

# HOUSE RESEARCH

## Bill Summary

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### Article 1: Income and Franchise Taxes

#### Overview

Increases the angel investment credit allocation.

Allows new and expanding technology and biotechnology corporations refunds for surrendering the tax benefits Minnesota net operating loss (NOL) carryovers (maximum amount of \$15 million per year, starting in tax year 2016).

Establishes a long-term care savings plan, and provides that contributions to the plan and investment earnings are exempt from Minnesota tax, if they are used either to pay long-term care expenses or to buy long-term care insurance.

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

Modifies the calculation of compensating payments from Wisconsin to Minnesota when there is an income tax reciprocity agreement in effect.

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

Allows new income tax subtractions for

- ▶ Social security benefits
- ▶ military retirement pay
- ▶ contributions to section 529 college savings plans
- ▶ charity care provided by medical professionals
- ▶ fitness facility fees

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- ▶ contributions to the long-term care savings plan
- ▶ meal expenses of first responders
- ▶ additional personal and dependent exemption amounts

Increases the state dependent care credit to equal the federal credit for taxpayers with adjusted gross incomes (AGI) up to \$44,000.

Extends the K-12 education credit to nonpublic school tuition. Extends both the K-12 education credit and subtraction to prekindergarten education programs; increases the subtraction and credit amounts and the phaseout threshold for the credit and adjusts them annually for inflation.

Increases the long-term care insurance credit.

Makes the first \$200,000 of the research credit refundable and extends the credit to sole proprietors, by application.

Allows new refundable individual income tax credits for

- ▶ principal and interest payments on student loans
- ▶ contributions to section 529 college savings plans
- ▶ K-12 teachers who complete master's degrees in their field of licensure
- ▶ rehabilitation of a historic structure that now serves as a job training center
- ▶ premiums paid to purchase qualified health plans through MNsure

Conforms to a new federal law allowing acceleration of income tax benefits for charitable contributions for the families of slain New York police detectives.

- 1**      **Long-term care savings plan.** Establishes a tax exempt savings plan for long-term care expenses. Contributions to the plan would be tax deductible and investment earnings on accounts would be tax exempt (Minnesota-only, federal income taxes would continue to apply), if they are used to pay for long-term care insurance premiums or long-term care expenses. Amounts used for other purposes would be subject to both Minnesota income tax and a 10-percent penalty. A \$200,000 contribution limit applies to each participant in the plan. This limit is indexed for inflation.

**Subd. 1. Definitions.** Defines the following terms:

- **Long-term care expense** is either the cost of care in a facility (e.g., a nursing home) or in-home care, if the individual is unable to independently perform multiple basic life functions.
- **Long-term care insurance premiums** are premiums as defined under the Minnesota long-term care insurance tax credit. (The credit references the federal income tax definition used for the itemized deduction for medical care expenses.)
- **Participant** is an individual who has an account under the program (i.e., with either the administrator designated by the commissioner of Minnesota Management and Budget (MMB) or a financial institution who has entered an agreement with MMB if no plan administrator is designated).

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- **Qualified individual** is someone who during the taxable year (1) has incurred long-term care expenses or (2) is age 50 or older and has paid long-term care insurance premiums.

**Subd. 2. Commissioner duties; participation agreement.** Establishes the long-term care savings plan and directs MMB to select an administrator for the plan. If MMB does not receive an acceptable proposal for an administrator, the commissioner can instead enter agreements with financial institutions to provide deposit accounts under the program.

**Subd. 4. Long-term care savings plan trust.** Establishes the Minnesota long-term care savings trust plan, if MMB selects an administrator under subdivision 2 (rather than agreeing with financial institutions to run this as a deposit account program). MMB is the trustee of the plan and is responsible for plan administration. An investment officer is charged with making the investment decisions, including selecting investment options, approving fees, and so forth. These decisions are subject to direction and guidelines established by the State Board of Investment (SBI). MMB and SBI are given rule making authority for the program and SBI can contract for investment management of the trust assets.

**Subd. 4. Authorized withdrawals.** Authorizes qualified individuals to make withdrawals from the plan either to pay long-term care expenses or to pay long-term care insurance premiums. A 10 percent penalty applies (to be collected by MMB) for withdrawals by someone who is not a qualified individual or for a purpose other than:

- transferring money to a spouse (presumably to the spouse's account within the program);
- paying long-term care expenses or insurance premiums; or
- paying expenses related to the death of a participant.

**Effective date:** Day following final enactment

**2 Health carrier and health plan requirements; participation.** Requires health carriers offering coverage through MNsure to provide premium advances to qualified individuals eligible for a state tax credit under section 16, equal to the amount of the tax credit. Requires qualified individuals receiving a premium advance to repay the full amount of the advance, by April 15 of the year following the coverage year for which the premium advance was provided. Requires the MNsure eligibility system to automatically notify health carriers if an enrollee is eligible for a state tax credit, and the amount of the tax credit.

**3 Small business investment credit; allocation.** Changes the annual allocation for the angel investment credit from \$15 million to \$18 million for tax years 2015 and 2016 and extends the availability of the credit through tax year 2018. Reserves 50 percent of the available credit amount for investments in Greater Minnesota and women- and minority-owned businesses.

**Background.** The angel investment credit provides qualified investors in certified small businesses with a refundable income tax credit equal to 25 percent of their investments up to a maximum of \$125,000 (\$250,000 for married joint filers).

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- 4 Small business investment credit; sunset.** Extends the sunset of the angel investment credit through tax year 2018, reflecting the additional allocations authorized in section 3.
- 5 Technology corporate tax benefit refund program.** Establishes a technology corporate tax benefits refund program that allows new and expanding biotechnology and technology companies to receive a refund equal to the potential tax benefit of their NOL carryovers.

**Definitions.** Defines the following terms:

- **“Biotechnology”** – is defined as knowledge, products, and technology related to biological systems.
- **“Biotechnology company”** – is a corporation with a Minnesota headquarters and proprietary intellectual property that engages in research, development, or production of biotechnology for commercial or public purposes.
- **“Full-time employee”** – is defined as an employee of or a partner of a new or expanding technology or a biotechnology company who works at least 35 hours per week and who receives group health benefits from the biotechnology company. The term excludes independent contractors and consultants who are not employees.
- **“New or expanding”** – is defined as biotechnology company with fewer than 250 full-time employees on June 30<sup>th</sup> of the year and at least one full-time employee for a corporation that has been incorporated less than three years, or at least five full-time employees for corporations incorporated for more than three but less than five years, or at least ten employees for all other corporations.
- **“Technology company”** – is defined as a corporation that has its headquarters or base of operations in the state and owns proprietary intellectual property and employs highly educated or trained employees who use sophisticated scientific research service or production equipment, processes, or knowledge to discover, develop, test, transfer, or manufacture a product or service.

**Qualifying corporations and computation of the tax benefit.** Biotechnology or technology companies seeking to obtain refunds for their NOL carryovers must apply to and obtain approval from DEED to do so. The corporation must certify that it intends to continue operating in the state and DEED can require the corporation to enter a written agreement regarding maintenance of its headquarters or base of operations in the state or other conditions. A \$5 million lifetime limit applies to the amount of tax benefits that each corporation can sell/transfer. A corporation may not obtain a tax refund if:

- It had positive net operating income in either of the two previous years for financial reporting purposes; or
- It is 50 percent or more owned or controlled by another corporation that had positive net operating income in either of the two previous years for financial reporting purposes.

The tax benefit or refund amount is calculated by multiplying the NOL carryover by the corporation’s Minnesota apportionment percentage (i.e., the percentage used to determine what share of its income is subject to Minnesota tax) and by 9.8 percent, the statutory tax rate. The resulting amount is then allowed as a refundable credit.

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**Annual limit.** The total amount of the tax benefits that may be surrendered in any fiscal year is limited to \$15 million. If the applied for amount exceeds the cap, DEED is to allocate the tax benefits as follows to ensure that the total amount is within the annual limit:

- Applicants to surrender \$250,000 or less receive the full amount.
- Applicants for more than \$250,000 receive \$250,000 and all applications for amounts over \$250,000 are proportionately reduced to keep the total within the \$60 million limit. If the reduction of amounts over \$250,000 is insufficient, then all amounts would be proportionately reduced.

**Recapture.** DEED is directed to establish rules for recapture of all or a part of the tax benefits for corporations that fail to use the tax benefits as required (e.g., under an agreement required by DEED) or that fail to maintain headquarters or base of operations in Minnesota.

- 6 Update of administrative tax provisions.** Adopts federal tax administrative changes made between December 31, 2014, and April 1, 2015. The federal law enacted in that time period does not change federal provisions referenced in chapter 289A.

**Effective date:** Effective the day following final enactment.

- 7 Information reporting; charity care.** Allows medical professionals, dentists, chiropractors, and their employers to file informational reports with the Department of Revenue documenting the value of charity care they provided during the tax year.

- 8 Residency determination.** Modifies both the statutory residency test and the domicile test under the individual income tax in two ways:

**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 for the primary purpose of receiving medical treatment (by the taxpayer, spouse, child, or parent) do not count as Minnesota 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 advisor; 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.

Effective beginning in tax year 2015.

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**9**        **Update to federal definition of taxable income.** Adopts the federal changes to taxable income in the Slain Officer Family Support Act, which allows 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 is 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 deducting 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.

**Effective date:** Effective retroactive to tax year 2014.

**10**        **Additions to taxable income; individuals.** Provides withdrawals from a long-term care savings plan that are not for a qualified purpose (same rules as outlined in section 1, subdivision 4) must be added to federal taxable income, subjecting them to Minnesota individual income taxation. Effective date: tax year 2015.

**11**        **Subtractions from taxable income; individuals.** Modifies several existing subtractions and provides seven new subtractions from taxable income. All are effective for tax year 2015, except for the charity care subtraction, which is effective for tax year 2016.

**K-12 education expenses.** Extends the K-12 education expense subtraction to prekindergarten expenses. Increases the maximum K-12 education deduction from \$1,625 to \$2,500 for each child in grades K to 6, and from \$2,500 to \$3,750 for each child in grades 7 to 12, effective in tax year 2015, and adjusts the maximum deduction amount annually for inflation, beginning in tax year 2016. Defines qualifying expenses and prekindergarten educational program by reference to the expenses allowed under the K-12 education credit, which section 21 expands to include nonpublic school tuition and to provide a definition of prekindergarten educational programs.

**Section 179 expensing.** Replaces the section 179 expensing subtraction with a reference to the new subtraction and carryover provision in section 32.

**Fitness facility fees.** Provides a subtractions for fitness facility fees for both employees and employers. For employees, the subtraction for fitness facility fees equals the value of the use of an on-premises fitness facility located in Minnesota and provided by the employer, or fitness facility membership fees paid by the employer. For employers, the subtraction equals amounts paid for employee membership at fitness facilities. The amount allowed to both employees and employers cannot exceed \$40 per employee per month for months in which the employee uses the fitness facility for at least eight days. Fitness facilities exclude private clubs, and facilities that offer golf, hunting, sailing, or horseback riding.

**Charity care.** Allows an income tax subtraction for charity care provided by doctors, dentists, chiropractors, mental health professionals and acupuncturists. The subtraction is limited to the medical assistance reimbursement that would be paid to the provider if the care recipient had coverage.

**Military retirement pay.** Allows a new income tax subtraction for individuals who receive military retirement pay. The subtraction equals \$1,000 for each year or portion of a year of

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active service, up to a maximum of twenty years of service. The subtraction would apply to retirement pay for service in the active and reserve components of the military, and for survivor benefit plan payments. The subtraction is not limited to the amount of military retirement pay received. In the case of married spouses who file jointly, each spouse can claim this subtraction. The subtraction would not be allowed to individuals who choose instead to claim the existing income tax credit for military retirees.

**Social security income.** Allows a subtraction from taxable income of 20 percent of social security benefits that are included in federal taxable income in tax year 2015. Increases the percentage that may be subtracted by 20 percentage points per year, so that in tax year 2019, 100 percent of benefits would be subtracted.

**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 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 29.

**Contributions to long-term care savings plans.** Provides a subtraction from federal taxable income for amounts contributed to the long-term care savings plan and investment earnings on amounts in the account. Annual contributions are limited to \$1,000 (single and head of household filers) and \$2,000 (married joint filers). This has the effect of making the contributions deductible in computing state income tax and exempts the investment earnings from taxation.

