HOUSE RESEARCH

Bill Summary

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Article 1: K-12 Education

Overview

This article appropriates $50 million from the general fund to the commissioner of education for a onetime school aid payment of $57.73 per pupil. Requires the money to be used for student and staff safety unless the school board adopts a resolution to use the money in a different manner. This article also allows a school board on its initiative to waive the staff development reserve and allows school districts to transfer surplus funds from their community education reserve account to the general fund.

1 **Budget reserve; additional revenues priority.** Updates the budget reserve dollar amount to reflect the general fund surplus deposits from the November 2017 Forecast. Eliminates an obsolete priority from the list of allocations of state general fund budget surpluses (this obsolete amount was satisfied by the November 2017 transfer of funds).

2 **Staff development revenue.** Authorizes a school board to adopt a written resolution to waive or reduce the staff development set-aside from two percent of general education revenue to some other amount for fiscal year 2019 only.

Under current law, a district must reserve two percent of its basic general education revenue and spend it on staff development activities.

3 **Onetime school spending for student and school safety.** Transfers $50 million from the state budget reserve account back to the general fund. Appropriates the same $50 million from the general fund to school districts and charter schools through a formula set equal to $57.73 per pupil served (using the unweighted count of students called adjusted average daily membership). Makes the onetime payment to school districts in September.

4 **Community education fund transfers.** Allows a school district, upon approval of the commissioner of education, to transfer any surplus balance from its reserve for community education revenue account to the general fund. To the extent possible, requires the transfer to be consistent with the district's school-board-adopted fund balance policy.

Under current law, state statute prevents a school district from transferring money out of its community education fund and further restricts the uses of money within that fund.

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Article 2: Federal Tax Conformity

Overview

This article makes conforming changes to Minnesota tax law to respond to federal legislation enacted from December 16, 2016, through March 31, 2018. It adopts the Internal Revenue Code as modified by the following acts of Congress:

- Disaster Tax Relief and Airport and Airway Extension Act
- Tax Cuts and Jobs Act (TCJA)
- Bipartisan Budget Act of 2018 (BBA 2018)
- Consolidated Appropriations Act of 2018

The most important changes were made by TCJA, the major restructuring of the federal tax system enacted in December 2017, and the BBA 2018, enacted in February 2018, which includes the standard package of federal "extenders" – i.e., the extension of a collection of federal tax provisions that regularly expire and are extended for one or two years by Congress.

BBA 2018 extended a number of provisions for one year through tax year 2017 (i.e., the tax year that had already ended for calendar years taxpayers when the extension was enacted). The most significant provisions were the deductions for tuition and mortgage insurance premiums, the exclusion of discharge of indebtedness income of a principal residence, and various depreciation rules.

The TCJA changes are too numerous to list, but they include both major changes in the definition of the tax base for individual income (both personal and business related provisions) and corporate taxation. Some of the major changes – adopted by the article (because they affect the calculation of federal adjusted gross income or FAGI):

- Expanded section 179 and bonus depreciation rules apply, essentially allowing current deduction for investments in most equipment. (The maximum section 179 amount was permanently increased to $1 million; allowance of bonus depreciation is temporary.) The article conforms to the section 179 treatment, but continues the pattern of allowing only 20 percent of bonus depreciation in the year made.
- The use of active losses from one business to reduce other income (e.g., wages, investment income, or income from another business) were subject to dollar limits ($500,000, married joint filers; $250,000 for others).
- Business interest deductions were limited to 30-percent of adjusted taxable income.
- Many more businesses will be allowed to use cash basis accounting.
- Net operating loss carrybacks are eliminated and carryovers limited to 80 percent of the loss.

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- Various employee compensation costs (e.g., meals, lodging, and certain transportation costs and excess compensation of certain executives) were disallowed as business expense deductions.
- Taxation of foreign income was substantially modified, requiring taxation of deferred foreign earnings (from 1986 through 2017) on a onetime basis (repatriation tax) and future inclusion of certain income for low taxed income from intangibles.
- The law suspended the deduction allowed to employers who reimburse employees for moving expenses and the exclusion of those amounts from income of employees.

The adopted federal changes generally take effect for Minnesota purposes at the same time the federal changes take effect.

