - as well as imposing civil liability on developers and sellers of the devices.
- Creates a new markets grant program administered by the Department of Employment and Economic Development (DEED), funded with a onetime \$30 million appropriation. Qualification rules are similar to the federal new markets tax credit program.
- Establishes a tax time savings grant program to provide state grants to TCE (Tax Counseling for the Elderly) and VITA (Volunteer Income Tax Assistance) organizations so that they can help their clients open bank accounts, deposit tax refunds in them, and purchase U.S. savings bonds. \$400,000 is appropriated for the grants in fiscal year 2017; in addition, an additional \$400,000 is appropriated for taxpayer assistance grants.
- Provides \$3 million in allocations for the border city enterprise program.
- Increases the small claims jurisdiction of the Tax Court in state tax cases by \$10,000 (to \$15,000) and increases the time for serving petitions for rehearing of the court’s decisions.
- Requires homeowners who use the simplified deduction for a home office to exclude taxes apportioned to the home office when claiming the homestead credit refund.
- Makes various grant appropriations for local governments and the administrative appropriation for the bill.

**1 Budget Reserve.** Resets the amount of the budget reserve account at \$1,596,522,000, the current amount in the budget reserve, in the statute that allocates surpluses after budget forecasts to a set of statutory priorities. Also strikes two items that have been satisfied from the list – a transfer to the closed landfill investment fund and a transfer to the metropolitan landfill contingency action trust account.

**Effective date:** July 1, 2016

**2 New markets grant program.** Establishes a new markets grant program administered by DEED. This program is modeled after the federal new markets tax credit program, which is designed to channel equity and debt investments to community businesses operating in low-income areas. Unlike federal and state tax credits, the grant program does not require Qualified Community Development Entities (QCDEs) to sell tax credits (typically at a

## Section

discount) to taxpayer/financial intermediaries (typically insurance companies under state new markets tax credit programs) to obtain funds that are, then, invested in Qualified Active Low-Income Community Businesses (QALICs). Instead, grants will be made directly to the QCDEs, which will invest QALICs.

**Qualifying entities.** DEED is directed to adopt administrative rules that establish criteria for determining grant eligibility. To qualify for a grant, a QCDEs must meet the requirements under the federal tax credit and have lending experience in Minnesota. Similarly, QALICs must meet the federal requirements; however, various listed businesses are excluded: financial institutions, political consultants and lobbyists, and various types of leisure businesses (golf courses, gambling facilities, bars and liquor stores, etc.).

**Qualifying areas for the investments.** Qualifying communities are defined by reference to federal law, which is based on the income of residents of census tracts (either 20 percent of residents are below the poverty rate or median family income is 80 percent or less than that of the metro area or state). The grant program expands the federal rules to include any Greater Minnesota city with a population of 500 or more and per capita commercial-industrial tax capacity of less than \$500.

**Grant award process.** DEED is to award grants to applicants using a competitive process. The section sets out a list of priorities for DEED to consider in evaluating applications, as well as authorizing it to establish more priorities administratively.

**Administrative funding.** Application and administrative fees to pay DEED's cost of running the program are authorized. These amounts are deposited in an account in the special revenue fund and appropriated to DEED.

**Reporting.** QCDEs must file annual reports providing information on the investments – types of businesses, counties in which the QALICs operate, number of jobs created or retained, wages paid, and so forth. In addition, DEED is required to annually report to the legislature.

**Expiration.** The program expires on July 1, 2024.

\$30 million is appropriated for the program in section 11.

3

**Tax time savings grant program.** Establishes a grant program for nonprofit organizations to provide “financial capability services” (i.e., helping clients to open bank accounts, deposit tax refunds, and buy I-savings bonds) in connection with the operation of VITA and TCE sites that receive grants under the Taxpayer Assistance Grant program.

**Definitions.** Defines terms for purposes of the program:

- **Financial capability services** is defined to mean financial advice or assistance services including:
  - helping to open savings or transactional bank accounts and deposit tax refunds in them;
  - helping clients to get and interpret consumer reports, credit scores, and banking history reports;
  - providing financial coaching and credit and debt counseling; and

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- helping to enroll in various savings program and purchasing U.S. savings bonds (but only from the I-series that are adjusted for inflation).

- **Transactional account** includes a traditional check account (demand deposit account) or purchase of a general purpose pre-paid card.
- **TCE** means the Tax Counseling for the Elderly program established by the Internal Revenue Service (IRS).
- **VITA** means the Volunteer Income Tax Assistance program established by the IRS.

**Qualifying organizations.** 501(c)(3) nonprofit organizations that are registered with the IRS under either the VITA or TCE programs who dedicate a staffer or volunteer to provide financial capability services (with a minim of help opening an account, depositing tax refunds, and buying I-bonds) can apply for grants. Organizations may not apply for grants, if they receive funding from banks or other providers that are exchanged for or contingent upon offering their products or services. Applicants can be funded by banks and similar, if the funding is not tied to these types of arrangements.

**Use of grant funds.** Grants must be used to provide free services at VITA and TCE sites to clients help open accounts, deposit tax refunds, and purchase I-bonds. Other financial capability services may be provided, as well.

- 4 **Tax court; petitions for rehearing.** Increases the time for serving a motion for rehearing of a Tax Court order from 15 days to 30 days from the time the motion was filed and the time for the court to hear the motion from 30 days to 60 days.

**Effective date:** Day following final enactment

- 5 **Tax court; small claims jurisdiction.** Increases the maximum Tax Court small claims jurisdiction from \$5,000 to \$15,000 in state tax cases.

**Effective date:** Day following final enactment

- 6 **Automated sales suppression devices.** Authorizes the commissioner of revenue to assess civil penalties on persons who sell, transfer, develop, manufacture, or possess with the intent to sell or transfer automated sales suppression devices. The penalty is the greater of (1) \$2,000 or (2) the amount of tax, penalty, and interest avoidance caused by using the device.