**Meal expenses of first responders.** Provides a subtraction for meal expenses of paid and volunteer first responders. Meal expenses are deemed to equal \$7.50 per day. First responders may claim the meal expense subtraction for two days in weeks in which they are on call for up to 20 hours per week (\$15), and for four days in weeks in which they are on call for more than 20 hours per week (\$30).

12 **Subtractions from taxable income; corporations.** Makes two changes.

**Section 179 expensing.** Replaces the section 179 expensing subtraction with a reference to the new subtraction and carryover provision in section 32.

**Fitness facility fees.** Allows corporate employers to subtract amounts paid for employee membership at fitness facilities. The amount allowed cannot exceed \$40 per employee per month for months in which the employee uses the fitness facility for at least eight days. Fitness facilities exclude private clubs, and facilities that offer golf, hunting, sailing, or horseback riding.

13 **Conforming change; NOLs.** Provides that a corporation may not deduct NOLs that were surrendered under section 5.

14 **Internal Revenue Code.** Adopts federal changes to the Internal Revenue Code made between December 31, 2014 and April 1, 2015. Section 6 incorporates federal changes as they related to the definition of taxable income; this section incorporates federal changes for all other elements of the state income tax, including the definition of adjusted gross income, alternative minimum taxable income, and the calculation of household income, which is used

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to compute the dependent care and K-12 education credit. The federal changes are described in section 6.

**Effective date:** Effective retroactive to tax year 2013.

**15 Tax credit; NOLs.** Allows the amount of the surrendered tax benefits under section 5 as a refundable tax credit.

**16 State tax credit for MNsure premium payments.** Provides a refundable income tax credit for MNsure premiums.

**Subd. 1. Definitions.** Defines terms. Defines “qualified individual” as a resident individual applying for, or enrolled in, qualified health plan coverage through MNsure with: (1) an income greater than 133 percent but not exceeding 200 percent of FPG; or (2) an income equal to or less than 133 percent of the FPG, if the person would have been eligible for MinnesotaCare under the eligibility criteria specified in Minnesota Statutes 2014, chapter 256L.

**Subd. 2. Credit allowed; payment to health carrier.** (a) Provides qualified individuals with a credit against the state income tax equal to the amount determined under subdivision 3.

(b) Specifies the method of allocating the credit for part-year residents.

(c) Requires qualified individuals receiving a premium advance under § 62V.05, subd. 5, para. (j), to repay the premium advance by April 15 of the year following the coverage year for which the premium advance was provided.

**Subd. 3. Calculation of credit amount.** Requires the commissioner of revenue, in consultation with the commissioner of human services and the MNsure board, to provide qualified individuals with tax credits to reduce the cost of MNsure premiums by specified dollar amounts. Requires the dollar amount of the credit to equal the base premium reduction amount, adjusted for household size. Requires the commissioner to establish separate base premium reduction amounts, on a sliding scale, for: (1) households with incomes not exceeding 150 percent of FPG; and (2) households with incomes greater than 150 percent but not exceeding 200 percent of FPG. Requires the commissioner, in developing the tax credit methodology and base premium reduction amounts, to ensure that aggregate tax credits do not exceed \$50 million per taxable year.

**Subd. 4. Credit refundable; appropriation.** (a) Provides that the credit is refundable, if the credit allowed exceeds the individual’s tax liability.

(b) Appropriates to the commissioner from the general fund an amount sufficient to pay the credits required by this section.

**Subd. 5. Payment in advance.** Requires the commissioner of human services to seek all federal approvals and waivers necessary to pay the tax credit on a monthly basis, in advance, to the health carrier providing coverage to the qualified individual, without affecting the amount of the individual’s federal advanced premium tax credit. If the necessary approvals and waivers are obtained, requires the commissioner of human services to submit to the legislature any legislative changes necessary to implement advanced payment of tax credits, and directs the MNsure board to require



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health carriers to reduce premiums charged to qualified individuals by the amount of the tax credit.

**Effective date.** Tax year 2016.

- 17** **Dependent care credit.** Increases the state dependent care credit to equal the federal credit for taxpayers with adjusted gross incomes (AGI) up to \$44,000. 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 would continue to follow the phasedown of the federal credit, so that the maximum credit for filers with AGI over \$43,000 would be \$600 for one dependent, and \$1,200 for two or more dependents. The state credit would then phase out for filers with AGI from \$44,000 to \$56,000 (one dependent), and from \$44,000 to \$68,000 (two or more dependents). The state credit would remain refundable. The \$44,000 income threshold for the phaseout would not be adjusted annually for inflation. The phaseout threshold under current law is adjusted for inflation; that adjustment would be repealed in section 39.

**Effective date:** tax year 2015.

- 18** **Working family credit; nonresidents.** Provides that full-year nonresidents are not eligible for the working family credit. This change prevents residents of other states with earned income from claiming the state working family credit.

**Effective date:** tax year 2015.

- 19** **TANF appropriation for WFC expansion.** Modifies the TANF appropriation for WFC expansion to clarify that it applies only to the WFC expansion enacted by the 2000 legislature, not to the 2014 expansion.

**Effective date:** fiscal year 2015 and following years (credits for tax year 2014 and following years).

- 20** **Long-term care credit.** Increases the rate for the long-term care insurance premiums credit from 25 percent to 50 percent of premiums paid, and increases the maximum credit from \$100 to \$150 for individuals, and from \$200 to \$300 for married couples filing jointly if both spouses have policies.

**Effective date:** tax year 2015.

- 21** **PreK-12 education credit; qualifying expenses.** Expands the list of expenses that qualify for the K-12 education credit to include nonpublic school tuition and prekindergarten educational programs. Under current law nonpublic school tuition is allowed under the K-12 education expense deduction, but not the credit. Defines prekindergarten educational programs as

- programs established by school districts,
- licensed and accredited preschools, nursery schools, and early childhood programs,
- Montessori programs,
- child care programs operated by providers with a credential in early childhood development;
- programs that participate in a quality rating and improvement system (QRIS).

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Coordinates the extension to preK expenses with the dependent care credit so as not to allow two tax credits to be claimed for the same expense.

- 22 PreK-12 education credit; amount and phaseout.** Increases the maximum preK-12 education expense credit from \$1,000 to \$1,500 per child. Increases the income at which the credit begins to phase out from \$33,500 to \$47,500 and decreases the rate of phaseout so that the credit would be fully phased out when income reached \$56,500 for families with one or two children and would extend by an additional \$4,500 for each additional child. Defines household income for use in phasing out the credit. Current law references the household income definition in the dependent care credit, which is being replaced with adjusted gross income in section 17.
- 23 PreK-12 education credit; inflation adjustment.** Provides for the maximum preK-12 education credit and the income threshold at which the credit begins to phase out to be adjusted annually for inflation, beginning in tax year 2016.
- 24 Military retirement credit.** Coordinates the current law military retirement credit with the proposed income tax subtraction for military retirees in section 11, so that individuals may claim either the credit or the subtraction, but not both.
- 25 Credit allowed.** Extends the research credit to sole proprietors and increases the second tier credit rate from 2.5 percent to 4 percent, effective for tax year 2016.
- 26 Carryover of research credit.** Modifies the carryover provision of the research credit to provide that the refundable portion of the credit is not to be carried over. Under present law, amounts in excess of the liability for tax are allowed a 15-year carryover to reduce taxes in future years. This would continue for amounts that do not qualify for the refund.
- 27 Research credit; refundability.** Provides the first \$200,000 of the research credit is refundable, effective in tax year 2015. This makes the credit attributable to the first-tier rate refundable. Reductions in the alternative minimum tax and minimum fee count against the \$200,000 limit.
- 28 Application for certification.** Requires sole proprietors to apply to DEED by September 15th following the calendar year in which the research was done for certification of the credit amount. DEED is required to determine the amount of credit the taxpayer is eligible for and certify the amount to the taxpayer within 90 days after receiving the application. DEED also is required to notify the Department of Revenue and the allowed credit is limited to the certificate issued by DEED. C corporations, S corporation shareholders, and partners are excluded from the requirement to apply for certification under this subdivision.
- 29 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, 2015, 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.

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Provides that 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 beginning in tax year 2015, but payment of credits for degrees completed in 2015 or 2016 are delayed to 2017.

**30 Student loan credit.** Allows a refundable individual income tax credit for principal and interest payments on student loans, incurred for the taxpayer or spouse. The credit is limited to the least of:

- loan payments made during the year, reduced by 10 percent of the individual's adjusted gross income in excess of \$10,000;
- the individual's earned income for the year; or
- interest payments made during the year plus 10 percent of the original loan amount (a fixed portion of principal)

A student may claim the credit if he or she has a "qualified education loan" related to an undergraduate or graduate degree program, which is any loan used to pay for the costs of attending an educational institution.

Effective beginning in tax year 2015.

**31 Credit for section 529 plan contributions.** Allows an income tax credit for contributions to any state's section 529 college savings plan. 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. Single and head of household filers with adjusted gross income over \$80,000 would not be 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

The credit is refundable; credit amounts in excess of income tax liability would be paid to the claimant as a refund.

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

- 10% of the nonqualified distribution, or
- The total amount of credits the individual claimed under this section.

**Effective date:** Tax year 2015

**32 Section 179 expensing allowance.** Allows subtractions related to section 179 expensing in excess of taxable income to be carried over for up to ten tax years. Effective date: tax year 2015.

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- 33** **Income tax reciprocity.** Modifies the formula used to calculate the payment from Wisconsin to Minnesota when an income tax reciprocity agreement is in effect to:
- Take into account the effect of refundable credits paid by Minnesota to Wisconsin residents who work in Minnesota and
  - Allow Wisconsin to deduct the full cost of the revenue it forgoes by not taxing Minnesota residents (not the lesser portion of that revenue that Minnesota allows to be claimed as a credit against Minnesota tax).
- Retains the commissioner's discretion to decide whether or not to enter into an agreement with Wisconsin.
- 34** **Alternative minimum tax; individuals.** Provides that social security benefits, military retirement pay, and contributions to and earnings of long-term care savings plans subtracted from taxable income under section 11 are also subtracted from alternative minimum taxable income.
- 35** **Sourcing of income for nonresident board members.** Modifies the sales factor under the apportionment formula to provide a special rule for compensation received by members of boards of directors who are not Minnesota residents. This rule provides that these receipts (e.g., payments made to a nonresident member of the board of directors of a corporation) are sourced to Minnesota based on the proportion of time the board member spends in Minnesota providing board service. In other words, a nonresident board member will treat payments received for board service as having a Minnesota source based on the percentage of total board time the member spends in Minnesota. The provisions would apply retroactively to all open tax years.
- 36** **Update of references to Internal Revenue Code; 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.
- 37** **Additional personal and dependent exemption.** Allows an additional personal and dependent exemption for tax years 2015 and 2016 equal to 25 percent of the amount allowed at the federal level, multiplied by the number of exemptions claimed on the federal return. For tax year 2015 the additional state exemption would be \$1,000 for each exemption claimed. Subjects the additional exemption amount to the phaseout of exemptions for higher-income filers.
- 38** **Credit for rehabilitation of job training center.** Allows a tax credit for rehabilitation of a certified historic structure in a city of the first class (the Old North Branch Library in Minneapolis). The credit is refundable and equals 20 percent of the rehabilitation costs. Requires the developer to document costs and notify the commissioner when the project is placed in service, at which time the commissioner must issue a credit certificate that may be assigned to another taxpayer and used to offset the tax under this chapter or under chapter 297I (insurance premiums tax).
- 39** **Repealer.** Repeals the phaseout of the dependent care credit, the household income definition, and the inflation adjustment of the dependent care credit. Section 17 proposes a new phaseout which is not adjusted for inflation, and changes to using adjusted gross income for the phaseout, making the household income definition obsolete.

## Section

### Article 2: Property Taxpayer Empowerment

#### Overview

Requires elections on city, county, and school district referenda questions related to spending to be conducted on the first Tuesday after the first Monday in November of even- or odd-numbered years, to coincide with the annual general election date. This does not affect elections of persons to office and provides an exception for a referendum to finance a local government's response to a disaster or emergency.

Establishes the Property Tax Payers' Empowerment Act which provides that if a county or city with a population of 500 or more increases its property tax levy in any year, the citizens may, through a reverse referendum, petition to vote on the levy increase for the following year at the general election.

Provides for a reverse referendum on whether a city (excluding first class cities), county, or urban town may enter into a lease of three or more years for real property with a housing and redevelopment authority (HRA), port authority, economic development authority (EDA), or other entity established by special law with powers similar to those authorities.