The article changes the starting point for calculating individual income taxes for individuals from federal taxable income (FTI) to FAGI. The effect of this change is to make the determination of (1) itemized and standard deductions and (2) personal and dependent exemptions a matter to be determined by Minnesota, rather than federal, law. The article provides an exemption amount equal to that allowed under pre-TCJA law, as well as the standard deduction and most itemized deductions under pre-TCJA federal law.

There are several changes from the itemized deduction rules under present Minnesota law (and federal law prior to the changes made by Congress in 2017 and 2018):

- **Charitable contributions:** Adopting federal rules enacted in the TCJA, contributions to colleges that yield seating priority for athletic tickets will no longer be deductible.
- **Interest:** Private mortgage insurance payments (in tax year 2017 only) will be deductible as home mortgage interest (conformity to BBA).
- **Medical expenses:** Medical expenses that exceed 7.5 percent of AGI will be deductible for tax years 2017 and 2018 (present law has a ten percent of AGI limit which will return for tax year 2019).

A taxpayer's itemized deductions and personal exemptions continue to be limited using the formula under present Minnesota law.

The article reduces the 5.35 rate to 5.3 percent and the 7.05 percent rate to 6.95 percent for tax years 2018 and 2019, and to 5.25 percent and 6.85 percent for following tax years.

The corporate franchise tax rate is reduced from 9.8 percent to 9.65 for tax years 2018 and 2019 and to 9.1 percent for later tax years. In addition, the corporate alternative minimum tax (AMT) is repealed.

1 **Revenue recapture for medical care debts; indexing.** Modifies the inflation indexing of the income-based exemptions for debtors with medical care debts under the revenue

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recapture program. Adopts the new federal indexing rules based on the Chained Consumer Price Index for Urban Consumers (C-CPI-U). Revenue recapture provides for offsetting tax refunds for various types of debts owed to government agencies (in addition to unpaid taxes). The law provides income-based exemptions from recapture of debts for medical care. The statutory dollar amounts are indexed for inflation. This section resets the dollar amounts at the 2018 levels and converts their inflation indexing to the C-CPI-U, rather than the CPI-U, as under present law.

Background and chained CPI. TCJA converted inflation indexing in federal tax law from the CPI-U to C-CPI-U. Chained CPI accounts for the fact that consumers often change their consumption habits when prices increase by substituting for other goods. The index does that by regularly modifying (or "reweighting") the market basket of goods and services whose prices are used in measuring price changes. By contrast, CPI-U uses a fixed market basket of goods and services that does not regularly change. Chained CPI tends to increase more slowly than CPI-U. This means that provisions that are indexed for inflation will grow more slowly than they did under prior law.

Effective date: Tax year 2018.

2 **Update; administrative and compliance chapter.** Updates chapter 289A for federal changes through March 31, 2018.

Effective date: Tax year 2018.

3 **Filing requirements.** Authorizes the commissioner of revenue to establish individual income tax filing requirements that differ from federal law based on the Minnesota standard deduction and exemption amounts. Present law bases the Minnesota filing requirement on the requirement to file a federal return. Since the bill converts the starting point for the Minnesota income tax from FTI to FAGI with a Minnesota standard deduction that is lower than the new federal standard deduction, there may be situations where individuals will have no federal liability but will be obligated to pay Minnesota tax.

Effective date: Tax year 2018.

4 **Cross reference change.** Modifies statutory cross references in the composite return filing requirement for nonresident partners and S corporation shareholders to reflect the changes to the additions to FAGI made by the article, which both repeals and adds new additions.

Effective date: Tax year 2018.

5 **Conforming change.** Changes a reference from FTI to FAGI (in the information reporting for exempt interest dividends) to reflect the article's change in the starting point of the individual income tax from FTI to FAGI.

Effective date: Tax year 2018.

6 **Installment payments of tax on deferred foreign earnings.** Authorizes C corporations that are subject to the one-time tax on deferred foreign earnings under TCJA to elect to pay their Minnesota tax in installments. This option mirrors that available under federal law, which requires reporting the income in tax year 2017, but allows paying the tax in eight annual installments. A corporation's election for Minnesota purposes does not need to follow its federal election.

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Effective date: Tax year 2017.

7 **Conforming change.** Adds a reference to FAGI in the commissioner's assessment authority, consistent with the article's change in the starting point of the individual income tax from FTI to FAGI.

Effective date: Tax year 2018.