- 7 **Homestead credit refund; home offices.** Requires homeowners who claim a simplified home office deduction under section 280A of the Internal Revenue Code to reduce their homestead taxes used to claim the homestead credit refund by the taxes apportioned to the home office. Present law requires apportionment only if the owner claims depreciation deductions for business use of the home, but section 280A (starting for tax year 2013) allows a simplified deduction based on square footage.

- 8 **Border city enterprise zones.** Allocates an additional \$3 million for border enterprise zone border city enterprise zone and border city development zone tax reductions. 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.

- 9 **Automated sales suppression devices.** Classifies automated sales suppression devices as contraband subject to forfeiture.

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- 10 Use of automated sales suppression devices.** Establishes a felony criminal penalty (maximum term of 5 years or \$10,000 fine or both) for the sale, purchase, installation, transfer, possession, accessing, and use of a sales suppression device.
- 11 Appropriations.** Appropriates money for various programs, functions, and grants as follows:
- **New markets grant program:** \$30 million onetime appropriation in fiscal year 2017 (available through fiscal year 2024)
  - **DOR administrative cost:** \$5 million for fiscal year 2017; \$2 million set as base amount for fiscal year 2018.
  - **Tax time savings grants:** \$400,000 in fiscal year 2017 with base funding of \$400,000 per year.
  - **Taxpayer assistance grants:** \$400,000 in fiscal year 2017; this amount is added to the base funding, making the total base funding \$800,000.
  - **Local government grants:** These are all onetime grants that are not added to the base budget:
    - City of Madelia – \$1.2 million in fiscal year 2016
    - City of Hibbing – \$465,000 in fiscal year 2016
    - Stearns County - \$52,288 in fiscal year 2016
    - Mahnomen County – \$2 million in fiscal year 2017 (\$1 million for the Mahnomen Health Center and \$1 million for the White Earth Band of Ojibwe)
    - Hennepin County – \$1.13 million in fiscal year 2017 (\$730,000 for the Emerge Career and Technology Center and \$400,000 for the Cedar Riverside Opportunity Center)
    - City of Mahnomen – \$1 million for fiscal year 2017
    - City of Lilydale – \$150,000 for fiscal year 2017

## **Article 12: DOR Income, Corporate, and Estate Taxes**

### **Overview**

- 1 Information included on income tax returns.** Strikes obsolete references to telefiling of individual income tax returns. Filing state or federal returns by telephone has not been offered since 2005. Effective the day following final enactment.
- 2 Electronic filing requirement.** Extends the requirement that professional tax preparers submit individual income tax returns electronically to also apply to corporate, partnership, and fiduciary returns. It would also extend the \$5.00 fee for each individual income tax return submitted by a professional preparer in paper form, including returns which the

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taxpayer has requested the preparer to submit in paper form, to also apply to corporate, partnership, and fiduciary returns. Effective for tax year 2016.

- 3 **Withholding statement.** Changes the required date for employer filing of W-2 forms with DOR from February 28 to January 31, effective for wages paid after December 31, 2015.
- Also authorizes the commissioner to determine the content, format, and manner in which employers submit W-2 wage and withholding statements, and eliminates the requirement that employers submit an annual reconciliation of their quarterly withholding returns. The requirement has been rendered obsolete by the Department's ability to electronically identify discrepancies in withholding accounts without the need for a separate return, effective for W-2 statements and reconciliations required to be submitted to the commissioner after December 31, 2016.
- 4 **Reporting of exempt interest and dividends.** Extends the requirement that regulated investment companies paying \$10 or more in exempt-interest dividends to a Minnesota resident to report the amount paid to the recipient by February 15 of the year following the year of payment and by June 1 of the year following the year of payment to the commissioner to also apply to any person receiving \$10 or more of exempt non-Minnesota municipal bond interest or dividends and paying those amounts as nominee to an individual who is a resident of Minnesota. Effective for reports required to be filed after December 31, 2016.
- 5 **Annual withholding returns.** Permanently sets the threshold to file an annual withholding returns at \$500, eliminating the indexing of the threshold and gives the commissioner authority to provide newly eligible employers with the option of filing an annual return. Changes the date when employers must file an annual return from February 28 to January 31. Effective for wages paid after December 31, 2015.
- 6 **Annual withholding returns.** Makes a conforming change to be consistent with the provisions of section 5. Effective for taxable years beginning after December 31, 2015.
- 7 **Partnership assessments.** Provides that assessments made on partnerships under section 8's provisions are joint and several liabilities of the partnership and the general partner. Effective the day following final enactment.
- 8 **Assessments for pass-through entities.** Allows S corporation shareholders and partners to request that DOR assessments be issued to and paid by the entity after initiation of an audit. The commissioner must decide whether to grant the request based on the "best interest of the state" and the decision is not appealable to either the tax or district court. Effective the day following final enactment.
- 9 **Expanded electronic filing.** Extends the requirement that professional tax preparers include an identification number on each individual income tax return to also apply to corporate, partnership, and fiduciary returns. It would also extend the \$50 penalty for each individual income tax return submitted by a professional preparer without the appropriate identification number to corporate, partnership, and fiduciary returns. Effective for tax year 2016.
- 10 **Subtractions from taxable income; individuals.** Updates cross-references to conform to the change in section 11. Effective the day following final enactment.