- 1 **Capital project levy referendum (schools).** Requires an election in the law authorizing a school district to levy for a capital project to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year instead of a date set by the school board. Provides an exception for a referendum to finance a district's response to a disaster or emergency.
- 2 **Referendum revenue (schools).** Requires a school district to state on both its referendum ballot and on its notice to taxpayers the amounts of any board-approved local optional revenue (currently up to \$424 per pupil), board-approved referendum authority (up to \$300 per pupil), and previous voter-approved referendum authority.
- 3 **Questions (election law).** Requires a special election on a ballot question in a city or town be held only on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year.
- 4 **Questions (schools).** Requires a special election on a ballot question in a school district to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year. Strikes language saying when a special election cannot be held.
- 5 **Municipal acquisition procedures; notice; election (cities).** Requires a special election on the decision of a city to acquire property of a public utility to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year. Under current law, the special election is held between 60 and 120 days after the resolution of the governing body is adopted.
- 6 **Municipal telecommunications services (cities).** Strikes option for a special election on decision of a city to establish a telephone exchange and specifies that an election be held on

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the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year.

- 7**      **Notice of proposed property taxes.** Requires the Truth in Taxation notices mailed to taxpayers to include a statement at the top informing taxpayers that if the county's or city's final levy is greater than last year's levy they have the right to petition for a referendum on the next year's levy. Effective beginning with taxes payable in 2016.
- 8**      **Certification of levy.** Provides for the maximum levy amount depending on the outcome of a referendum required under section 10. If the referendum on the proposed Truth in Taxation levy passes the maximum levy is the proposed levy amount. If it fails, the maximum allowed levy is the maximum alternative levy (equal to the county's nondebt levy from two years earlier plus its current proposed debt levy).
- 9**      **Levy or bond referendum; ballot notice.** Strikes the option for a special election on a ballot question that will result in higher property taxes and requires the election to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year. Provides an exception for a referendum to finance a local government's response to a disaster or emergency.
- 10**     **Levy increase; reverse referendum authorized.** Provides for a future reverse referendum if a county or city increases its property tax levy.

**Subd. 1. Citation.** Names this section the Property Tax Payers' Empowerment Act.

**Subd. 2. Definitions.** Defines the local governments subject to this provision to be counties and all home rule charter and statutory cities. Also defines the maximum alternative levy allowed if a referendum fails to be the local government's nondebt levy from two years ago plus its proposed debt levy for the coming year.

**Subd. 3. Levy increase; reverse referendum authority.** Allows a reverse referendum if a city or county increases its levy over the previous year. The referendum occurs if a petition for referendum, signed by 10 percent of the voters in the last general election is filed with the county auditor by June 30<sup>th</sup>. The referendum must be held at the general election or at a special election on the first Tuesday after the first Monday in November.

**Subd. 4. Prohibition against new debt before the election.** Prohibits a local government from issuing new debt from the time a petition is filed until after the referendum is held.

**Subd. 5. Ballot question; consequence of the vote.** Lays out the format for the referendum question on the ballot; including the maximum levy if the referendum fails.

Effective beginning with taxes payable in 2016.

- 11**     **Auditor to publish rates.** Requires that the newspaper notice of tax rates include notice if a city or county raised its general property tax levy and is therefore subject to a reverse referendum on its next proposed levy. Effective beginning with taxes payable in 2016.

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- 12**      **Contents of tax statements.** Requires that the current tax statements include notice if a city or county raised its general property tax levy and is therefore subject to a reverse referendum on its next proposed levy. Effective beginning with taxes payable in 2016.
- 13**      **Contracts (cities).** Strikes the option for a special election held in response to a petition requesting a referendum relating to a contract for deed that the city proposes to enter into and requires the election to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year.
- 14**      **Financing purchase of certain equipment (cities).** Strikes the option for a special election in response to a petition for an election (reverse referendum) on authorizing a city to issue certificates of indebtedness or capital notes, and requires the election to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year.
- 15**      **Voter approval required; leases of public buildings.** Provides for a reverse referendum on whether a city (excluding first class cities), county, or urban town may enter into a lease of three or more years for real property with a housing and redevelopment authority (HRA), port authority, economic development authority (EDA), or other entity established by special law with powers similar to those authorities, when the real property was acquired or improved with obligations (bonds or other debt instruments) issued by the authority.
- 16**      **Referendum in certain cases (municipal liquor stores).** Strikes the option for a special election on whether to issue debt backed by liquor store profits for projects of the city other than projects for the liquor store and requires the election to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year.
- 17**      **Statutory city; on-sale and off-sale store.** Strikes the option for a special election on whether to use the liquor dispensary fund to contribute to construction of a community hospital in the city and requires the election to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year.
- 18**      **Statutory city; off-sale or on-sale and off-sale store.** Strikes the option for a special election on whether to use the liquor dispensary fund to contribute to an incorporated hospital association for four years and requires the election to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year.
- 19**      **Fourth class city operating (municipal liquor) store.** Strikes the option for a special election on whether to use the liquor dispensary fund to build, equip, and maintain a community hospital located in the city and requires the election to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year.
- 20**      **Statutory city; fourth class.** Strikes the option for a special election on whether to use the liquor dispensary fund to build, and maintain a community hospital for five years and requires the election to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year.
- 21**      **Statutory city; any (municipal liquor) store.** Strikes the option for a special election on whether to use the liquor dispensary fund to periodically provide funds to a community

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hospital and requires the election to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year.

- 22 Submission to voters (public utility).** Strikes the option for a special election on the question of acquiring property for the public utility and requires the election to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year.
- 23 Submission to voters (electric utility).** Strikes the option for a special election on the question of acquiring property for the public utility and requires the election to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year.
- 24 Municipalities may extend electric service.** Strikes the option for a special election on the question of extending service outside the municipality and requires the election to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year.
- 25 Accept donations (forests).** Strikes the option for a special election or special town meeting on the question of acquiring real property for production of timber and wood and requires the election to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year or as part of the annual town meeting
- 26 Reverse referendum (port authorities).** Strikes the option for a special election held pursuant to a petition (reverse referendum) on whether the city will increase its levy for the port authority and requires the election to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year. An approved levy increase may not take effect until the next calendar year.
- 27 General obligation bonds (Cannon Falls and Redwood Falls port authorities).** Strikes the option for a special election held pursuant to a petition (reverse referendum) on whether the port authority may issue general obligation bonds and requires the election to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year. This section is effective only if approved by the respective cities.
- 28 Reverse referendum (economic development authority).** Strikes the option for a special election held pursuant to a petition (reverse referendum) on whether the city will increase its levy for the economic development authority and requires the election to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year.
- 29 Authorization (local lodging tax).** Strikes the option for a special town meeting on whether the town will impose a local lodging tax. The vote of the electors may only be at the annual town meeting.
- 30 Reverse referendum (local lodging tax).** Strikes the option for a special election in the unorganized territory of the county held pursuant to a petition (reverse referendum) on whether the county will impose a local lodging tax and requires the election to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year.



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- 31** **May use fund for other purposes upon vote (public works reserve fund).** Strikes the option for a special election on the question of whether the city may use the public works reserve fund for another purpose and requires the election to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year.
- 32** **Expenditure from fund, limitations (permanent or replacement fund).** This section applies to each city in which the net tax capacity of real and personal property consists in part of iron ore or lands containing taconite or semitaconite and in which the total estimated market value of real and personal property exceeds \$2,500,000. Strikes the option for a special election and requires the election on the question of whether to exceed the statutory limit for expenditure from the fund for one project to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year.
- 33** **Tax levy (infrastructure replacement reserve fund).** Strikes the option for a special election held pursuant to a petition (reverse referendum) on whether the city will levy for an infrastructure replacement reserve fund and requires the election to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year.
- 34** **Use of fund for a specific purpose (infrastructure replacement reserve fund).** Strikes the option for a special election on whether use of the infrastructure replacement reserve fund should be restricted to a specific improvement or type of capital improvement and requires the election to be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year.
- 35** **Manner of submission; notice (general law on municipal debt).** Provides that a special election held by a city, county, or school district on issuing debt must be held on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year. Allows a town to pose the question at an election held on the same day as the annual town meeting or on the first Tuesday after the first Monday in November of either an even-numbered or odd-numbered year. Overrides special laws authorizing an election on issuing debt to be held at any other time. Provides an exception for a referendum to finance a local government's response to a disaster or emergency.
- 36** **Repealer.** Repeals § 205.10, subd. 3 – an election law provision limiting when special elections on ballot questions may be held relative to the general election.

## Article 3: Property Taxes

### Overview

Exempts the first \$500,000 of each commercial-industrial parcel and the first \$250,000 of each seasonal-recreational parcel from the state general levy, with a levy reduction so that the cost is not shifted to other properties.

Phases out the remaining state general levy over six years.

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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 a class rate reduction for property of community service organizations that are owned or operated by congressionally chartered veterans' organizations (i.e. American Legion or VFW halls). The class rate reduction expires after ten years.

Allows a land owner to withdraw from the SFIA program without penalty if the state acquires a conservation easement on the land, or the land is subject to acquisition, easement, or lease by the state or a political subdivision for the purpose of creating a public trail.

Changes the proposed levy certification deadline for special taxing districts for consistency with other types of taxing districts.

Allows a property's enrollment in the metropolitan agricultural preserves program to be terminated upon the death of an owner of the property.

Provides for a portion of state general levy revenues to be paid to a municipality having a net fiscal disparities contribution exceeding eight percent of its tax base, if the municipality is within the metro area but outside the transit taxing area.

Provides a property tax credit for overvalued property.

- 1 **Allowed commercial and industrial operations.** Allows cell towers to be installed on property within an agricultural preserve in Greater Minnesota.
- 2 **Termination of local assessor's office by town vote.** Allows for the termination of a town's local assessor's office by a vote at a town's annual meeting. After four years, the town may vote to revoke this decision and reestablish its local assessor's office.
- 3 **Agricultural homesteads; special provisions.** Allows agricultural property whose owner lives off-site to qualify for agricultural homestead classification, provided that the owner lives within four townships of the land, and provided that the owner or the owner's spouse farmed the land for at least ten years in the past. Effective beginning with taxes payable in 2017.
- 4 **Class 2 agricultural property.** Defines wine produced by a farm winery as an agricultural product, and defines the bottling of wine produced by a farm winery as an agricultural process, thereby allowing all property used for producing wine on farm wineries to be classified as agricultural. Effective beginning with taxes payable in 2017.
- 5 **Class 4 miscellaneous property.** Provides a class rate reduction from 1.5% to 1.0% for property of non-profit community service organizations that are owned or operated by congressionally chartered veterans' organizations. The class rate reduction would expire after ten years. Qualifying organizations are the American Legion and the VFW. Effective beginning with taxes payable in 2017.
- 6 **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

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receive the \$300,000 homestead market value exclusion each year, until the spouse remarries or disposes of the property. Under current law this benefit to the surviving spouse expires after eight years.

- 7 Appeals and equalization course requirement for local boards.** Currently, a local board of appeal and equalization must have one member at each meeting who has taken a department of revenue course on appeals and equalization. This section would restrict application of this requirement to years where the commissioner of revenue offers a prescribed number of in-person training sessions to local board members. The requirement to offer in-person training sessions sunsets when the office of broadband development certifies that every jurisdiction subject to the current requirement has broadband service available.
- 8 Property tax credit for overvalued property.** Requires the assessor to calculate and apply a tax credit against future property taxes due when a property is determined to have been overvalued by a board of appeal and equalization (but not including the state board of equalization) or by an abatement. The look-back for calculating the credit is one year. The credit is determined by calculating the difference between the amount of taxes payable for the current year and the amount of taxes payable for the current year under the reduced value. The credit is applied at the rate of 25% of the current property taxes owed until the tax credit is credited in full. The reduction in taxes payable to each jurisdiction taxing the property is proportionately allocated.
- 9 State general tax.** Makes a number of modifications to the state general tax.
- Subdivision 1. State general levy amount.** Separately states the portion of the state general levy to be paid by commercial-industrial property and by seasonal-recreational property. Reduces the general levy by an amount equal to the amount of the state general levy paid by property that is being exempted in subdivisions 2 and 3. Eliminates the automatic inflation of the state general levy. Phases out the remaining state general levy over six years.
- Subd. 2. Commercial-industrial tax capacity.** Exempts the first \$500,000 of market value of each parcel of commercial-industrial property from the state general levy.
- Subd. 3. Seasonal-recreational property.** Exempts the first \$250,000 of market value of each parcel of non-commercial seasonal recreational property from the state general levy.
- Subd. 4. 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 subdivision 1.
- Subd. 5. Underserved municipalities distribution.** Provides for a distribution of the state general levy paid by properties within a municipality back to the municipality, provided that the municipality (i) lies within the metropolitan area but outside the transit district area, and (ii) has a net fiscal disparities contribution tax capacity in excess of eight percent of the municipality's total net tax capacity. The distribution is equal to the contribution tax capacity in excess of eight percent times

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the municipality's tax rate. The distribution cannot exceed the amount of state general levy paid by properties within the municipality.