8 **Surviving spouse definition.** Adds a definition of "surviving spouse" (linked to the federal definition) for purposes of the individual income tax chapter, since this term is used multiple times in the chapter including in the new section providing for Minnesota exemption amounts. A surviving spouse is an unmarried individual whose spouse died in one of the two preceding tax years and who maintains a separate household.

Effective date: Tax year 2018.

9 **Net income definition.** Modifies the definition of net income to provide that the starting point for computing Minnesota individual income tax will be FAGI (rather the FTI). Estates, trusts, and C corporations will continue to use FTI.

Effective date: Day following final enactment; adopting the FAGI starting point is effective for tax year 2018; changes incorporated by reference to federal provisions at the same time as they are effective for federal purposes.

10 **Deferred foreign income.** Defines "deferred foreign income" for purposes of the corporate and individual income taxes to be the amount required to be recognized under federal law, including the deduction allow for the participation exemption.

Effective date: Retroactively to tax year 2017 (same time that federal provision applies).

11 **Adjusted gross income definition; federal adjusted gross income.** Adds a definition of "adjusted gross income" and "federal adjusted gross income" that refers to federal law to minimize the need to include repeated references to section 62 of the Internal Revenue Code. This definition also requires taxpayers to have consistent elections for federal and Minnesota purposes on items that affect computation of FAGI (e.g., the cost recovery method that businesses use to compute their income).

Effective date: Day following final enactment.

12 **State itemized deductions.** Modifies the definition of state itemized deductions to equal itemized deductions allowed under federal law prior to enactment of the TCJA. The exceptions to this are TCJA's rules that allow 7.5-percent of FAGI threshold for computing the medical expense deduction for tax years 2017 and 2018 and its elimination of the charitable contribution deduction for contributions to colleges made in return for athletic ticket seating priority. Minnesota's disallowance of the deduction for income and sales taxes is extended to all taxes, including foreign taxes (present law applies only to state and local income and sales taxes).

Effective date: Tax year 2018.

13 **Standard deduction.** Defines the state standard deduction as that allowed under pre-TCJA federal law. These amounts will be indexed in the future using C-CPI-U.

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Effective date: Tax year 2018.

14 **Chapter 290 update.** Adopts the changes to the Internal Revenue Code made since December 16, 2016, for purposes of the individual income and corporate franchise taxes. This will adopt the changes in federal law, as described in the Overview, the most significant of which were made by TCJA and the BBA 2018.

Effective date: Day following final enactment; changes incorporated by reference to federal provisions are effective at the same time as they are effective for federal purposes

15 **Additions to income; scope.** Modifies the scope subdivision of the section providing individual income tax additions to income to be consistent with the article's change in the starting point of the individual income tax from FTI to FAGI.

Effective date: Tax year 2018.

16 **State and local income and sales taxes.** Limits the addition for state and local income taxes and sales taxes to estates and trusts, since only those entities will continue to use FTI (which incorporates the federal deduction for state and local income taxes) in calculating Minnesota tax. The limitation on the deduction to the amount of the standard deduction is repealed, since trusts and estates are not allowed to elect the standard deduction.

Effective date: Tax year 2018.

17 **Section 179 addition.** Conforms to the federal section 179 allowances (allowing expensing for qualifying equipment purchases by businesses) for individuals, including pass-through entities, by limiting the addition to amounts deducted for federal purposes in taxable years before 2018. This change would allow individual income taxpayers the full section 179 deduction for property placed in service starting in tax year 2018.

Effective date: Tax year 2018.

18 **Disallowed itemized deductions.** Updates disallowance of itemized deductions to tie it to the new Minnesota itemized deductions and to base its indexing on C-CPI-U. Rebases the limitation thresholds to their tax year 2018 base amounts.

Effective date: Tax year 2018.

19 **Disallowed personal exemption amount.** Updates disallowance of personal exemption amounts to tie it to the new Minnesota personal exemption amounts and to base its indexing on C-CPI-U. Rebases the phaseout thresholds to their tax year 2018 base amounts.

Effective date: Tax year 2018.

20 **Qualified business income.** Requires a trust or estate to add to FTI the amount it deducted as qualified business income (the 20-percent deduction allowed under TCJA).

Effective date: Tax year 2018.