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- 11 **Additions to taxable income; corporations.** Strikes the outdated clause (9), which related to amortization deductions of certified pollution control facilities placed in service before December 31, 1986. Effective the day following final enactment.
- 12 **Subtractions from taxable income; corporations.** Strikes the outdated clause (7), which related to amortization deductions of certified pollution control facilities placed in service before December 31, 1986. Updates cross-references to conform to the change in section 11. Effective the day following final enactment.
- 13 **Long term care insurance premiums credit.** Changes a reference to the “7.5 percent income test” for deduction of medical expenses at the federal level to “adjusted gross income test”, to reflect the 2013 change to the federal deduction providing that medical expenses are subject to a ten percent of adjusted gross income test except that the percentage remains at 7.5 percent for taxpayers age 65 and older through tax year 2016. Effective retroactively for taxable years beginning after December 31, 2012.
- 14 **Research credit base period.** Clarifies that Minnesota gross receipts must be used in all calculations of the base period for the research credit. Effective the day following final enactment.
- 15 **Alternative minimum tax; individuals.** Strikes an internal cross reference to a clause that no longer exists as a result of the 2008 repeal of language related to the alternative tax exemption amount for tax years before 2005. Effective the day following final enactment.
- 16 **Alternative minimum tax; corporations.** Updates cross-references to conform to the changes in sections 11 and 12. Effective the day following final enactment.
- 17 **Allocation language; corporate franchise tax.** Replaces the term “assignable” with “allocable” in the statute that determines the amount of gain from the sale of goodwill or income from a covenant not to compete that is subject to Minnesota income or corporate franchise tax. Effective the day following final enactment.
- 18 **Partnership assessments.** Makes a conforming change to be consistent with section 7’s changes.
- 19 **Landlord submission of certificates of rent paid to commissioner.** Authorizes the commissioner to require owners or managing agents of residential rental property to submit a copy of each certificate of rent paid (CRP) furnished to a renter, in the content, format, and manner prescribed by the commissioner. The CRP would be due by February 1 of the year following the year the rent was paid, which is the same date by which the owner or managing agent must provide CRPs to renters under current law. Effective for CRPs relating to rent paid after December 31, 2015, but requires the commissioner to first consult with representatives of owners or managing agents to develop an implementation and administration plan that attempts to minimize financial burdens and costs of compliance.
- 20 **Additions to taxable estate.** Clarifies that taxable gifts made within three years of death are subject to estate tax. Present law could be read to imply they are taxable only if they are deducted in computing the federal taxable estate, but under federal law they are never included in the federal estate because they were subject to the federal gift tax instead. Effective retroactive to the original date for the requirement to include these gifts in the Minnesota taxable estate (gifts after June 30, 2013).

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- 21**     **Estate tax calculation.** Clarifies that property subject to a Minnesota-only Qualified Terminable Interest Property (QTIP) election may be excluded in the calculation of the Minnesota taxable estate. Effective retroactive to the original date of the Minnesota QTIP election (decedents dying after June 30, 2011).
- 22**     **Includable small business property-estate tax.** Clarifies that the qualified small business property subtraction under the estate tax excludes any cash, cash equivalents, or publicly traded securities, whether or not used in the small business or owned directly or through intangible property such as stock or partnership interests. DOR has been administering the small business property subtraction in this manner.
- Effective date:** retroactive to the original effective date of the small business subtraction (decedents dying after June 30, 2011).
- 23**     **Recapture tax.** Provides an exemption from the recapture tax for qualified farm property under the estate tax to provide that property, classified as agricultural homestead when the decedent died, does not stop being qualified farm property if during the three-year period (required to avoid recapture tax):
- A residence is re-classified as 4bb property (non-homestead residential).
  - Up to one-fifth of the land is reclassified as 2b property (rural vacant land) and the heir has not substantially altered the land during the three-year period.
- Effective date:** retroactive to the original effective date of the qualified farm property subtraction (decedents dying after June 30, 2011).
- 24**     **Estate tax; credit for nonresident decedents.** Corrects a cross reference in the credit for nonresident decedents to reflect that the credit was moved to its own statutory section in 2014. Effective retroactively for estates of decedents dying after December 31, 2013.
- 25**     **Repealer.** Repeals
- ▶ Minnesota Rules, part 8092.1400, (annual withholding returns) to eliminate any inconsistencies with the provisions of sections 5 and 6. Effective for tax year 2016, except that notifications from DOR to employers regarding eligibility to file an annual return for taxes withheld in calendar year 2016 remain in force.
  - ▶ Minnesota Rules, part 8092.2000, which unnecessarily duplicates statutory law and contains obsolete references to Department of Revenue forms. This rule deals with procedures that construction contractors must follow to demonstrate compliance with income tax withholding obligations before receiving final payment under contracts with state or local government agencies. Effective the day following final enactment.