- 10 **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.
- 11 **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.
- 12 **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.
- 13 **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 and agricultural nonhomestead properties. Deletes a provision applicable to taxes payable in 2010 and 2011.
- 14 **Installment payments.** Eliminates a restriction on interest rates available under contracts to repurchase tax-forfeited property.
- 15 **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 higher of five percent or two percent over the prime rate.
- 16 **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 higher of five percent or two percent over the prime rate.
- 17 **Sustainable Forest Incentive Act withdrawal procedures.** Allows an owner of forested land to withdraw from the Sustainable Forest Incentive Act (SFIA) program without a penalty when the state acquires either: (a) a conservation easement on the land enrolled, or (b) the land is subject to acquisition, easement, or lease by the state or another political subdivision of the state for the purpose of creating a paved public trail. The conservation easement must be at least as restrictive as the covenant required under the SFIA.
- 18 **Metropolitan area transit tax.** Clarifies that the metropolitan council may not levy property taxes to pay for transit operations.
- 19 **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.
- 20 **Allowed commercial and industrial operations.** Allows cell towers to be installed on property within a metropolitan agricultural preserve.

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**21 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.

**Article 4: Estate Tax**

**Overview**

This article phases up the exemption under the Minnesota estate tax to the amount of the federal exclusion in annual steps so that the Minnesota exemption equals the federal exclusion amount starting for decedents dying in 2019. The tax rates are increased to partially offset the effect of the increased exemption amount, so that a flat rate of 16 percent applies starting for decedents dying in 2018. The phase-in schedule of the zero bracket amount under present law compared with the bill are shown in the table.

<b>Deaths during calendar year</b>	<b>Present law</b>	<b>H.F. 958</b>
2015	\$1,400,000	\$2,000,000
2016	\$1,600,000	\$3,000,000
2017	\$1,800,000	\$4,000,000
2018	\$2,000,000	\$5,000,000
2019	\$2,000,000	federal amount

The article also eliminates the special subtractions for qualified farm and small business property for decedents dying in 2018; the maximum amount of these subtractions, when added to the current Minnesota zero bracket amount, cannot exceed \$5 million, the amount of the zero bracket amount under the bill for that year. It also adopts the income tax article’s changes in the definition of domicile.

**1 Estate tax filing requirement.** Modifies the estate tax filing requirement to be consistent with the increase in the zero bracket (or exemption) amount proposed under sections 3 and 4.

**2 Domicile definition.** Extends application of article 1, section 7’s rules to the definition of domicile under the estate tax.

**Background.** Residency status does not affect the estate taxation of tangible property (e.g., real estate, vehicles, jewelry, art, and so forth), but does determine whether intangible property (e.g., stocks, bonds, and bank accounts) are subject to Minnesota estate tax. (Minnesota real estate is subject to tax and tangible personal property is subject to tax if it is normally kept in Minnesota.)

**3 Subtractions in computing estate tax.** Modifies computation of the subtraction from the taxable estate for qualified small business and farm property to reflect the increases in the zero bracket amounts under section 4. The combination of these subtractions is limited to \$5 million minus the zero bracket amount (\$1.4 million for 2015 deaths). Thus, with section 4’s

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phase up in the zero bracket or exemption amount to \$5 million for 2018 deaths, those subtractions would effectively be eliminated in 2018.

Effective for 2019 deaths, the federal exclusion for the calendar year of the decedent's death would be allowed as a subtraction in computing the taxable estate, plus any amount of the federal deceased spouse unused exclusion amount (DSUEA) that the estate is entitled to. The federal exclusion amount for 2015 deaths is \$5.43 million and is indexed for inflation. The federal DSUEA allows a surviving spouse to inherit the portion of the federal exclusion amount that the deceased spouse did not use. This is often referred to as making the exemption or exclusion portable between the spouses without requiring them to divide ownership of their assets and establishing trust to avoid "wasting" the exclusion on the death of the first spouse. Taxable lifetime gifts made by the deceased spouse reduce this amount.

- 4 **Estate tax rate schedule.** Modifies the estate tax rate schedule to phase up the zero bracket amount to \$5 million over four years – to \$2 million for 2015 deaths (versus \$1.4 million under present law) and in annual \$1 million increases after that. The rate schedule is compressed so that the current top rate of 16 percent becomes a flat rate for deaths in 2018 and thereafter.
- 5 **QTIP elections.** Eliminates the ability to make QTIP elections that differ from the federal elections for estates of decedents dying after December 31, 2017, when the state and federal exclusion amounts will be equal under section 3.

## Article 5: Economic Development

### Overview

This article:

- Prohibits the spending of state, metropolitan council, city, or county funds on the intercity passenger rail project between Rochester and Twin Cities (often referred to as Zip Rail). In addition, use of eminent domain for the project is prohibited and a security bond or similar protections are required if the state leases public property to the private developers of the project.
- Provides annual \$1 million in funding for border city aid.
- Makes a number of clarifying and minor changes in the tax increment financing (TIF) statute, as requested by the League of Minnesota Cities. These changes (particularly in the expansion of the permitted use of increments and relaxed interfund loan rules) provide additional flexibility for the development authorities to fully use increments from TIF districts, rather than returning them to cities, counties, and schools for their general use.
- Makes a number of clarifying changes in the Destination Medical Center (DMC) financing statute that allow the city of Rochester to count more of its costs as qualifying for the required local match under the state aid program.

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- Permits the use of TIF for workforce housing (housing with higher or no income limits attached to it).
- Grants special TIF authority to the cities of Coon Rapids, Cottage Grove, Duluth, Eagan, Richfield, St. Paul, and Wayzata.
- Authorizes a border city development zone in Taylors Falls
- Provides a new markets tax credit against the insurance premiums, corporate franchise, and individual income taxes.

**1** **No state spending for certain rail projects.** Prohibits using any state appropriation or grant to fund intercity or interregional rail between Rochester and the Twins Cities metropolitan area (“Zip Rail”). This limit applies to spending for any purposes related to the project – e.g., planning, design, engineering, land acquisition, construction, and operation. It does not apply to voluntary private contributions.

**Effective date:** Day following final enactment

**2** **Restrictions on leasing state property for Zip Rail project.** Requires the commissioners of administration and transportation to include security bonds or similar guarantees against state loss in the agreements, if they lease state property for use as part of the Zip Rail project (e.g., leasing the highway right of way or air rights to the owner or operator of the project).

**Effective date:** Day following final enactment

**3** **Title.** Provides the title of the statutory chapter (sections 3 to 14) is the “Minnesota New Markets Jobs Act.”

**4** **Definitions.** Defines terms for purposes of the new markets tax credit statute. These include:

- **Affiliate** is to be determined by considering all the relevant facts and circumstances related to an equity investment. In making this determination all of the information provided in the application is assumed to be true. Affiliates specifically include any entity that holds an equity investment in the qualified community development entity and any entity that provides insurance or a guarantee to a recipient of the tax credit.
- **Applicable percentage** is used to determine the percentage rate of the credit for each taxable year under section 5. It is 0 for years 1 and 2; 8 percent for years 3 to 6; and 7 percent for year 7. Thus, the total credit percentage is 39 percent ( $8\% * 4 + 7\% = 39\%$ ).
- **Code** means the version of the Internal Revenue Code that applies to the Minnesota income and corporate franchise taxes under chapter 290.
- **Commissioner** is the commissioner of DEED.
- **Credit allowance date** means the day on which the qualifying equity investment was made and that day of each of the six succeeding calendar years.
- **Long-term debt security** means a debt security issued by a qualified community development entity that meets the following requirements. (These limits are designed

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to prevent debt from being used to transfer the credit to holders of the debt before the 7-year term of the credit is up.):

- Must be issued at par value;
  - Have a minimum maturity of 7 years (i.e., the same term as the tax credit);
  - Prohibit acceleration or prepayment, unless the issuer defaults;
  - Cannot allow for cash interest payments during the credit allowance period (first seven years) that exceed cumulative operating income as defined by federal law;
- **Purchase price** is the amount paid to the issuer for a qualified equity investment.
  - **Qualified active low-income community businesses** are the defined businesses that can benefit from an investment that qualifies for the tax credit. These businesses must meet the requirements of the federal credit and must be engaged in one of the following fields or lines of business:
    - A high technology field as defined under the Minnesota angel credit;
    - Manufacturing;
    - Mining;
    - Forestry.

A business does not qualify if it receives 15 percent or more of its revenue from one or more of the types of businesses that are disqualified under the angel tax credit law. Disqualified businesses include real estate development, financial services, wholesale or retail trade, hospitality, or professional services.

- **Qualified community development entity** is defined by reference to federal law. To qualify an entity must have an agreement with the U.S. Treasury Department allocating it a federal credit for investments located in Minnesota. Subsidiary or affiliated entities are treated as one for purposes of the application. Financial institutions do not qualify unless they are chartered or headquartered in Minnesota.
- **Qualified equity investment** means an equity investment in or a long-term debt security issued by a qualified community development entity after January 1, 2016. The securities must be purchased for cash, all of which is used to invest in qualified active low-income community businesses. The investment cannot qualify for federal new markets tax credits if the proceeds are used to make investments in other qualified community development entities.
- **Qualified low-income community investment** means an investment or loan to a qualified active low-income community business. A \$10 million limit applies to the investments that can be made in one qualified active low-income community business, including investments made by different qualified community development entities.
- **Tax liability** is the individual income, corporate franchise, insurance premium taxes.

**5 Credit established.** Allows an investor that purchases a qualified equity investment to claim a credit against its tax liability. (This includes the retaliatory tax that a foreign insurance



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company may be subject to because its state of domicile imposes a higher insurance tax than Minnesota does.) The amount of the credit equals the applicable percentage for the year multiplied by the amount of the investment. The table below shows the credit rates (this is derived from the definition of “applicable percentage” in section 4):

<b>Years after the investment is made</b>	<b>Applicable percentage</b>
0	0
1	0
2	8%
3	8%
4	8%
5	8%
6	7%

If the credit exceeds the liability for tax, the excess is a carryforward to later tax years. There is no limit on the length of the carryforward.

**6 Transferability.** Provides that the tax credits are not refundable and may not be sold on “the open market.” However, an investor may transfer credits to an affiliated insurance company and a partnership or LLC may allocate the credits to partners or members (this authority provides *de facto* transferability to “tax credit partners” or shareholders). Notification of a transfer to an affiliated company must be provided to DEED in writing.

**7 Certification of qualified equity investments.** Authorizes qualified community development entities to apply to DEED for tax credits. DEED is required to begin accepting applications by December 31, 2016. Applications must include:

- Evidence that the entity is certified by the U.S. Treasury Department as a qualified entity for locations in Minnesota;
- A copy of the federal allocation agreement and certification that the allocation remains in effect;
- A description of the qualified investment and the identity of the initial purchaser;
- The minimum allocation that the applicant is willing to accept;
- Description of the plan for use of the funds;
- A nonrefundable application fee of \$5,000.

The commissioner is directed to grant or deny the application within 30 days. The department must inform the applicant of the reason for any denial of the application or if accepted, notify the applicant in writing of the certification. The qualified community development entity must notify DEED in writing of the entities eligible to claim the credits, including any changes as a result of transfer to an affiliate.

The section authorizes DEED to certify \$250 million in investments. (This could generate up to \$97.5 million in tax credits, given the 39 percent credit rate.) DEED is required to

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award the credits to qualifying applications on a first-come-first-served basis. Approved community development entities can transfer their authority to controlling or subsidiary entities. The approved entities are to issue the securities and obtain cash investments within two years after approval and to notify DEED with ten days after they receive the cash. If they don't receive the investment within the two-year period, the certification lapses and DEED may reissue that amount.