21 **Foreign-derived intangible income (FDII).** Requires amounts deducted under TCJA's deduction for foreign-derived intangible income to be added back to FAGI for individuals (S corporation shareholders) who claim the deduction. FDII allows domestic corporations (including S corporations) with income from selling goods or services to foreign

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purchasers to deduct a percentage of that income. The amount of the deduction is determined under a complicated formula with percentages that vary from year to year and subject to a variety of limitations and exclusions.

Effective date: Tax year 2018.

22 **529 Plan distributions.** Requires distributions from 529 Plans (Qualified Tuition Plans) that are used to pay for K-12 expenses to be added to FAGI. The TCJA permits taxpayers to use distributions for K-12 expenses without being subject to tax. The amount added back could not exceed the amount of "earnings" of the account that are excluded from income for the taxable. Thus, recovery of amounts contributed to the account (rather than the account's investment returns) would not be taxed. This approach effectively treats any uses for K-12 purposes as the first use to which these investment returns or earnings are put (e.g., if distributions are also used to pay for higher education expenses).

Effective date: Tax year 2018.

23 **Subtractions from income; scope.** Modifies the scope subdivision of the section providing individual income tax subtractions from income to be consistent with the article's change in the starting point of the individual income tax from FTI to FAGI.

Effective date: Tax year 2018.

24 **Non-itemizer charitable contribution subtraction.** Amends the non-itemizer charitable contribution subtraction to allow the subtraction if the taxpayer elects the state standard deduction, rather than the federal standard deduction, and limits the subtractions to residents.

Effective date: Tax year 2018.

25 **Personal and dependent exemptions.** Allows subtraction of the new Minnesota personal and dependent allowance, which are set equal to those allowed under pre-TCJA federal law.

Effective date: Tax year 2018.

26 **Conforming change.** Changes a reference from FTI to FAGI (for the subtraction for military retirement pay) to be consistent with the article's change in the starting point for calculating the Minnesota tax.

Effective date: Tax year 2018.

27 **Social Security subtraction; indexing.** Resets the dollar amounts of the subtraction for Social Security benefits to the tax year 2018 amounts and provides that indexing (starting for tax year 2019) will be done using C-CPI-U. See section 1 for discussion of the effect of this change. In addition, the subtraction for married separate filers is specified to be one-half of the married joint amount.

Effective date: Tax year 2018.

28 **Moving expenses.** Allows a taxpayer to subtract moving expenses from FAGI. The federal moving expense exclusion was disallowed under TCJA.

Effective date: Tax year 2018

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29 **GILTI subtraction.** Allows the amount of global intangible low-taxed income (GILTI) required included in FAGI to be subtracted. TCJA required a portion of this foreign income (for corporations, including S corporations) to be included in FAGI. The article does not conform to the federal treatment.

Effective date: Tax year 2018.

30 **Deemed repatriation income of nonresidents.** Allows the amount of the deemed repatriation of deferred foreign income (a one-time requirement under TCJA that applies in tax year 2017) received by a nonresident to be subtracted from FAGI. The subtraction prevents Minnesota tax from applying to this non-Minnesota source income when it is received by nonresidents. Changes to determination of the percentage of total income derived from Minnesota sources (in section40) excluded this income from computing the Minnesota-source percentage.

Effective date: Retroactively to tax year 2017 (same time that federal provision applies).

31 **Standard or itemized deductions.** Allows subtraction of the Minnesota itemized or standard deduction.

Effective date: Tax year 2018.

32 **Special foreign deductions.** Allows corporations required to add back the new 100-percent deduction for foreign dividends under TCJA to reduce that add-back by any amounts of the dividends that represent amounts taxed in a prior year under the deemed repatriation provision. The FDII deduction for corporations is required to be added back. The section also eliminates the addition for the special deduction related to deemed repatriation of deferred foreign earnings. That will result in tax applying to the amount of that income that is net of the federal participation exemption.

Effective date: Retroactively to tax year 2017 (necessary because of the provision modifying addition for the deduction under the repatriation provision).

33 **Section 179 addition.** Conforms to the federal section 179 allowances (allowing expensing for qualifying equipment purchases) for C corporations by limiting the addition to amounts deducted for federal purposes in taxable years before 2018. This change would allow corporate income taxpayers the full section 179 deduction for property placed in service starting in tax year 2018.

Effective date: Tax year 2018.