### **Article 13: DOR Special and Sales Taxes**

**Section**

- 1 **Fire state aid.** Replaces the term “town and farmers’ mutual insurance companies” with “township mutual insurance companies”, consistent of the use of the term elsewhere in statute. Effective the day following final enactment.
- 2 **MinnesotaCare tax; omission in excess of 25 percent.** Allows 6 ½ years from the due date of a return or the date a return is filed for the commissioner to assess additional taxes on a MinnesotaCare return if the return failed to report tax in an amount that is at least 25 percent higher than the amount reported. Current law provides similar treatment for sales and withholding taxes, and allows 6 ½ years for making assessments for income tax and estate tax returns that understate income or assets by at least 25 percent. Effective the day following final enactment.
- 3 **Exemptions.** Replaces the term “town and farmers’ mutual insurance companies” with “township mutual insurance companies”, consistent of the use of the term elsewhere in statute. Effective the day following final enactment.
- 4 **MinnesotaCare tax; pharmacy refund.** Provides that a request for refund of MinnesotaCare taxes for legend drugs delivered outside Minnesota must be filed on the annual return by March 15 of the year following the year in which the drugs were delivered, and that a refund will not be allowed if the initial claim for refund is filed later than one year from that date. Current law requires the refund to be claimed within 18 months of the date of delivery outside of Minnesota. Effective for qualifying legend drugs delivered outside Minnesota after December 31, 2015.
- 5 **Petroleum tax; Bulk storage or bulk storage facility definition.** Adds a new definition of bulk storage or bulk storage facility to the petroleum tax chapter. Effective the day following final enactment.
- 6 **Petroleum tax; Motor fuel definition.** Modifies the definition of “motor fuel” to include gaseous forms of fuel; current law is limited to liquid fuel. Effective the day following final enactment.
- 7 **Petroleum products definition; biobutanol.** Updates the definition of petroleum products to include biobutanol. Effective the day following final enactment.
- 8 **Gasoline tax; biobutanol.** Clarifies that biobutanol blends are taxable as gasoline by adding a reference to biobutanol. Effective day following final enactment.
- 9 **Tangible personal property.** Repeals the exclusion of large ponderous machinery and equipment from the definition of tangible personal property consistent with Minnesota Tax Court decision, *Dahmes Stainless, Inc., Appellant, v. Commissioner of Revenue, Appellee*, 8228-R, 04/07/2015. Effective the day following final enactment.
- 10 **Exemptions.** Clarifies that the tax exemption applicable to air flight equipment does not include aircraft with a maximum takeoff weight of less than 30,000 pounds. This conforms to change in the definition of flight property in article 13, section 3.
- 11 **Deposit in state airport fund.** Clarifies that the tax revenue collected from the sale or purchase of an aircraft dedicated to the state airports fund includes interest and penalties, but does not include that portion of the sales tax that is constitutionally dedicated.

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- 12 **Untaxed gambling product.** Provides authority to tax all forms of gambling that are illegal pursuant to the criminal code under chapter 609. Adds a tax return filing requirement for persons or entities conducting untaxed gambling. Prohibits the commissioner from disclosing information in returns related to untaxed gambling, and provides that the information in such returns may not be used in criminal proceedings unless independently obtained. Effective for games played or purchased after June 30, 2016.
- 13 **Solid waste management tax; recyclable materials and source-separated compostable materials.** Clarifies that the exemption from the solid waste management tax for recycling materials is only available if the price for handling the materials is separately itemized on a bill to the generator of the waste. Also updates terminology regarding the exemption for source-separated compostable materials, consistent with terms used in chapter 115A and related rules. Effective the day following final enactment.
- 14 **Insurance premiums tax; township mutual insurance companies.** Replaces the term “town and farmers’ mutual insurance companies” with “township mutual insurance companies”, consistent of the use of the term elsewhere in statute. Effective the day following final enactment.
- 15 **Firefighter relief surcharge payments.** Updates a use of the term “commissioner” to reflect the practice that the commissioner of revenue, not the commissioner of management and budget, determines payments under the firefighter relief surcharge for cities of the first class. Effective the day following final enactment.
- 16 **Firefighter relief surcharge payments appropriation.** Changes the appropriation for firefighter relief surcharge payments to be to the commissioner of revenue, not the commissioner of management and budget, since the commissioner of revenue makes the payments. Effective the day following final enactment.
- 17 **Occupation tax deductions.** Updates a cross reference to conform to changes made in Article 11, section 12 (290.01, 19c). Effective the day following final enactment.
- 18 **Occupation tax net operating loss.** Updates a cross reference to conform to changes made in Article 11, section 12 (290.01, 19d). Also strikes an obsolete net operating loss provision, which applied to tax periods for which net operating loss carryover is no longer available. Effective the day following final enactment.

### **Article 14: DOR Property Taxes**

- 1 **Income-producing property assessment data classification.** Makes property tax data related to income-producing property that is collected by the state of Minnesota for assessment purposes private or nonpublic data. Present law provides that property tax data on income-producing properties collected by political subdivisions is nonpublic. Effective the day following final enactment.
- 2 **Definition of air commerce.** Modifies the definition of air commerce to

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- ▶ specifically include airline companies that make three or more flights within Minnesota during a calendar year;
- ▶ strike language related to intermittent or irregularly timed flights, for which a new definition is proposed in section 5; and
- ▶ strike a specific exclusion from air commerce of casual transportation for hire.

Effective for assessment year 2017 and thereafter.

- 3 **Definition of flight property.** Provides that flight property does not include aircraft with a maximum takeoff weight of less than 30,000 pounds. The current law exclusion of aircraft with a gross weight of less than 30,000 pounds is stricken in section 6. Maximum takeoff weight is a standard aviation term that refers to the maximum weight at which the pilot of an aircraft is allowed to take off. Effective for assessment year 2017 and thereafter.
- 4 **Definition of person.** Modifies the definition of “person” used for the airline flight property tax to make it consistent with the definition used for other taxes administered by the commissioner. Effective for assessment year 2017 and thereafter.
- 5 **Definition of intermittent or irregularly timed flights.** Adds a new definition of “intermittent or irregularly timed flights” to mean flights in which departures and arrivals are negotiated with the customer. The term also includes charter flights. Under present law the definition of this term is embedded in the definition of “air commerce”, which is modified in section 2. Effective for assessment year 2017 and thereafter.
- 6 **Assessment of flight property.** Deletes language that excludes aircraft with a gross weight of less than 30,000 pounds and used on intermittent and irregularly timed flights from the provisions of the airline flight property tax. Section 3 excluded aircraft with “maximum takeoff weight” from the definition of “flight property”, so such aircraft will not be valued for purposes of the tax. Companies engaged in air commerce and using aircraft with maximum takeoff weights of less than 30,000 pounds and flown on intermittent and irregularly timed flights will still need to file reports. Effective for assessment year 2017 and thereafter.
- 7 **Airline flight property tax reports.** Provides that airline companies must file reports unless the commissioner determines that the company is exempt. Also clarifies that the commissioner may prescribe the content, format, and manner of air flight property tax reports as provided in Minn. Stat. § 270C.30, and adds a cross reference to the definition of “electronic signature” in §270C.304. The provision requiring airline companies to file reports unless determined to be exempt is effective for reports filed in 2017 and thereafter. The provisions regarding the content, format, and manner of reports are effective the day following final enactment.
- 8 **Commissioner may file reports for airline companies.** Adds a new subdivision providing that if an airline company does not file a report the commissioner may file a report for it based on information that the commissioner has or can obtain and also may issue a notice of net tax capacity. Effective for assessment year 2017 and thereafter.
- 9 **State Board of Equalization (Board) reassessment orders.** Adds a new subdivision that allows the State Board of Equalization to issue orders to county assessors to reassess all or part of a parcel if the Board determines that property has been under or over-valued and the