- 8 Disallowance of tax credits and penalties.** Provides for proportionate disallowance of the tax credits if the issuer (the qualified community development entity):
- Redeems or makes a principal repayment of the investment;
  - Fails to invest all of the proceeds in a qualified low-income community investment in Minnesota within 12 months and maintains the investment for the duration of the credit; or
  - Uses the proceeds for a prohibited purpose.
- Recapture does not apply to tax credits already claimed by the insurance companies that made the investment. A penalty may also be imposed on the issuer up to one-half of one percent of the equity investment.
- 9 Notice of noncompliance.** Allows an entity six months to cure a notice of the disallowance of a tax credit under section 8.
- 10 Preapproval of investments.** Authorizes a qualified community development entity to request a written determination from DEED as to whether an investment qualifies for the credit. DEED is required to respond within ten days and is bound by the determination.
- 11 No management by other CDEs.** Prohibits a qualified low-income community business entity that receives an investment qualifying from contracting with another entity to manage its investment if that entity is performing those functions for another qualified community development entity.
- 12 Eminent domain.** Prohibits use of Minnesota eminent domain law by the state, a local government, or a private railroad company for the Zip Rail project.
- 13 New markets tax credit; individual income and corporate franchise taxes.** Allows the new markets tax credit to be claimed against the corporate franchise and individual income taxes for the amount certified by DEED for the taxable year. DOR retains audit powers, notwithstanding the certification by DEED.
- 14 New Markets credit; insurance premiums tax.** Modifies the insurance premium tax to define "qualified equity investment" by reference to section 4's definition of that term and allows an insurance company that invests in a qualified equity investment to claim a credit against the premium tax equal to the credit calculated under section 5.
- Calculation of police and fire aid is explicitly provided to be unaffected by allowance of the credit.
- 15 No local spending for Zip Rail project.** Prohibits any city, county, or special taxing district (e.g., housing and redevelopment authority, port authority, or economic development authority) in Development Regions 10 or 11 and the DMC entities from spending public money (other than voluntary private contributions) on the Zip Rail project, parallel to the

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limits on state spending in section 1. Regions 10 and 11 include the following counties: Anoka, Carver, Dakota, Dodge, Fillmore, Freeborn, Goodhue, Hennepin, Houston, Mower, Olmsted, Rice, Scott, Steele, Wabasha, Washington, and Winona.

**Effective date:** Day following final enactment

- 16** **Border city aid.** Provides an annual \$1 million allocation for border city aid. This aid would be allocated among the five qualifying cities (Breckenridge, Dilworth, East Grand Forks, Moorhead, and Ortonville) on a per capita basis. The city could choose whether to use the allocation for the regular border city enterprise zone program or the border city development zone program. Allocations are used to provide tax reductions to businesses in the cities (either new or expanding businesses or existing businesses). The allocations would remain available until used. In the past, allocations have been made for these programs on a one-time (not permanent) basis.

**Effective date:** July 1, 2015

- 17** **Economic development districts.** Modifies the definition of economic development districts to authorize the municipality to make the alternative findings for workforce housing projects authorized by section 19.

- 18** **Definition of administrative expenses.** Modifies the definition of administrative expenses under the TIF statute to exclude expenditures by the development authority for usual and customary maintenance costs to preserve property the city or development authority owns. (This exclusion is limited to properties that are acquired with TIF; it could not be used for general city property, such as city offices or public works or safety facilities.) These expenditures include capital reserves for the qualifying properties, but not to exceed 10 percent of the market value of the property. Administrative expenses are subject to a limit of the lower of 10 percent of (1) the total increment expenditures for the project or (2) the estimated expenditures in the TIF plan.

**Effective date:** day following final enactment for all TIF districts

- 19** **TIF plan approval; workforce housing projects.** Specifies the findings that a city must make to approve an economic development TIF district for workforce housing:
- the city is located outside the Twin Cities metropolitan area (defined by reference to the Metropolitan Council's jurisdictional area);
  - average vacancy rate for rental housing in the city and any other city within 15 miles is 3 percent or less for at least the last two years;
  - a business in the city or within 15 miles of the city that employs 20 or more full-time equivalent employees has provided a written statement that the lack of available rental housing has made it difficult to hire employees; and
  - the city intends to use increments to develop workforce housing.

- 20** **Authority to expend increments.** Modifies the general statute restricting the use of tax increments to permit spending for the maintenance expenditures that are described in section 18 (subject to the percentage restrictions on administrative expenses). In addition, cumulative payments for operations and maintenance of properties, including to fund a capital reserve for the property, cannot exceed 10 percent of the property's market value.

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

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- 21 Economic development district.** Allows the spending of increments from an economic development district for workforce housing projects. Economic development districts are allowed to collect increment for 9 years.

Under present law, economic development districts increment may only be used for:

- manufacturing;
- research and development;
- warehousing;
- telemarketing; or
- tourism in qualifying counties.

- 22 Housing districts; income limits.** Allows the higher income limits under the Minnesota Housing Finance Agency (MHFA) Housing Challenge Program to be used for housing TIF districts, if the project receives an MHFA grant or loan. Similarly, if the project receives a grant from DEED for workforce housing, the income limits under the grant (if any) would apply instead of the limits under the TIF statute.

**Background information.** Housing TIF districts are allowed to collect 26 years of increment (as contrasted with 9 years for economic development districts).

The income limits under present TIF law for rental housing require projects to meet the income limits under federal law (for tax credit and tax exempt bond financed projects). These limits require projects to meet either a 20-50 or 40-60 test. The 20-50 test requires that 20 percent of the units be occupied by tenants whose incomes (when they begin occupying the unit) are less than 50 percent of the greater of the area or the state median income. The 40-60 test substitutes 40 percent and 60 percent benchmarks in the same test. For 34 rural counties in 2014, the 50 percent income limit is \$30,350 for a family of four and the 60 percent limit is \$36,420. These limits are set based on the state median income, since it is higher than the county amount in those 34 counties. By contrast, the MHFA Housing Challenge program uses an 80 percent benchmark. This would increase the income limit to \$48,560 for a family of four in the 34 rural counties. In addition, that program does not require adjusting the income limits for family size, which provides additional flexibility for buildings with smaller units.

- 23 Definition of increment under five-year and pooling rules.** Modifies the definition of tax increment that is subject to the five-year rule (imposing time limits on spending increments) and the pooling rule (imposing percentage geographic limits on spending increments) to exclude increments that are repaid by developers under agreements.

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

- 24 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 was made after the day following final enactment

- 25 Five-year rule; application to increments.** Modifies five-year rule reference to increments to be consistent with the change made in section 24.

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

**26 Interfund loans.** Modifies the interfund loan provisions of the TIF statutes to make it easier for cities 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.)
- Allowing the development authority to delegate to a staff person the ability to set the terms and conditions of the loan. (Under present law, these terms must be set by the resolution that is passed by the governing body.)
- 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 so long as it is done before the TIF district that provided increment is decertified.

The section allows the use of interfund loans to pay for (without a prior resolution or documentation):

- Administrative expenses
- Planning, inspection, architectural, engineering, soil testing, surveying and similar costs that are incurred before creation of a TIF district
- Transfers in excess of a negative balance for a less than 12-month period

**Effective date:** day following final enactment for all TIF district

**27 Public infrastructure project.** Modifies the definition of “public infrastructure project” under the Destination Medical Center (DMC) law to clarify that it includes amounts spent on planning. Most amounts spent for planning already qualify as part of preparation of the development plan; this would expand it to planning other than for the development plan. Amounts spent for the “public infrastructure project” may be paid with either state aid or city taxes; amounts spent out of city taxes qualify as a local match.

**28 DMC, relationship of EDA and city.** Clarifies the relationship between the city and nonprofit economic development agency (EDA), a private entity created by the Mayo Clinic. The EDA is prohibited from requiring the city to pay amounts that are unrelated to public infrastructure project costs. Under the DMC law, public infrastructure costs are defined items (largely for physical improvements and associated planning and other soft costs) that support the Mayo Clinic’s development plans, as provided under the DMC development plan.

**29 City special taxes.** Clarifies that the special Rochester city sales tax (on lodging, food and beverages, and admissions) may be spent for any purposes that qualify as a local matching contribution under the DMC aid program. Section 31 expands the definition of what counts

**Section**

under the local match; this section allows city special sales tax receipts to be spent for those purposes.

**30 City general sales tax.** Clarifies that the Rochester city general sales tax may be spent for any purposes that qualify as a local matching contribution under the DMC aid program. Section 31 expands the definition of what counts under the local match; this section allows city general sales tax receipts to be spent for those purposes.

**31 Local matching contribution.** Provides that any city money spent to support the DMC Corporation or the EDA qualifies as a local matching contribution under the state aid program. Under present law, one-half of amounts spent for the corporation's operating and administrative costs do not qualify as a local match.

**32 No Met Council spending for Zip Rail project.** Prohibits the Metropolitan Council from spending public money (other than voluntary private contributions) on the Zip Rail project, parallel to the limits on state spending in section 1.

**Effective date:** Day following final enactment

**33 Duluth; 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 26.

**34 Eagan; TIF.** Modifies the local approval method for the portion of the 2014 special law that authorized the city of Eagan to extend the duration of its Cedar Grove TIF district.

Under the 2014 special law and as required by general law (Minn. Stat. § 469.1782, subd. 2) for extension of the duration of TIF districts, approval of the special law required approval by the city, county, and school district that contained the TIF district. Both the city and county approved the law, but the school failed to take action. As a result, the special law authorizing extension of the district did not take effect. (Portions of the special law unrelated to the duration extension did take effect, because the city approved them.)

The provision allows the extension to take effect if one or more of the three local units approve the 2014 special law (provided the city approves). If either the county or school district do not approve the extension, the increment that is attributable to their levies would be paid to them, rather than the city. This would hold them harmless from the effect of the extension on their ability to tax the TIF district's property, which is the reason the general law requires their approval. In the case of the school district, the school would be required to report the amount of revenue it receives to the Department of Education, so that its state aid could be recomputed. The school would receive the revenue from its unequalized levies, but the amount attributable to school levies that are equalized by state aid would trigger recalculation of the school's aid. This may result in a reduction in the state aid although it would not affect the school's total revenue (i.e., the increment received may substitute for state aid).

**Effective date:** Local approval by city and other units to capture increments attributable to their levies

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**35 Coon Rapids; TIF.** Allows the city of Coon Rapids to elect to compute tax increment for one TIF district (District 6-1 Port Riverwalk) using the current tax rate, not the original tax rate in effect when the district was certified. This will increase increment revenues, since the original tax rate cannot be higher than the current rate.

**36 Cottage Grove; TIF.** Extends the five-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 10-year extension of the five-year period.

**Background information.** The five-year rule requires 75 percent (for redevelopment districts) of tax increment revenues derived from a TIF district to be spent on activities within the TIF district during the five-year period after decertification. After the fifth year, money may only be spent to (1) pay bonds or contracts that financed improvements, if bonds were issued before the end of the five-year period, or (2) reimburse the developer for costs it paid to make improvements in the district during the first five years. When sufficient money has been set aside, the district is decertified.

**37 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 five-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).

**38 St. Paul; TIF.** Allows the city of St. Paul additional time to request certification of a redevelopment district using the general law “deeming” provision for two parcels, consisting of the old Ford Motor Company assembly plant site. The deeming provision allows a city in applying the redevelopment district test to deem a parcel as blighted (i.e., occupied by a substandard building) if the city or the developer has already removed a substandard building from the parcel and requests certification with three years. The section extends that 3-year period through December 31, 2020.

**39 Taylors Falls; border city development zone.** Allows the City of Taylors Falls to designate all or any part of the city as a border city development zone and allocates \$100,000 to the city to provide state tax benefits under the zone.

The general law rules for border city development zones apply to these zones. This law allows businesses locating or expanding in designated zones to qualify for property tax exemptions, corporate franchise tax credits, and sales tax exemptions. Cities with these powers also can extend some of these benefits to businesses located within their cities, but outside a development zone. To receive these tax reductions, a business must apply to the city in which it is located. Under present law, the cities of Breckenridge, Dilworth, East Grand Forks, Moorhead, and Ortonville have these border city development zone powers and periodically have received state funding for these zones. (Luverne received one-time funding in 2001.)

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- 40** **Wayzata; TIF.** Exempts TIF #3 (Widsten) in the city of Wayzata from the five-year rule to allow the city to use increment from the district for a municipal parking ramp. This district is a redevelopment district for which certification was requested in 1996.