34 **GILTI subtraction.** Allows the amount of GILTI required by a C Corporation to be included in FTI to be subtracted in computing Minnesota tax. TCJA subjects a portion of this foreign income to immediate federal taxation (not when it is repatriated as was the prior practice). The article does not conform to the federal treatment.

Effective date: Tax year 2018.

35 **Corporate alternative minimum tax (AMT).** Eliminates a reference to the corporate AMT, which is repealed by section 81.

36 **Personal and dependent exemptions.** Sets the amount of the Minnesota personal and dependent exemption allowances tax equal to the amounts that would have been allowed

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for federal purposes in tax year 2018 prior to enactment of the TCJA (i.e, $4,150). These amounts will be indexed in the future using the C-CPI-U.

Effective date: Tax year 2018.

37 **Lump sum tax.** Makes a conforming change to the lump sum tax to reflect the use of FAGI as the starting point for the tax.

Effective date: Tax year 2018.

38 **Unrelated business income tax (UBIT); net operating losses (NOLs).** Requires a nonprofit corporation required to pay UBIT to add back its federal NOL and claim a Minnesota NOL under the rules applicable to C corporations under the Minnesota tax. This prevents TCJA's rules requiring separately calculating NOLs for each activity.

Effective date: Tax year 2018.

39 **Corporate franchise tax rate.** Reduces the corporate franchise tax rate from 9.8 percent to 9.65 for tax years 2018 and 2019 and to 9.1 percent for tax years after that.

40 **Individual tax rates.** Resets the dollar amount of individual income tax brackets to the tax year 2018 amounts and reduces the 5.35 percent rate to 5.3 and the 7.05 percent tax rate to 6.95 percent for tax years 2018 and 2019, and to 5.3 percent and 6.85 percent for later tax years.

In addition, conforming and updating changes are made to the allocation percentage that is used to determine the Minnesota-share of tax for nonresidents and part year residents. These changes reflect the repeal of the addition for domestic production activities and the subtractions for GILTI and the deemed repatriation income of nonresidents.

Effective date: Tax year 2018.

41 **Indexing of rate brackets.** Provides that indexing of individual income tax rate brackets (starting for tax year 2019) will be done using C-CPI-U. See section 1 for the effect of this change.

42 **Dependent care credit; phase-out amounts.** Resets the dollar amounts of the phase-out for the dependent care credit at the tax year 2018 amounts. This is necessary to reset the indexing, which is done in section 43.

Effective date: Tax year 2018.

43 **Dependent care credit indexing.** Converts indexing of the dependent care phase-out amounts to the C-CPI-U index. See section 1 for discussion of the effect of this change.

Effective date: Tax year 2018.

44 **Working family credit amounts; indexing.** Resets the indexed dollar amounts under the working family credit at the tax year 2018 amounts and converts indexing to the C-CPI-U index. See section 1 for discussion of the effect of this change.

Effective date: Tax year 2018.

45 **Working family credit indexing.** Converts indexing of additional working family credit amounts to the C-CPI-U index. See section 1 for discussion of the effect of this change.

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Effective date: Tax year 2018.

46 **Long-term care insurance credit; conforming changes.** Modifies the long-term care insurance credit to refer to Minnesota, rather than federal, itemized deductions.

Effective date: Tax year 2018.

47 **Long-term care insurance credit; conforming changes.** Changes a reference in the long-term care insurance credit from FTI to Minnesota taxable net income.

Effective date: Tax year 2018.

48 **Education credit; conforming changes.** Modifies the definition of income for purposes of the K-12 education to provide that alimony received is included to the extent it is excluded under TCJA's treatment of alimony (for dissolution agreements and decrees beginning in 2019).

Effective date: Tax year 2018.

49 **Historic structure rehabilitation credit.** Modifies the Internal Revenue Code reference to the historic structure rehabilitation credit to make it clear that the definition refers to the entire credit and not annual amount that is allowed in each tax year. TCJA modified the federal credit (which the Minnesota credit is based on and equal to) to provide it is allowed in five equal annual installments, starting with the year the property is placed in service.

50 **Historic structure rehabilitation credit; allowable in five installments.** Allows the credit (and the grant in lieu of the credit) in five equal annual installments, following TCJA's changes to the federal credit.

Effective date: Tax year 2018.

51 **Historic structure rehabilitation credit; conforming change.** Makes conforming changes to clarify that credit is allowed in annual installments following section 50.