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board determines that the assessment is grossly unfair or inequitable. Effective for assessment year 2017 and thereafter.

- 10 **County Board of Appeal and Equalization Proceedings Minutes.** Eliminates the requirement that county boards of appeal and equalization file a printed or typewritten copy of meeting minutes with the commissioner of revenue. Effective for county boards of appeal and equalization meetings held in 2017 and thereafter.
- 11 **Personal property; pipeline companies.** Clarifies that all transportation pipelines are subject to tax as personal property without regard to the material transported through the pipeline. Effective the day following final enactment.
- 12 **Wind Energy Conversion Systems.** Provides that in determining if the nameplate capacities of wind energy conversion systems may be combined in order to determine the total size of the system for purposes of the wind energy production tax rate, the systems must have been built within the same 12 month period, rather than within the same calendar year. This change would make the criteria consistent with that used for the solar energy production tax. Effective for reports filed in 2017 and thereafter.
- 13 **Wind energy production tax reports.** Allows the commissioner to grant an extension of time to file wind energy production tax reports for up to 15 days upon a showing of good cause. This makes it consistent with the commissioner's authority to grant extensions for filing solar energy production tax reports. Effective for reports filed in 2017 and thereafter.
- 14 **Lead hazard market value reduction.** Removes a reference to the lead hazard market value reduction from the definition of market value, since the lead hazard reduction was repealed in 2013. Effective the day following final enactment.
- 15 **Division of duties between local and county auditor.** Requires local assessors to enter construction and valuation data into the records as directed by the county auditor. Effective for assessment year 2017 and thereafter.
- 16 **Division of duties between local and county assessor.** Requires local assessors to enter construction and valuation data into the records as directed by the county auditor. Effective for assessment year 2017 and thereafter.
- 17 **Valuation notice compliance.** Provides that if a county or city assessor fails to timely mail valuation notices to taxpayers, the assessor must mail an additional valuation notice and convene a supplemental local board of appeal and equalization meeting or local review session. Effective for valuation notices sent in 2017 and thereafter.
- 18 **Blind/disabled homestead classification.** Clarifies that the market value of class 1b blind or disabled homestead property in excess of \$50,000 is classified as either class 1a or 2a property depending upon the use of the property.  
Effective date: day following final enactment
- 19 **Personal property; listing and assessment in county.** Clarifies that the personal property of pipeline companies is subject to listing and assessment in the local jurisdiction without regard to the material transported through the pipeline. Effective the day following final enactment.

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- 20 Personal property; listing and assessment in county.** Clarifies that the personal property of pipeline companies is subject to listing and assessment in the local jurisdiction without regard to the material transported through the pipeline. Effective the day following final enactment.
- 21 Utility and railroad valuation appeals.** Requires that an appeal of market value on state-assessed railroad or utility property must be brought against both the commissioner of revenue and the county or taxing district in which the property is located. Clarifies that service must be made on the commissioner only. Effective for appeals starting in assessment year 2017.
- 22 State assessed property tax appeals.** Provides that utility and railroad company appeals to the Minnesota Tax Court on orders of the commissioner must be filed within 60 days from the date of the order or 90 days if an extension is granted, as provided in § 271.06, subd. 2. Also provides that in the case of a conflict between the provisions of this section and chapter 278 (District Court or Tax Court), this section prevails. Current law provides that this section prevails over chapter 271 (Tax Court) in case of conflict, but does not reference chapter 278. Effective for assessment year 2017 and thereafter.
- 23 Railroad and utility company appeals.** Makes several changes in how utilities and railroads may appeal their valuations. Companies must request an administrative appeal in writing within 30 days of the valuation. The commissioner may grant a 15 day extension to file. The appeal must include identifying information about the company, include the assessment periods, identify findings that the company disputes and identify reasons for the dispute. An appeal conference must be held within 20 days, and the commissioner must notify the company of the final determination within 30 days after the conference. Taxpayers may appeal the commissioner's determination to either Tax Court or District Court. Paragraph (c) dealing with informal appeals is deleted because it is no longer necessary as the proposed changes lay out how railroad and utility companies may appeal their valuations. Effective for assessment year 2017 and thereafter.
- 24 Settlement of appeals.** Provides that when it appears to be in the best interest of the state the commissioner may settle appeals of utility and railroad valuations. Effective beginning with assessment year 2017 and thereafter.
- 25 Administrative appeal and appeal to tax court.** Clarifies that if a taxpayer files an administrative appeal for an order of the commissioner and also files an appeal to Tax Court for that same order, the administrative appeal is dismissed and the commissioner no longer has to make a determination. Effective beginning with assessment year 2016 and thereafter.
- 26 Equalization of public utility structures.** Requires the value of state-assessed public utility structures to be equalized to the level accepted by the State Board of Equalization. Effective beginning with assessment year 2016.
- 27 Local boards of appeal and equalization.** Clarifies that the boards to which provisions related to meeting dates and times apply are the local boards of appeal and equalization. Effective the day following final enactment.
- 28 County board of appeal and equalization valuation.** Prohibits county boards of appeal and equalization from making a change in value to benefit a property if the owner has denied

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the assessor access to the property. This would make the authority of county boards of appeal and equalization consistent with local boards of appeal and equalization, which are already prohibited from making valuation changes after an owner has denied the assessor access. Effective for county board of appeal and equalization meetings in 2017 and thereafter.