### **Article 6: Sales and Use Taxes**

#### **Overview**

Exempts digital goods from sales taxes and makes conforming changes.

Modifies and expands a number of sales tax exemptions related to nonprofit organizations.

Provides a sales tax exemption for contractor purchases for nonprofits and local governments.

Provides that modular housing is taxed on only 65 percent of the invoice price; similar to the taxation of manufactured housing.

Provides a new sales tax vendor allowance.

Provides a number of miscellaneous exemptions for various business inputs including restaurant equipment, construction materials for resorts and campgrounds.

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

Provides retroactive validation of existing local taxes for the cities of Marshall and Proctor.

Allows the cities of Walker and Windom to impose new local sales taxes.

- 1** **Sales and use tax.** Requires vendors to remit the net sales tax liability which is defined as the gross liability minus the vendor allowance in section 30.
- 2** **Refunds; non-highway use.** Allows refunds of the highway fuels excise tax for off-road use of special fuels (diesel fuel) used:
- For refrigeration units on a licensed motor vehicle, if the unit has its own motor and fuel tank
  - In unlicensed motor vehicles used to move semi-trailers in cargo yards, warehouses, and intermodal facilities
  - For power takeoff units in licensed motor vehicles (no requirement to have a separate fuel tank applies).

Effective for sales and purchases after June 30, 2015.

- 3** **Sales and purchase.** Eliminates digital products from the definition of taxable sales and purchases.

Effective for sales made after June 30, 2015.



## Section

- 4**      **Retail sale.** Modifies the definition of retail sale to specifically exclude the installation of modular housing on a permanent foundation by the manufacturer or the manufacturer's subcontractor. The sales tax will now apply to the value of the modular house, before installation, rather than the total value of the housing after installation. Also eliminates the provision stating that the sale of a digital code used to access digital products is a taxable sale.
- Effective for sales and purchases after June 30, 2015.
- 5**      **Bundled transaction.** Eliminates a cross reference to digital products.
- 6**      **Manufactured housing and park trailers; modular housing.** Imposes the sales tax on modular housing used for residential purposes on 65% of the invoice price. This is similar to the tax treatment of manufactured housing and park trailers.
- Effective for sales made after June 30, 2015.
- 7**      **Applicability.** Eliminates a cross reference to digital products.
- 8**      **Sourcing rules.** Eliminates a cross reference to digital products.
- 9**      **Multiple points of use.** Eliminates a cross reference to digital products.
- 10**     **Advertising and promotional direct mail.** Eliminates a cross reference to digital products.
- 11**     **Prepaid wireless calling service.** Eliminates a cross reference to digital products.
- 12**     **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 made after June 30, 2015.
- 13**     **Instructional materials.** Expands the existing sales tax for the purchase of instructional materials to explicitly include:
- charts and models used in the course of study;
  - pens, pencils, paper, and other art supplies used in art classes; and
  - tools, equipment, and supplies required for obtaining a degree or certification, even if these items are normally used in the practice of the trade or career. An example would be special scissors for hairdressing.
- Effective for sales and purchases made after June 30, 2015.
- 14**     **Propane tanks.** Exempts from sales tax the purchase of propane tanks of 100 gallons or larger capacity. Effective the day after final enactment and expires December 2017.
- 15**     **Precious metal bullion.** Exempts sales of precious metal bullion and bullion coins from the sales tax, to give it the same tax treatment as other investment interests such as stocks and bonds. Defines precious metal bullion to be 90% by weight of one of the listed precious metals, in the form of rounds, bars or similar, and bought and sold at the spot market price. Bullion coins are defined as coins consisting of at least 90% by weight of one of the listed precious metals.

## Section

Effective for sales and purchases made after June 30, 2015.

- 16 Capital equipment.** Explicitly includes machinery and equipment used by restaurants to prepare and serve food in the capital equipment exemption. Currently this equipment is explicitly excluded from this exemption.

Effective for sales and purchases made after June 30, 2015.

- 17 Petroleum products.** Expands the current exemption for the fuel purchases exempted from the highway fuels excise tax to the fuel exempt from the fuels excise tax in section 1. Fuel that is not taxed under the excise tax is otherwise subject to the general sales tax.

- 18 Sales to nonprofits.** Expands the sales tax exemption for sales to nonprofit charitable organizations to include sales to all 501(c)(3) organizations with a state sales tax identification number, when the item is purchased for use in the performance of their exempt function. Lodging, and prepared food and beverages, and most motor vehicle leases remain taxable. Construction materials purchased by contractors and subcontractors are now exempt under section 24.

Nonprofits organizations that have exemptions for their purchases under another subdivision in law are explicitly excluded from this exemption. These include veterans groups; hospitals, outpatient surgical centers, and critical access dental providers; and nursing home and boarding care facilities. Medical facilities that are excluded from the existing exemption for hospitals, outpatient surgical centers, and critical access dental providers are also excluded from the exemption in this section.

Effective for sales and purchases made after June 30, 2015.

- 19 Nonprofit tickets and admissions.** Expands the sales tax exemption for tickets or admissions to performances or events held by a nonprofit agricultural heritage organization provided that the following conditions are met:

- the nonprofit organization has premises of at least 115 acres and is organized to educate the public about rural history and farms in Minnesota;
- the event is sponsored and conducted exclusively by volunteers, employees, and board members of the nonprofit organization; and
- the performance or event is consistent with the nonprofit's tax-exempt purpose.

The only organization that would qualify for the exemption is FarmAmerica.

Effective the day after final enactment

- 20 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 5 days to 10 days. Currently if a non-profit holds an event on premises that they lease for more than 5 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, 2015.

- 21 Animal shelters.** Provides a sales tax exemption for most purchases and sales made by nonprofit animal shelters.

Paragraph (a) defines nonprofit animal shelters that qualify for the exemption.

## Section

Paragraph (b) exempts most purchases of items used directly in the activities of rescuing, sheltering, and finding homes for unwanted animals.

Paragraph (c) exempts the purchase or adoption price of the animals and the shelter's sale of pet supplies and equipment.

Paragraph (d) exempts fundraising sales made by an animal shelter.

Effective for sales and purchases made after June 30, 2015.

**22 City celebrations.** Provides a sales tax exemption for sales at and admissions to a city designated annual celebration to promote community spirit. To qualify for the exemption the following conditions must be met:

- city population of less than 10,000;
- city celebration must last no more than 5 consecutive days;
- the event must be run by the city or a non-profit organization designated by the city;
- all receipts from the event are accounted for by the city or nonprofit; and
- the entire proceeds, minus expenses must go to the city, or one or more 501(c)(3) or 501(c)(4) organizations and used strictly for charitable, educational, civic, or governmental purposes.

The exemption does not apply to events involving bingo or gambling activities and all sales become taxable if the requirements listed above are not met.

Effective for sales after June 30, 2015.

**23 Admissions; certain BMX tracks.** Exempts from sales tax admissions to a BMX track owned and operated by a 501(c)(3) organization provided the track is sanctioned by a national or regional governing body for bicycle motocross racing.

Effective with sales made after June 30, 2015.

**24 Building materials; resorts and recreational camping areas.** Provides a sales tax exemption for construction materials and supplies and equipment incorporated in the improvement of an existing structure at a resort or a private or public campground. The structure may be a cabin or any other structure for use by the resort guests or the campers. It does not apply to construction of new buildings. This would apply to materials regardless of whether purchased by the resort or campground owner or a contractor, subcontractor, or builder.

Effective for sales and purchases made after June 30, 2015

**25 Construction materials purchased by contractors, exemption for certain entities.** Provides a sales tax exemption for building materials purchased by a contractor, subcontractor, or builder under a lump sum contract for buildings and facilities used directly by local governments and a number of nonprofit organizations that have sales tax exemptions for their direct purchases.

Materials purchased by contractors for constructing public infrastructure owned by school districts and local governments are also exempt.

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The contractor, subcontractor, or builder must pay the sales tax at the time the materials are purchased and the owner of the facility must apply for the refund as provided in sections 25 to 27.

- 26 Tax collected.** Provides a refund for taxes collected under section 25.
- 27 Refund eligible persons.** Provide that the tax exempt entity that owns the facility or infrastructure must apply for the refund of taxes paid under section 25.
- 28 Application.** Requires the contractor, subcontractor or builder to give the nonprofit organization or local government the documentation needed to apply for refund of the tax paid under section 25.
- 29 Tax must be remitted.** Allows a retailer to not remit the amount of sales tax collected equal to the vendor allowance computed in section 30
- 30 Vendor allowance.** Allows vendors to retain a portion of sales tax collected as compensation for administrative costs. The allowance is equal to 0.3% of the first \$10,000 remitted during a reporting period and 0.15 % of the tax collected above \$10,000 for each reporting period. The vendor allowance does not apply to use tax on a vendor's own purchases. Effective for taxes remitted after June 30, 2016.
- 31 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.
- 32 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.
- 33 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, 2016, to raise another \$29 million plus associated bond costs to fund:

- improvements to regional recreational 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.

- 34 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, 2032, 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.

## Section

- 35 Bonds.** Allows Mankato to issue an additional \$29 million in bonds based on the required voter approval in section 1, paragraph (b).
- 36 Reverse referendum; authorization of extensions.** Requires the Mankato city council to pass a resolution by July 1, 2015, if it intends to extend the tax to fund the new projects under section 33. However the extension is not effective without the required voter approval.
- 37 Sales and use tax.** Allows Proctor to increase the rate of its existing local sales tax from 0.5% to 1.0%, 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.
- 38 City of North Mankato; taxes authorized.** Allows the city to extend its existing sales tax to raise up to an additional \$9 million for the currently funded projects, subject to voter approval at the next general election.
- Subd. 2. Use of revenue.** The total amount of additional sales tax revenue the city may expend for existing authorized projects is \$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, 2016.
- 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 additional \$9 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.
- 39 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.
- 40 Effective date; validation of prior act (city of Proctor).** Retroactively approves the extension of the existing sales tax and new uses for the sales tax revenue authorized in the 2008 and 2010 special laws, based on the voter approval at the 2010 general election and the filing of local approval with the secretary of state by January 1, 2015.
- 41 City of Walker, local taxes authorized.** Allows the city to impose a local sales tax based on approval of the voters at the 2012 general election.

## Section

**Subd. 1. Sales and use tax authorized.** Allows the city to impose a local sales and use tax at the rate of the tax would be 1.5 percent, based on voter approval given at the 2012 general election.

**Subd. 2. Use of Revenues.** Dedicates revenues from the tax to pay capital and administrative costs for underground utility, and sewer improvements as outlined in the city's 2012 capital improvement plan.

**Subd. 3. Bonding authority.** Allows the city to issue up to \$20 million in bonds without additional voter approval to fund the projects in subdivision 2.

**Subd. 4. Termination of tax.** The tax would expire at the earlier of 20 years after imposition or when revenues are sufficient to finance the projects in subdivision 2.

**42 City of Windom, local taxes authorized.** Allows the city to impose a local sales tax based on approval of the voters at a general election held by December 31, 2016.

**Subd. 1. Sales and use tax authorized.** Allows the city to impose a local sales and use tax at the rate of the tax of 1.0 percent, based on voter approval given at a general election.

**Subd. 2. Use of Revenues.** Dedicates revenues from the tax to pay for construction and improvement of a fire hall and public safety facility; including associated bond costs.

**Subd. 3. Bonding authority.** Allows the city to issue up to \$3.5 million in bonds without additional voter approval to fund the projects in subdivision 2.

**Subd. 4. Termination of tax.** The tax would expire at the earlier of 15 years after imposition or when revenues equal \$3.5 million.

**43 Amnesty, certain local festivals.** Provides an amnesty for taxes owed but not collected before July 1, 2015 by a non-profit that organized and ran a city celebration on behalf of a number of non-profit organizations that used the proceeds for charitable, educational, civic, or governmental purposes. The amnesty does not apply to sales taxes already remitted to the state or to taxes already collected. It does apply to audits as long as the audit is not finally resolved. Effective the day following final enactment.

**44 Municipally owned wastewater treatment facility; city of Mora.** Provides a sales tax exemption on materials, supplies, and equipment used in constructing a wastewater treatment facility in the city of Mora. Exempt materials must be purchased between January 1, 2015, and January 1, 2017. The exemption applies to purchases by the city, or a contractor, subcontractor or builder; however the tax must be paid at the time of the purchase of the materials and the city must apply for the refund. Money is appropriated from the general fund to pay the refund.

