

HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 2871

DATE: April 18, 2016

Version: With author's amendment (A16-1077)

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Article 1

Department of Revenue Technical: Property, Income, Estate, and Sales and Use Taxes

Section

- 1** **Blind/disabled homestead classification.** Clarifies that the market value of class 1b blind or disabled homestead property in excess of \$50,000 is classified as either class 1a or 2a property depending upon the use of the property.
Effective date: day following final enactment.
- 2** **Allocation language corporate franchise tax.** Replaces the term “assignable” with “allocable” in the statute that determines the amount of gain from the sale of goodwill or income from a covenant not to compete that is subject to Minnesota income or corporate franchise tax.
Effective date: day following final enactment.
- 3** **Additions to taxable estate.** Clarifies that taxable gifts made within three years of death are subject to estate tax. Present law could be read to imply they are taxable only if they are deducted in computing the federal taxable estate, but under federal law they are simply never included in the federal estate (because they were subject to the federal gift tax instead).

Section

Effective date: retroactive to the original date for the requirement to include these gifts in the Minnesota taxable estate (gifts after June 30, 2013).

- 4 **Estate tax calculation.** Clarifies that property subject to a Minnesota-only Qualified Terminable Interest Property (QTIP) election may be excluded in the calculation of the Minnesota taxable estate.

Effective date: retroactive to the original date of the Minnesota QTIP election (decedents dying after June 30, 2011).

- 5 **Includable small business property-estate tax.** Clarifies that the qualified small business property subtraction under the estate tax excludes any cash, cash equivalents, or publicly traded securities, whether or not used in the small business or owned directly or through intangible property such as stock or partnership interests. This change is the way DOR has been administering the small business property subtraction.

Effective date: retroactive to the original effective date of the small business subtraction (decedents dying after June 30, 2011).

- 6 **Large and ponderous machinery and equipment-sales tax.** Removes the exclusion of large ponderous machinery and equipment from the definition of tangible personal property for sales tax purposes. This is consistent with Minnesota Tax Court decision in *Dahmes Stainless, Inc. v. Commissioner of Revenue*, 8228-R, April 7, 2015.

Effective date: day following final enactment.

Article 2

Department of Revenue Policy: Income and Corporate Franchise Taxes

- 1 **Withholding statement.** Changes the required date for employer filing of W-2 forms with DOR from February 28 to January 31.

Effective date: wages paid after December 31, 2015.

- 2 **Annual withholding returns.** Permanently sets the threshold to file an annual withholding returns at \$500, eliminating the indexing of the threshold and gives the commissioner authority to provide newly eligible employers with the option of filing an annual return. Changes the date when employers must file an annual return from February 28 to January 31.

Effective date: wages paid after December 31, 2015.

- 3 **Annual withholding returns.** Makes a conforming change to be consistent with the provisions of section 2.

Effective date: taxable years beginning after December 31, 2015

- 4 **Partnership assessments.** Provides that assessments made on partnerships under section 5 provisions are joint and several liabilities of the partnership and the general partner.

Effective date: day following final enactment

- 5 **Assessments for pass-through entities.** Allows S corporation shareholders and partners to request that DOR assessments be issued to and paid by the entity after initiation of an audit.

Section

The commissioner must decide whether to grant the request based on the “best interest of the state” and the decision is not appealable to either the tax or district court.

Effective date: day following final enactment.

- 6** **Research credit base period.** Clarifies that Minnesota gross receipts must be used in all calculations of the base period for the research credit.

Effective date: day following final enactment.

- 7** **Partnership assessments.** Makes a conforming change to be consistent with section 5 changes.

- 8** **Repealer.** Repeals administrative rule section 8092.1400 (annual withholding returns) to eliminate any inconsistencies with the provisions of sections 2 and 3.

Effective date: tax year 2016, except that notifications from DOR to employers regarding eligibility to file an annual return for taxes withheld in calendar year 2016 remain in force

Article 3

Department of Revenue Policy: Property Tax and Local Aids

- 1** **Utility and railroad valuation appeals.** Requires that an appeal of market value on state-assessed railroad or utility property must be brought against both the commissioner of revenue and the county or taxing district in which the property is located. Clarifies that service must be made on the commissioner only.

Effective date: for appeals starting in assessment year 2017.

- 2** **Equalization of public utility structures.** Requires the value of state-assessed public utility structures to be equalized to the level accepted by the State Board of Equalization.

Effective date: beginning with assessment year 2016.

- 3** **County aid calculation data.** Creates a lag in the data that is used in calculating county program aid, such that the data to be used is the most recently available data as of January 1 of the year in which the aid is calculated.

Effective date: for aids payable in 2017 and thereafter.

- 4** **Repealer.** Repeals the current rule regarding the equalization of public utility structures. Section 2 requires the values to the level accepted by the state board of equalization.

Effective date: beginning with assessment year 2016.

Article 4

Department of Revenue Policy: Miscellaneous

- 1** **Partnership return due date.** Requires partnerships to file their returns on the day the equivalent federal return is due.

Effective date: day following final enactment.

Section

2 **Erroneous refund statute of limitations.** Defines an “erroneous refund” and clarifies that DOR has 3½ years from the due date of the return to assess tax under a claim filed by a taxpayer, not two years after issuing a refund. This effectively reverses the Minnesota Supreme Court decision in *Connexus Energy v. Commissioner of Revenue*, 868 N.W.2d 234 (Minn. 2015).

Effective date: day following final enactment and applies retroactively to all refunds, other than the refunds in the *Connexus Energy* case. The changes do not invalidate any assessments made before the effective date.