- 29 **County Board of Appeal and Equalization certification.** Extends the deadline from December 1 to February 1, for county boards of appeal and equalization to certify a trained member of the board in order to be eligible to hold regular board of appeal and equalization meetings. Effective for county boards of appeal and equalization meetings held in 2017 and thereafter.
- 30 **Public meeting announcement.** Clarifies that taxing authorities only need to announce the time and place of the regularly scheduled meetings at which the budget and levy will be discussed if they have such a meeting. Effective the day following final enactment.
- 31 **Property tax levy reports.** Eliminates the requirement that towns more than 5,000 population and communities receiving taconite aid file a property tax levy report. The reports are no longer needed for these towns and communities, as they are not subject to levy limitations. Effective the day following final enactment.
- 32 **State assessed property tax appeals.** Provides that appeals of valuation notices provided by a county assessor as required under § 273.121 may be filed in Tax Court prior to May 1 of the year in which taxes are payable, in order to clarify that the additional time to appeal valuation notices does not apply to state assessed property because those notices are not required under § 273.121. Current law refers to § 273.121 but does not explicitly reference county assessors. Effective the day following final enactment.
- 33 **Conveyances to public entities.** Modernizes the language used in describing the procedures for taxing districts to sell tax-forfeited land. Effective the day following final enactment.
- 34 **Conditional use deed.** Clarifies that when a governmental subdivision wishes to purchase tax-forfeited property that it owns, but that is subject to a conditional use deed, the governmental subdivision must first reconvey the land subject to the conditional use deed to the commissioner of revenue before the commissioner may convey the property free of the use restriction back to the governmental subdivision. Effective the day following final enactment.
- 35 **City email address.** Requires cities receiving aid to register an official electronic mail address with the commissioner for use in communicating with the city. Effective for aids payable in 2017 and thereafter.
- 36 **Aquatic invasive species prevention aid.** Requires the commissioner of natural resources to annually certify the number of watercraft launches and watercraft trailer parking spaces in each county for purposes of administering aquatic invasive species prevention aid. Effective for aids payable in 2017 and thereafter.
- 37 **Aquatic invasive species prevention guidelines.** Requires the commissioner of natural resources to annually certify to the commissioner of revenue the counties that have complied with the requirement to establish guidelines for addressing aquatic invasive species. Effective for aids payable in 2017 and thereafter.

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- 38 Tax-forfeited property contracts for deed.** Provides that the five-day rescission period for sales made by contracts for deed does not apply to sales of tax-forfeited property. Effective for sales of tax-forfeited land occurring after the day following final enactment.
- 39 2014 supplemental agricultural credit warrants.** Provides that if the commissioner cannot locate a taxpayer eligible for the 2014 supplemental agricultural credit by October 15, 2016, or if a qualifying taxpayer to whom a warrant was issued does not cash that warrant within two years from the date the warrant was issued, the right to the credit lapses. A separate change in Article 4, section 6, allows the commissioner to reissue a lapsed warrant for the 2014 supplemental agricultural credit for up to five years after the original warrant was issued upon a showing of reasonable cause. Effective the day following final enactment.
- 40 Repealer; property tax exemption for public utility project.** Restores an exemption for personal property of an electric generating facility that was inadvertently repealed in 2014. The effective date section provides that the exemption is revived and reenacted. Effective retroactively from May 20, 2014.
- 41 Repealer.** (a) repeals Minn. Stat. § 281.22, which is an obsolete provision that provided a one-year notice period for the expiration of redemption for properties bid in for the state prior to 1935. (b) Repeals the current rule regarding the equalization of public utility structures.

Paragraph (a) is effective the day following final enactment. Paragraph (b) is effective beginning with assessment year 2016.

## **Article 15: DOR Miscellaneous**

- 1 Annual railroad returns.** Authorizes the commissioner to prescribe the content, format, and manner of annual railroad property tax returns, and defines “electronic signature” for railroad property tax returns by reference to the definition in §270C.304. Effective the day following final enactment.
- 2 Revenue recapture; income floors on medical debts; definition of debtor.** Updates the income amounts used to determine if a medical care debt may be submitted to the department’s revenue recapture system to have tax refunds applied to the debt to be the income amounts in effect for 2015, and provides for the updated amounts to be adjusted annually for inflation beginning in 2016. Also clarifies that the income of the debtor’s spouse is included in the calculation and that the spouse is considered a dependent. Effective retroactively to debts incurred in tax year 2015 and following years.
- 3 Data disclosure to commissioner of human services.** Authorizes the commissioner to provide information to the commissioner of human services to verify income for eligibility and premium payment under the medical assistance program. Effective the day following final enactment.
- 4 Commissioner’s authority; manner of returns.** Authorizes the commissioner to prescribe the manner of all returns required to be filed under state tax laws. Current law authorizes the

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commissioner to prescribe the content and format of returns. Effective the day following final enactment.