**45 Repealer.** Repeals the following definitions enacted when digital products were subject to the sales tax: digital audio works, digital audio visual works, digital books, digital code, other digital products, specified digital products, and products transferred electronically.

## Article 7: Special Taxes

**Section**

**Overview**

**Gambling taxes**

- Freezes the tax rate on pull-tabs at 9% if sold at a bingo hall.
- Exempts the first \$50,000 of a gambling organization's net receipts from taxation.
- Extends the brackets for the combined net receipts tax.
- Taxes electronic linked bingo at the flat 8.5% rate instead of the higher, graduated rate.

**Tobacco taxes**

- Repeals the annual inflation adjustment on the cigarette excise tax.
- Freezes the cigarette excise tax at the current rate of \$2.90 per pack.
- Establishes a tax of \$.30 per milliliter of nicotine solution on vapor products.
- Establishes a discount on the face value of cigarette tax stamps.

This article also reduces the motor fuels tax rate on compressed natural gas.

- 1 Compressed natural gas definition.** Changes the energy content of compressed natural gas (CNG) in the definition of CNG, from 1000 BTUs to 900 BTUs.
- 2 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.
- 3 Tax rate for pull-tabs sold at bingo halls.** Subjects paper pull-tabs sold at bingo halls to a flat tax rate of 9% and subjects electronic linked bingo to the flat tax rate of 8.5%.
- 4 Lawful gambling tax reductions.** Subjects electronic linked bingo to the 8.5% flat tax on gross receipts, extends the brackets for the graduated tax rates applied under the combined net receipts tax, lowers the threshold for the combined net receipts tax's alternate rate structure, and exempts the first \$50,000 in net receipts from taxation.
- 5 Consumable material definition.** Defines the nicotine solution used in e-cigarettes as "consumable material".
- 6 Tobacco products.** Includes "vapor products" in the definition of tobacco products.
- 7 Vapor products definition.** Defines "vapor products" as devices that produce vapor from nicotine, such as e-cigarettes and other similar devices. Includes containers and cartridges of nicotine solution in the definition as well, but excludes drugs and devices regulated by the FDA.
- 8 Cigarette excise tax.** Sets the excise tax on cigarettes at the current rate of \$2.90 per pack.
- 9 Rates; tobacco products.** Excludes vapor products from the 95% of wholesale tax rate.

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- 10 Rates; vapor products.** Imposes a tax of \$.30 per milliliter of consumable material on vapor products.
- 11 Use tax; vapor products.** Imposes a use tax of \$.30 per milliliter of consumable material on vapor products.
- 12 Federal laws.** Adds vapor products to the list of tobacco products that are not to be taxed if they cannot be taxed by the state under federal law.
- 13 Use tax exemption.** Exempts up to 50 milliliters of nicotine solution from the use tax, if under \$50.
- 14 Deposit of proceeds.** Removes the requirement that the commissioner recoup the stamp costs when charging cigarette distributors for cigarette tax stamps.
- 15 Price of stamps.** Provides for a .45% discount on the face value of the stamp, excluding the portion of the face value representing the cigarette sales tax.
- 16 Sale of stamps.** Removes the requirement that the commissioner recoup the stamp costs from the distributor.
- 17 Monthly return; cigarette distributor.** Exempts the amount of the .45% discount from a distributor's tax liability.
- 18 Financial statement requirements.** Raises the threshold for gambling organizations for submitting an audited financial statement from \$750,000 in revenue to \$750,000 in net receipts.
- 19 Bingo hall.** Defines "bingo hall" as a premises where the primary business is bingo.
- 20 MinnesotaCare provider taxes.** Changes the effective date of the repeal of MinnesotaCare provider taxes from December 31, 2019 to December 31, 2018.
- 21 Repealer.** Repeals the annual inflation adjustment on the cigarette excise tax.

## Article 8: Transportation Sales Tax Provisions

### Overview

This article contains transportation finance changes related to state and local option sales taxes.

- 1 Receipts.** Makes a conforming cross reference change.
- 2 Motor vehicle lease sales tax revenue.** Changes allocation of the sales tax collected upfront on long-term motor vehicle rentals, so that none of the revenue is retained in the general fund. Starting in FY 2017:
- 50 percent of the funds go to a transit allocation account in the Transportation Stability Fund, which is being created in article 4; and
  - 50 percent goes to a county highway allocation account, also being created in the Transportation Stability Fund (with the language distributing funds among counties substantially reproduced within the provision creating the new account).



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Paragraph (c) 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.

Paragraph (c) is effective the day following final enactment; the rest of the section is effective for transfers occurring on or after July 1, 2017.

**3** **Deposit of revenues.** Provides for allocation of revenue from specified state sales taxes to accounts within the Transportation Stability Fund.

**Paragraph (d)** directs revenue from the state’s additional sales tax (of 9.2 percent) on short-term motor vehicle rentals to an account for small cities aid in the Transportation Stability Fund.

**Paragraph (f)** directs revenue from the general sales tax (of 6.5 percent) on short term motor vehicle rentals to an account for metropolitan transit capital projects in the Transportation Stability Fund.

**Paragraph (g)** provides that the estimated amount of sales tax revenue collected on the sale and purchase of motor vehicle repair parts be deposited monthly directly to an account for highway funding in the Transportation Stability Fund. Provides a definition of motor vehicle repair and replacement parts which includes tires and fluids that stay with the vehicle as part of the repair or maintenance.

For the first year (FY 2016), a transfer is specified at \$12.5 million per month. In subsequent years the transfer will be a percentage of the total sales and use tax revenue from the 6.5 percent general sales tax. The percentage of the total tax attributable to these sales will be calculated by the Department of Revenue every two years, based on national consumption data and adjusted for state consumption, using department consumption models. An amount equal to one-twelfth of the estimated annual amount will be deposited monthly.

**4** **Definitions.** Defines “transitway” for a section of statutes on the local option transportation sales tax (administered by the Counties Transit Improvement Board, or CTIB), to use the meaning of “guideway” as defined in article 4, section 37, excluding intercity passenger rail.

**5** **Tax base.** Exempts purchases of electricity and natural gas from the metropolitan transit area sales tax. The state sales and use tax and other local sales taxes would still apply to these sales. Effective for sales and purchases made after June 30, 2015.

**6** **Grant awards; use and allocation requirements.** Expands purposes for which CTIB may make grant awards to include capital and operating assistance for transit systems, including bus operations and arterial bus rapid transit.

**7** **Priority of fund uses.** Provides that CTIB must fully fund operations and maintenance on existing transitways that the board has previously funded, and must not award any grants to begin or continue work on new transitways unless all debt service and existing transitway costs have been covered. Effective the day following final enactment and applies to grants made for calendar year 2016 and after.

**8** **Forecasted base appropriations.** Reduces base appropriation of state general fund money to the Metropolitan Council for transit system operations, to the greater of zero or the fiscal year 2016 base amount (\$76,626,000), less (1) the growth in revenue from the motor vehicle

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sales tax compared to fiscal year 2015 (so that as motor vehicle sales tax revenue increases, the general fund base appropriation would decrease by a corresponding amount); and (2) 50 percent of the funds provided by the Counties Transit Improvement Board for transitways.

- 9**        **Limitations.** Prohibits the Metropolitan Council from issuing debt payable from the motor vehicle sales tax revenue it receives, or any interest earnings on that revenue, for transit capital improvements.
- 10**       **Supplemental Metropolitan Council Funding.** Requires CTIB to allocate \$23.7 million to the Metropolitan Council in a one-time grant in 2015.
- 11**       **Repealer.** Repeals the requirement that any grant award by CTIB to the Metropolitan Council must supplement, not supplant, operating and capital assistance provided by the state.

## Article 9: Aids and Credits

### Overview

Provides for a refundable income tax credit for owners of agricultural property equal to 50 percent of the tax on the property attributable to school district debt levies.

Beginning with aids payable in 2016, limits the LGA payments to first class cities by imposing a maximum payment per capita equal to the average per capita LGA payment to all cities. The savings are not redistributed to other cities but remains in the general fund.

Allows the city of Minneapolis to keep another \$5.864 million of its local sales tax revenue and use it for general purposes instead of having it transferred to the sports facility authority but then reduces the city's 2016 LGA payment by an equal amount.

Provides early payments of a portion of 2015 LGA to cities with a population greater than 80,000.

Eliminates library aid to Minneapolis.

Repeals the aquatic invasive species aid program.

Establishes a working group to make recommendations for the distribution of county program aid. Also requires the Department of Revenue to do a report on costs incurred by counties due to lack of functionality in the MNsure eligibility determination system.

Eliminates the current aid penalty for not filing reports with the state auditor and replaces it with authority for the state auditor to arrange for reports to be filed and charge local governments for the service.

- 1**        **Sport facilities transfers; appropriations.** Provides a cross reference to Minneapolis local sales tax revenue that will be returned to the city instead of the sports facility authority under section 8.

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- 2 **School building bond agricultural credit computation.** Provides for a property tax credit on all property classified as agricultural equal to 50 percent of the tax on the property attributable to school district bonded debt levies. Provides for the credit to be reported on the property tax statement and claimed under the individual income tax, as provided in section 7. Effective beginning with taxes payable in 2016.
- 3 **Notice of proposed property taxes.** Provides for the school building bond credit to be noted on the Truth-in-Taxation statement, with the indication that it is claimed under the individual income tax.
- 4 **School district levies; special requirements.** Defines which school levies are considered to be debt service levies, for computing the school building bond agricultural credit.
- 5 **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 computed.
- 6 **Contents of tax statements.** Provides for the credit to be shown on the property tax statement, with direction to the property owner to claim the credit on the individual income tax return.
- 7 **School building bond agricultural credit.** Allows a refundable income tax credit for individuals and pass-through entities equal to the amount computed under section 2. Provides that taxpayers who own more than one property that qualifies for the credit under section 2 to claim the sum of the amounts reported on the property tax statements. Requires the credit to be allocated among owners in the case of properties with multiple owners, in the same proportions that the property taxes are allocated. Provides an open appropriation for payment of refunds. Effective for tax year 2016, so that credits reported on property tax statements for payable year 2016 would be claimed on tax year 2016 income tax returns, generally filed in January through April of 2017.
- 8 **General fund allocations.** Provides that for the period July 1, 2015, through June 30, 2017, the transfers of Minneapolis local sales tax revenues to the sports facilities authority are zero until the city of Minneapolis receives \$5.864 million of additional sales tax revenues that would have otherwise gone to this authority.
- 9 **Maximum final aid payment to first class cities.** Limits the total certified LGA payment to a city of the first class to 112.5% of the average per capita aid payment for all cities, except first class cities, as calculated under the existing LGA formula, multiplied by its population. Effective beginning with aids payable in 2016.
- 10 **Levy adjustments.** Expands the existing levy authority to cover aid decreases to also include aid reductions under section 9.
- 11 **Conformity.** Requires the state auditor to prescribe uniform reporting standards for all towns. Effective for financial reports for years ending on or after December 31, 2015.
- 12 **Noncompliance.** Allows the state auditor to arrange for preparation of financial reports for a county, city or township if they don't file reports on a timely basis. The state auditor may charge the local government 105 percent of the cost of the service, up to the local government's aid amount. Also allows the state auditor to delay or waive reporting requirements in the case of a disaster or emergency. Effective the day after final enactment.