Effective date: Tax year 2018.

52 **Historic structure rehabilitation credit; conforming change.** Makes conforming changes to clarify that credit is allowed in annual installments following section 50.

Effective date: Tax year 2018.

53 **529 Plan credit phase-out; indexing.** Resets the phase-out thresholds under the 529 Plan credit at the tax year 2018 amounts and converts indexing to the C-CPI-U index. See section 1 for discussion of the effect of this change.

Effective date: Tax year 2018.

54 **Elderly exclusion; conforming change.** Changes a reference from FTI to FAGI (in the elderly exclusion) to reflect the article's change in the starting point of the individual income tax.

Effective date: Tax year 2018.

55 **Standard or itemized deduction.** Allows an individual taxpayer to elect to claim the state standard deduction or to claim state itemized deductions. In the case of a married couple

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filing separate returns, requires both spouses to itemize their deductions if one spouse itemizes. Allows a subtraction from FAGI for the state standard or itemized deduction.

Effective date: Tax year 2018.

56 **AMT definitions.** Modifies the definition of income for purposes of the individual AMT to be consistent with other changes made by the article and to require addition of the deduction for QBI.

Effective date: Tax year 2018.

57 **Individual AMT exemption amount; indexing.** Resets the individual AMT exemption at the tax year 2018 dollar amounts and converts indexing to the C-CPI-U index. See section 1 for discussion of the effect of the change to indexing.

Effective date: Tax year 2018.

58 **Corporate AMT carryover credit.** Modifies the carryover credit under the corporate AMT to reflect section 81's repeal of the corporate AMT. The carryover credit allows corporations that pay AMT in one year to use that tax as a credit against regular tax in a later tax year. Carryover credits generated in years prior to repeal could continue to be used in 2018 and later tax years.

Effective date: Tax year 2018.

59 **Minimum fee amounts; indexing.** Resets the minimum fee at the tax year 2018 amounts and converts indexing to the C-CPI-U index. See section 1 for discussion of the effect of this change.

Effective date: Tax year 2018.

60 **Corporate NOLs.** Provides that TCJA's 20 percent reduction in the amount of NOLs under TCJA does not apply to the Minnesota NOL statute (affects corporations).

Effective date: Tax year 2018.

61 **Allocation of trade or business income.** Modifies the definition of "wages" for purposes of allocating trade or business income between Minnesota and non-Minnesota sources to include a reference to income from sales of section 83(i) qualified stock (provided as compensation to employees), which were authorized by TCJA.

Effective date: Tax year 2018.

62 **Dividend-received deduction; debt financed stock.** Disallows the Minnesota dividend received deduction for debt-financed stock.

Effective date: Tax year 2018.

63 **Deemed repatriation income.** Provides that deferred foreign income deemed by TCJA to be includible in subpart F income for tax year 2017 and federal subpart F income generally is dividend income. The latter confirms Minnesota's practice of treating subpart F income as dividend income and the former is consistent with Minnesota's treatment of repatriated income for the 2004 repatriation tax holiday.

Effective date: Retroactively to tax year 2017.

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64 **Insurance companies; computation of limit on interest expense.** Provides that section 163(j) interest limitation for corporations that are part of an affiliated group of companies that include insurance companies (exempt from corporate franchise tax because they pay premium tax) are to be computed by including the insurance company's income in determining how the limit applies. This parallels the federal treatment, which imposes the corporate income tax on insurance companies.

65 **Affiliated corporations; interest expense limitation.** Provides that the federal interest expense limitation for entities filing a combined return will be computed in a combined basis (using the income of the unitary group in determining the amount of the limitation).

Effective date: Tax year 2018.

66 **Wages for withholding tax.** Modifies the definition of "wages" for purposes of withholding tax to include section 83(i) qualified stock election under TCJA. The provision allows employees receiving the stock to defer when income is includible, subject to a variety of limits and conditions.

67 **Household income definition; PTR.** Modifies the definition of household income under the property tax refund for renters and the homestead credit refund programs to eliminate the addition for the domestic production deduction, which was repealed by the TCJA, and to include nontaxable alimony received by the claimant. Moving expenses would be allowed to be deducted in computing household income.