- 5       **Prohibition against collection.** Provides that the 60 day time period used as one criterion in determining when a collection action on an order of assessment is prohibited ends 60 days after the notice date designated on the order; current law provides that the prohibition ends 60 days after the date the order is mailed. Effective for orders dated after December 31, 2016.
- 6       **Sufficiency of notice.** Provides that a notice of an assessment of tax is sufficient if sent on or before the date designated by the commissioner in the notice. Effective for orders dated after December 31, 2016.
- 7       **Time for filing; request for abatement of penalty or additional tax.** Provides that the 60 day time period for requesting abatement of a penalty or additional tax assessment begins on notice date designated on the order notifying the taxpayer of the penalty or additional tax; current law provides that the 60 days begins on the date the order is mailed. Effective for orders dated after December 31, 2016.
- 8       **2014 supplemental agricultural credit warrants.** Provides that upon a showing of reasonable cause for failure to cash a warrant for a supplemental agricultural credit the commissioner may reissue a replacement warrant for up to five years after the original warrant was issued. Under current law the commissioner is authorized to issue replacement warrants for rebates and property tax refunds. Effective the day following final enactment.
- 9       **Notice date; definition.** Modifies the definition of “notice date” to mean the date designated by the commissioner on an order adjusting tax or denying a request for abatement. Current law defines “notice date” as the date of an order or notice. Effective for orders and notices dated after December 31, 2016.
- 10       **Administrative appeal.** Provides that if a taxpayer files an administrative appeal of an order of the commissioner and also files an appeal to Tax Court for that same order, the administrative appeal is dismissed and the commissioner is no longer required to make a determination. Effective for administrative appeals filed after June 30, 2016.
- 11       **Sufficient notice.** Provides that a notice of an action or determination of the commissioner is sufficient if sent on or before the date designated by the commissioner in the notice. Effective for orders dated after December 31, 2016.
- 12       **Tax preparer administrative penalty; statute of limitation.** Establishes that the statute of limitations to assess an administrative penalty against a tax return preparer for an improper return equals the amount of time allowed to assess tax. Establishes a five year statute of limitations for imposing a penalty arising from violations not related to a specific tax return. Effective for tax preparation services provided after the day following final enactment.
- 13       **Publication of names of tax preparers subject to penalty.** Extends from 90 days to three years the period of time in which the name of a tax preparer who has been subject to a penalty may be posted by the Department of Revenue. Effective the day following final enactment.
- 14       **Individual tax identification number.** Clarifies that for purposes of the license clearance program, a licensing authority may accept an individual tax identification number in

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addition to social security and Minnesota business identification numbers. Effective the day following final enactment.

- 15 **Tax court appeals; period of time to appeal.** Provides that the 60 day time period for appealing an order of the commissioner to the Tax Court begins on notice date designated on the order; current law provides that the 60 days begins on the date the order is filed. Effective for orders dated after December 31, 2016.
- 16 **Period of time to appeal orders of assessment.** Provides that the 60 day time period for appealing an order of assessment begins on notice date designated on the order; current law provides that the 60 days begins on the date the order is filed. Effective for orders dated after December 31, 2016.
- 17 **Application for exemption for personal property used for pollution control.** Authorizes the commissioner to prescribe the content, format, and manner of applications for exemption from the property tax on personal property for property used for pollution control, and defines “electronic signature” for pollution control personal property exemption applications by reference to the definition in §270C.304. Effective the day following final enactment.
- 18 **Application for market value exclusion for electric power generation efficiency.** Authorizes the commissioner to prescribe the content, format, and manner of applications for the market value exclusion for electric power generation efficiency, and defines “electronic signature” for market value exclusion applications by reference to the definition in §270C.304. Effective the day following final enactment.
- 19 **Statement of exemption for personal property.** Authorizes the commissioner to prescribe the content, format, and manner of annual statements required taxpayers claiming exemptions for personal property, and defines “electronic signature” for annual statements related to personal property exemptions by reference to the definition in §270C.304. Current law authorizes the commissioner to prescribe the “form and contents” of the statements. Effective the day following final enactment.
- 20 **Annual wind energy reports.** Changes the date when annual wind energy reports are due from February 1 to January 15, effective for reports required to be filed in 2017.  
Also authorizes the commissioner to prescribe the content, format, and manner of annual reports from owners of wind energy conversion systems, and defines “electronic signature” for wind energy report by reference to the definition in §270C.304. Current law authorizes the commissioner to prescribe the “form” of the reports. Effective the day following final enactment.
- 21 **Annual solar energy reports.** Authorizes the commissioner to prescribe the content, format, and manner of annual reports from owners of solar energy generating systems. Current law authorizes the commissioner to prescribe the “form” of the reports. Effective the day following final enactment.
- 22 **Certificate of value.** Authorizes the commissioner to prescribe the content, format, and manner of the certificate of value required to be filed with the county of auditor on the sale of real property. Current law authorizes the commissioner to prescribe the “form” of the reports. Effective the day following final enactment.

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- 23 **Homestead application.** Authorizes the commissioner to prescribe the content, format, and manner of homestead applications. Current law authorizes the commissioner to prescribe the “format and contents” of the application. Effective the day following final enactment.
- 24 **Annual utility company reports.** Authorizes the commissioner to prescribe the content, format, and manner of annual reports from utility companies. Also authorizes the commissioner to file a report for a company if the company fails to do so. Effective the day following final enactment.
- 25 **Deed tax on school forest.** Clarifies that the deed tax for a conveyance of tax-forfeited land to a governmental subdivision for a school forest is \$1.65. Effective the day following final enactment.
- 26 **Income tax returns.** Authorizes the commissioner to prescribe the content, format, and manner of returns and other documents required to be filed under the individual income, fiduciary income, corporate franchise, mining, and entertainment taxes, but provides that the authorization provided does not allow the commissioner to require individuals to file income tax returns electronically. Effective the day following final enactment.
- 27 **Withholding tax returns.** Authorizes the commissioner to prescribe the content, format, and manner of returns and other documents required to be filed under the various withholding taxes. Current law authorizes the commissioner to prescribe the “form and manner” of the returns. Effective the day following final enactment.
- 28 **Sales and use tax returns.** Authorizes the commissioner to prescribe the content, format, and manner of sales and use tax returns. Current law authorizes the commissioner to prescribe the “form and manner” of the returns. Effective the day following final enactment.
- 29 **Partnership return due date.** Requires partnerships to file their returns on the day the equivalent federal return is due. Effective the day following final enactment.
- 30 **Erroneous refund statute of limitations.** Define an “erroneous refund” and clarifies that DOR has 3½ years from the due date of the return to assess tax under a claim filed by a taxpayer, not two years after issuing a refund. This effectively reverses the Minnesota Supreme Court decision in *Connexus Energy v. Commissioner of Revenue*, 868 N.W.2d 234 (Minn. 2015). Effective the day following final enactment and applies retroactively to all refunds, other than the refunds in the *Connexus Energy* case. The changes do not invalidate any assessments made before the effective date.
- 31 **Denial of refund claims; period of time to appeal.** Provides that the 60 day time period for appealing the denial of a refund claim begins on the notice date designated on the notice of denial; current law provides that the 60 days begins on the date the notice is issued. Also provides that actions in district court must be brought within 18 months of the notice date. Current law references the “date of denial of the claim”. Effective for denials of claims for refunds after December 31, 2016.
- 32 **Senior citizens’ property tax deferral; forms.** Authorizes the commissioner to prescribe the content, format, and manner of all forms and documents required for the senior citizens’ deferral. Effective the day following final enactment.