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- 13 Cities (appropriation.)** Adjusts the maximum city LGA appropriation to ensure that the initial aid calculation is based on the total amount available under current law but that the amount paid out is reduced by the savings from imposing the maximum cap on cities of the first class in section 9. Effective beginning with aids payable in 2016.
- 14 Counties (appropriation.)** Modifies the county program aid appropriation language to eliminate the set-asides for (a) public defender expenses (beginning in 2016), and (b) costs of preparation of local impact notes (beginning in 2015). Reduces the overall County Program Aid appropriation amounts to reflect the elimination of the set-asides (there are no changes to the actual aid amounts distributed).
- 15 Public defense services; correctional facilities inmates.** Eliminates a provision directing the commissioner of management and budget to pay for certain public defense expenses through county program aid set-aside money, which is eliminated in section 14.
- 16 Cost of transcripts.** Eliminates a provision directing the commissioner of management and budget to pay the costs of certain transcripts through county program aid set-aside money, which is eliminated in section 14.
- 17 City penalty forgiveness; city of Oslo.** Provides an extra \$37,473.50 in LGA to the city of Oslo with the July 2015 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 any city who lost all or part of its calendar year 2014 LGA payment as a penalty for not filing its 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.
- 19 Calendar year 2015 early payment to certain cities.** Provides that about 21% of the July 2015 LGA payment to the five largest cities in the state will be made by June 22, 2015. Currently each city receive their LGA in 2 equal payments – one on or after July 20 and one by December 26 of each year. The total 2015 LGA for each city remains unchanged. The affected cities include Minneapolis, St. Paul, Rochester, Duluth, and Bloomington.
- 20 2016 reduction to offset additional general fund use of local sales tax revenue.** Reduces the LGA payment to the city of Minneapolis in calendar year 2016 only by \$5.864 million but allows the city to deposit in its general fund the extra \$5.864 million in local sales tax revenue it will receive under section 8, to be used to fund city spending in 2016 that would have otherwise been funded from LGA.
- 21 County program aid working group.** Establishes a county program aid working group, with a charge to report its recommendations to the chairs of the tax committees in both legislative bodies by February 1, 2016. The group is to focus on options for distributing aid that promote fairness and stability. The group would be composed of 11 members:
- Two representatives, one from each party, appointed by the chair of the House Tax committee;

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- Two senators, one from each party, appointed by the Senate Rules committee;
- Two persons appointed by the Governor; and
- Five county officials appointed by the Association of Minnesota Counties, with not more than two from counties in the metropolitan area.

Administrative support would be provided by legislative staff.

- 22**     **Study on impact of additional health related costs incurred by counties.** Requires the Department of Revenue to do a report on costs incurred by counties in calendar year 2014 due to lack of functionality in the MnSure eligibility determination system. The report is due to the chairs of the House and Senate tax committees by February 15, 2016.
- 23**     **Repealer.** Repeals the current aid penalty for failing to file state auditor reports, the library debt service aid to the city of Minneapolis, and the Aquatic Invasive Species Aid program. Effective the day following final enactment.

## Article 10: Miscellaneous

### Overview

Requires a onetime payment to be made to counties equal to 30 times the property taxes assessed on land purchased with funds from the environment and natural resources and the outdoor heritage trust funds in the previous fiscal year. Lands eligible for the onetime payment would not be eligible for payments in-lieu of taxes (PILT).

Repeals the political contribution refund program.

Extends the tax incidence study to federal taxes paid by Minnesota residents.

Transfers \$150 million to the budget reserve on July 1, 2015.

Requires a report on a tax credit for hiring military veterans.

Establishes a felony criminal penalty for the sale, purchase, installation, transfer, possession, accessing, and use of a sales suppression device or “zapper”.

Modifies the requirement that all assessors become accredited Minnesota assessors by only requiring that level of licensure for assessors who assess income-producing properties.

Expands data-sharing authority between the Departments of Revenue and Commerce with regard to unclaimed property.

- 1**     **Account for county joint trust fund payments.** Establishes a special account in the combined investment funds with the State Board of Investment for management of the onetime payments required under this bill on lands purchased with funds from the environment and natural resources and the outdoor heritage trust funds. Each county enters into an agreement with the State Board of Investment to allow the commissioner to act on its behalf in making deposits to and withdrawals from this account. The commissioner will

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make one deposit annually for payments to all counties under each of sections 3 and 7, and one withdrawal annually to cover distributions under section 10.

**2 Definitions.** Defines “land acquisition costs” for purposes of section 97A.056, which governs the outdoor heritage fund and the Lessard-Sams Outdoor Heritage Council, to include various costs, including the new onetime payments required under section 3.

**3 Outdoor heritage trust fund account; trust fund payments.** Paragraph (a) establishes an outdoor heritage trust fund account to be invested by the State Board of Investment.

Paragraph (b) states that land acquired with money from the outdoor heritage fund is eligible for a onetime payment (at least 20 percent of the state payment for the land must be from the outdoor heritage fund to be considered “acquired” by the fund for these purposes). The onetime payment is equal to 30 times the property taxes assessed in the year prior to the year the land was acquired. Provides an alternative valuation method if the land was previously privately owned and tax-exempt. Requires counties to submit information necessary for determining the payments to the commissioner of revenue by September 1 of each year. Requires the commissioner of revenue to inform the counties of their payment under this section by October 15 of each year and deposit the payments to the State Board of Investment, on behalf of eligible counties by October 31.

Paragraph (c) provides that if a parcel is also eligible for a trust fund payment under section 6, the payment under this section will be reduced based on the relative share of the funding coming from the outdoor heritage fund compared to the funding from the environment and natural resources fund.

Paragraph (d) appropriates the amount necessary to make the payments to the counties from the new outdoor heritage trust fund account to the commissioner of revenue.

Paragraph (e) requires a county board, in order to receive a payment under this section, to enter into an agreement with the State Board of Investment to allow the commissioner to act as their agent regarding depositing and withdrawing money on behalf of the county from the trust fund account established in section 1.

Paragraph (f) states that lands receiving a trust fund payment under this section are not eligible for PILT.

**4 State acquisitions of lands; restrictions.** Prohibits the state from using funds from the environment and natural resource fund to acquire (1) land subject to property taxes; or (2) land previously subject to property taxes from a nonprofit, unless a trust fund payment will be made on the land as required in section 3.

**5 Applicability.** States that the definition of “trust fund” applicable to chapter 116P, which deals with the environment and natural resources trust fund, does not apply to the onetime payment provision established in section 7.

**6 Land acquisition costs.** Defines “land acquisition costs” for purposes of chapter 116P to include various costs, including the new onetime payments required under section 7.

**7 Environment and natural resources trust fund payment account.**

**Subd. 1. Account created.** Establishes an environment and natural resources trust fund payment account to be invested by the State Board of Investment

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**Subd. 2. Trust fund payment; appropriation.** Paragraph (a) states that land acquired with money from the environment and natural resources trust fund is eligible for a onetime payment (at least 20 percent of the state payment for the land must be from the environment and natural resources trust fund to be considered “acquired” by the fund for these purposes). The onetime payment is equal to 30 times the property taxes assessed in the year prior to the year the land was acquired. Provides an alternative valuation method if the land was previously privately owned and tax-exempt. Requires counties to submit information necessary for determining the payments to the commissioner of revenue by September 1 of each year. Requires the commissioner of revenue to inform the counties of their payment under this section by October 15 of each year and deposit the payments to the State Board of Investment, on behalf of eligible counties by October 31.

Paragraph (b) provides that if a parcel is also eligible for a trust fund payment under section 3, the payment under this section will be reduced based on the relative share of the funding coming from the environment and natural resources fund compared to the funding from the outdoor heritage fund.

Paragraph (c) appropriates the amount necessary to make the payments to the counties from the new environment and natural resources trust fund account to the commissioner of revenue.

**Subd. 3. County requirements.** Requires a county board, in order to receive a payment under this section, to enter into an agreement with the State Board of Investment to allow the commissioner to act as their agent regarding depositing and withdrawing money on behalf of the county from the trust fund account established in section 1.

**Subd. 4. Ineligible for other payments.** States that lands receiving a trust fund payment under this section are not eligible for PILT

**Subd. 5. State acquisition of lands; restrictions.** Prohibits the state from using funds from the outdoor heritage fund to acquire (1) land subject to property taxes; or (2) land previously subject to property taxes from a nonprofit, unless a trust fund payment will be made on the land as required in this section.

- 8 **Political contribution refund.** Strikes a reference to the political contribution refund, which is repealed in section 23.
- 9 **Disclosure to Commerce; unclaimed property.** Direct the commissioner of DOR to annually provide addresses to Commerce by January 15<sup>th</sup> for taxpayers in Commerce’s database of individuals with abandoned property, if Commerce supplies DOR with their names and social security numbers. This data would remain private or nonpublic data. Present law authorizes disclosure of DOR data to Commerce to administer the Uniform Disposition of Unclaimed Property, but only for individuals with unclaimed tax refunds. This section is intended to allow Commerce to obtain addresses from DOR for individuals with other types of unclaimed property (i.e., beside tax refunds).
- 10 **Tax incidence study.** Expands the mandated information that must be included in the Department of Revenue’s biennial tax incidence study to include incidence information on federal taxes paid by Minnesota residents, effective beginning with the report due in 2017.

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- 11 Assessor accreditation.** Removes the requirement that all assessors become accredited Minnesota assessors and instead only requires that level of licensure for assessors who assess income-producing properties.
- 12 Assistants.** Allows the board of county commissioners, in consultation with the assessor, to determine the qualifications and licensure level for assistants to the assessor. This provision is subject to the modified licensure requirements in section 10.
- 13 Political contribution refund; conforming changes.** Eliminates a reference to the political contribution refund, which is repealed in section 23.
- 14 Political contribution refund; conforming changes.** Strikes a definition of the term “taxpayer” that is used in determination of the political contribution refund, which is repealed in section 27.
- 15 Tax incentive; new producers of direct reduced ore.** Modifies the definition of direct reduced ore, exempts the non-commercial use of taconite by producers of direct reduced ore from the production tax, and extends a tax incentive for the production of direct reduced ore to new producers.
- 16 Commerce to coordinate with DOR; unclaimed property.** Directs the Commissioner of Commerce to work with DOR to obtain addresses or other contact information for individuals who have abandoned property held by Commerce. Commerce is directed to notify the owners (for whom contact information was obtained from DOR) that they may have abandoned property and to provide information on how to file a claim, along with a claim form.
- 17 Natural resources land payments in lieu; purpose.** Excludes lands purchased with money from the environment and natural resources trust fund after July 1, 2015, from the purpose statement for the existing PILT program.
- 18 Environment and natural resources trust fund lands.** Excludes lands purchased with money appropriated from the environment and natural resources trust fund after July 1, 2015, from the definitions of natural resources land used for purposes of PILT.
- 19 Outdoor heritage lands.** Excludes lands purchased with money appropriated from the outdoor heritage fund on or after July 1, 2015, from the definitions of natural resources land used for purposes of PILT.
- 20 Annual county joint trust fund withdrawals and distribution for environment and natural resources and outdoor heritage lands.**

**Subd. 1. Commissioner of revenue, withdrawals and payments.** Provides that the commissioner will make one withdrawal each year from the county joint trust fund established under section 1, on behalf of all eligible counties. The amount withdrawn is set to the lesser of (1) the total withdrawal amount the counties certified under subdivision 2 or (2) 5.5% of the amount in the fund. Requires that distributions to counties be proportionately decreased if the total withdrawal is less than the total withdrawal amounts certified under subdivision 2.

**Subd. 2. Certification of needed withdrawal; distribution of funds.** The withdrawal amount for each eligible parcel is as follows:



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- in the first year of receiving a state payment, the county will withdraw the amount needed to make all taxing jurisdictions whole in terms of tax collections – either by paying the remaining taxes owed on the property for that year, or, if the property was already off the tax rolls, paying the amount of tax paid in the previous year;
- in subsequent years the county will withdraw an amount equal to the tax imposed on comparable, adjacent privately owned land

The money is distributed to each taxing jurisdiction based on its share of the total tax rate in the area for all eligible parcels in that jurisdiction. If funds are insufficient to make all payments; all payments are reduced proportionately.

- 21 Automated sales suppression devices.** Classifies automated sales suppression devices as contraband subject to forfeiture.
- 22 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.
- 23 Budget reserve transfer.** Directs the commissioner of revenue to transfer \$150 million to the budget reserve account on July 1, 2015.
- 24 Notification of political contribution refund repeal.** Requires the commissioner of revenue and the executive director of the campaign finance and public disclosure board to notify interested parties electronically of the political contribution refund repeal under section 27.
- 25 Report on a tax credit for employers who hire veterans.** Requires the commissioner of revenue to report to the legislature on allowing an individual income tax credit for employers who hire military veterans. The report must include:
- information of the number of unemployed veterans in Minnesota;
  - information on usage of the portion of the federal Work Opportunity Credit that applies to the hiring of veterans;
  - information on credits for hiring veterans in other states;
  - analysis of different potential credit structures, including the credit proposed in 2015 H.F. No. 10; and
  - draft legislation for a tax credit that would take effect in tax year 2016.
- 26 Purpose statements.** Provides purpose statements for the tax expenditures in this bill.
- 27 Repealer.** Repeals the political contribution refund program, the section of the data practices law relating to political contribution refunds, the section providing for refund receipts, and an administrative rule related to issuance of refund receipts. Effective for contributions made after April 15, 2015, and refund claims submitted after June 15, 2015.