Effective for tax year 2019, TCJA provides that alimony (paid under new agreements or orders) is no longer deductible to the payer and includible in the recipient's income. References to the exemption amount in the definition of household income are tied to the amount under the Minnesota income tax.

Effective date: Refunds based on property taxes payable in 2019 and rent paid in 2018.

68 **Gross rent amount; indexing.** Sets the gross rent amounts for nursing homes, foster care homes, and intermediate care facilities at the 2018 amounts and converts indexing to the C-CPI-U index.

Effective date: Refunds based on property taxes payable in 2019 and rent paid in 2018

69 **PTR update.** Updates the reference to the Internal Revenue Code for purposes of the property tax refund chapter. This will incorporate federal changes made to FAGI and TCJA's repeal of the exemption allowance (replaced in section 67 with a reference to the Minnesota amount provided by the article).

Effective date: Refunds based on property taxes payable in 2019 and rent paid in 2018.

70 **Homestead credit refund schedule.** Resets that statutory amount of the schedule for the Homestead Credit Refund (HCR) program at the 2018 levels. This is necessary to rebase indexing.

Effective date: Refunds based on property taxes payable in 2018.

71 **PTR for renters schedule.** Resets that statutory amount of the schedule for the PTR for renters at the 2018 levels. This is necessary to rebase indexing.

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Effective date: Refunds based on rent paid in 2017.

72 **PTR indexing.** Converts indexing of the HCR and PTR schedules to the C-CPI-U index.

Effective date: Refunds based on rent paid in 2018 and property taxes payable in 2019.

73 **Estate tax update.** Updates the reference to the Internal Revenue Code in the estate tax. This will have no material effect on estate tax, since the TCJA made changes in the federal exclusion amounts from which the state estate tax is decoupled.

Effective date: Estates of decedents dying after December 31, 2017.

74 **Sales tax exemption.** Provides that TCJA's change in the like-kind exchange rules (limiting them to real property) does not apply for purposes of the sales tax exemption for occasional sales. The bill makes this change by tying the statutory reference to the version of the Internal Revenue Code before the enactment of TCJA.

Effective date: Sales and purchases made after December 31, 2017.

75 **MVST exemption.** Provides that TCJA's change in the like-kind exchange rules (limiting them to real property) does not apply for purposes of the motor vehicle sales tax exemption by tying the statutory reference to the version of the Internal Revenue Code before the enactment of TCJA.

Effective date: Sales and purchases made after December 31, 2017.

76 **First-time homebuyer savings account; conforming change.** Changes a reference from FTI to FAGI (in the subtraction under the first-time homebuyer savings account program) to reflect the article's change in the starting point of the individual income tax from FTI to FAGI.

Effective date: Tax year 2018

77 **First-time homebuyer savings account; conforming change.** Changes a reference from FTI to FAGI (in the addition under the first-time homebuyer savings account program) to reflect the article's change in the starting point of the individual income tax from FTI to FAGI.

Effective date: Tax year 2018.

78 **JOBZ subtraction; conforming change.** Changes a reference from FTI to FAGI (in the JOBZ subtraction) to reflect the article's change in the starting point of the individual income tax from FTI to FAGI.

Effective date: Tax year 2018.

79 **Corporate AMT.** Eliminates a reference in the JOBZ statute to the corporate AMT, which is repealed by section 81.

80 **Estimated taxes; exceptions.** Provides an exception to imposition of penalties for underpayment of estimated tax, if the underpayment resulted from the inclusion of deferred foreign income under section 965 of the Internal Revenue Code (i.e., resulting from conformity to the federal repatriation tax) in tax year 2017. To avoid the penalty, payment must be made by September 15, 2018. This income is first included in income for

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tax year 2017. Since it applies retroactively, taxpayers would not have known to make estimated payments based on its taxability.