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- 33 **Verification of forest management plans.** Requires that on request of the commissioner of revenue, the commissioner of natural resources must verify that claimants have current forest management plans on file. Effective for certifications filed after July 1, 2017.
- 34 **Exempt property of educational institutions; forms.** Authorizes the commissioner to prescribe the content, format, and manner of all forms and documents related to taxation of income related to exempt property of educational institutions. Effective the day following final enactment.
- 35 **Gross receipts taxes; forms.** Authorizes the commissioner to prescribe the content, format, and manner of all forms and the annual returns required under gross receipts taxes. Effective the day following final enactment.
- 36 **Petroleum and other fuels taxes; forms.** Authorizes the commissioner to prescribe the content, format, and manner of all forms and other documents required under the petroleum and other fuels taxes. Effective the day following final enactment.
- 37 **Time for filing; request for abatement of penalty under petroleum tax.** Provides that the 60 day time period for requesting abatement of a penalty begins on notice date designated on the order notifying the taxpayer of the penalty; current law provides that the 60 days begins on the date the notice is mailed. Effective for orders dated after December 31, 2016.
- 38 **Tax court appeals; petroleum tax.** Provides that the 60 day time period for appealing to the Tax Court an order of the commissioner related to a tax, penalty, or interest under the petroleum tax begins on notice date designated on the order; current law provides that the 60 days begins on the “date of the notice of the order”. Effective for orders dated after December 31, 2016.
- 39 **Controlled substance tax; forms.** Authorizes the commissioner to prescribe the content, format, and manner of all forms and other documents required under the controlled substance tax. Effective the day following final enactment.
- 40 **Gambling taxes; forms.** Authorizes the commissioner to prescribe the content, format, and manner of returns required under the gambling taxes. Effective the day following final enactment.
- 41 **Gambling taxes; manufacturers’ reports.** Authorizes the commissioner to prescribe the content, format, and manner of the manufacturers’ sales reports required under the gambling taxes. Effective the day following final enactment.
- 42 **Gambling taxes; distributors’ reports.** Authorizes the commissioner to prescribe the content, format, and manner of the distributors’ sales reports required under the gambling taxes. Effective the day following final enactment.
- 43 **Gambling taxes; organization reports.** Authorizes the commissioner to prescribe the content, format, and manner of the reports required of organizations conducting gambling activities. Effective the day following final enactment.
- 44 **Cigarette and tobacco taxes; monthly returns.** Authorizes the commissioner to prescribe the content, format, and manner of monthly cigarette and tobacco tax returns. Effective the day following final enactment.

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- 45 Tax court appeals; cigarette and tobacco tax.** Provides that the 60 day time period for appealing to the Tax Court an order of the commissioner related to a tax, penalty, or interest under the cigarette and tobacco tax begins on notice date designated on the order; current law provides that the 60 days begins on the “date of the notice of the order”. Effective for orders dated after December 31, 2016.
- 46 Liquor taxes; monthly returns.** Authorizes the commissioner to prescribe the content, format, and manner of the liquor tax monthly returns. Effective the day following final enactment.
- 47 Tax court appeals; liquor tax.** Provides that the 60 day time period for appealing to the Tax Court an order of the commissioner related to a tax, penalty, or interest under the liquor tax begins on notice date designated on the order; current law provides that the 60 days begins on the “date of the notice of the order”. Effective for orders dated after December 31, 2016.
- 48 Insurance taxes; forms.** Authorizes the commissioner to prescribe the content, format, and manner of all forms and other documents required under the insurance premiums tax. Effective the day following final enactment.
- 49 Denial of refund claims; insurance taxes; period of time to appeal.** Provides that the 60 day time period for appealing the denial of a refund claim begins on the notice date designated on the notice of denial; current law provides that the 60 days begins on the date of the denial. Also provides that actions in district court must be brought with 180 days of the notice date. Current law references the “date of the notice of denial”. Effective for denials of claims for refunds after December 31, 2016.
- 50 JOBZ repayment waiver; time for requesting.** Provides that the 60 day time period for requesting waiver of a repayment of JOBZ benefits begins on the notice date designated on the notice of repayment order. Effective for orders dated after December 31, 2016.
- 51 Repealer.** Repeals Minn. Stat. § 290C.02 subds. 5, 9 and 290C.06, which contain an obsolete formula for calculating SFIA payments. These sections are not needed because the payment is now a flat \$7 per acre, pursuant to Minn. Stat. § 290C.07. Effective the day following final enactment.