81 **Repealer.** Repeals the following provisions:

Repealed section	Description
290.0131, subd. 7	Addition for fines, fees, and penalties (individuals), which is now included federal income
290.0131, subd. 11	Addition (individuals) for domestic production activities
290.0133, subd. 13	Addition (corporations) for domestic production activities
290.0133, subd. 14	Addition for fines, fees, and penalties (corporations), which is now included federal income
290.067, subd. 2a	Definition of income for the dependent care credit, which is obsolete since use of FAGI was substituted in the 2017 tax act
290.0921, subd. 1, 2, 3a, 4, and 6	Corporate AMT (other than carryover credit)
290.10, subd. 2	Disallowance of trade or business expense for fines, fees, and penalties, which now are disallowed by federal law

Article 3: Individual Income, Corporate Franchise, and Estate Taxes

Overview

Article 3 contains individual income, corporate, and estate tax provisions that are unrelated to federal tax conformity. Among other provisions, the article includes:

- A $5 million appropriation for and extension of the angel credit.
- Corporate income tax changes related to captive insurance companies.
- A corporate and individual income tax subtraction for the trade or business expenses of medical cannabis companies.
- A temporary rule under the recapture tax for estates to correct certain mistakes made during the preparation of estate tax returns.

1 **Angel credit authorization.** Authorizes $5 million in small business investment tax credits (commonly referred to as the angel credit) for allocation during calendar year 2018. No credit authorizations for this credit was enacted for 2018.

Effective date: Tax year 2018.

2 **Angel credit, sunset.** Extends the expiration dates for the angel credit by one year to reflect the additional authorization in section 1.

Effective date: Tax year 2018.

3 **Financial institution.** Modifies the definition of a financial institution for corporate franchise tax purposes to eliminate the requirement that exempt insurance companies must be

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subject to Minnesota insurance premiums taxation. This will allow out-of-state insurers who do not write coverage on Minnesota risks (and, thus, are not subject to the Minnesota premiums tax) to qualify as insurance companies that are exempt from corporate franchise tax.

Effective date: Retroactively to tax year 2017.

4 **Disqualified captive insurance company.** Defines a "disqualified captive insurance company" for corporate franchise tax purposes. A company is a disqualified captive if it satisfies two criteria, each of which can met in two different ways:

- The company either (1) is explicitly licensed by a state as a captive insurance company or (2) derives less than 50 percent or more of its premiums from insurance covering risks outside of the unitary group; and
- The company either (1) derives half or more of its gross receipts from items other than insurance premiums or (2) pays an effective tax rate of 0.5 percent or less in insurance premiums or similar special state insurance taxes.

Premiums are defined by reference to federal law, but exclude premiums that are of types that are exempt from the Minnesota insurance premiums tax (e.g., return premiums or reinsurance premiums).

Disqualified captives are subject to the corporate franchise tax (other insurance companies are exempt) and must include their income and apportionment factors on the combined return of a unitary business of which they are a part.

Effective date: Retroactively to tax year 2017.

5 **Medical cannabis; individual income subtraction.** Allows companies manufacturing medical marijuana under Minnesota licenses to subtract their trade or business expenses in computing Minnesota individual income tax.

Effective date: Tax year 2018.

6 **Medical cannabis; corporate franchise tax subtraction.** Allows companies manufacturing medical marijuana under Minnesota licenses to subtract their trade or business expenses in computing corporate franchise taxes.

Effective date: Tax year 2018.

7 **Exempt entities.** Modifies the statutory definition of insurance companies that are exempt from corporate franchise tax to incorporate section 4's definition of disqualified captive insurance companies (i.e., ones which are not exempt insurance companies).

Effective date: Retroactively to tax year 2017.

8 **Stillbirth credit allowed.** Modifies the stillbirth credit to provide that it is allowed to an "eligible individual" (defined in section 9) and to eliminate the test that allows the credit based on who would have qualified to claim the stillborn child as a tax dependent.

In addition, apportionment of the credit for nonresidents is eliminated. A nonresident who is an eligible individual (e.g., the nonresident spouse of a Minnesota resident member of the

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military) would be allowed the full credit. Apportionment would continue for part year residents—that is, individuals who move into or out of the state during the tax year—based on the percentage of their income that is derived from Minnesota sources.

Effective date: Retroactive to tax year 2016 (original effective date of the credit).

9 **Stillbirth credit; definitions.** Defines terms for purposes of the stillbirth tax credit:

- "**Certificate of birth resulting in stillbirth**" means a certificate of stillbirth issued by the Minnesota Department of Health for a Minnesota birth or a similar certificate issued by another state or country if the birth occurs outside of Minnesota.
- "**Eligible individual**" (i.e., individuals who will be allowed the credit) must be:
  - a Minnesota resident or the nonresident spouse of a member of the military who is a Minnesota resident; and
  - the individual who gave birth (i.e., the mother) who was listed on the birth certificate or simply is the mother who gave birth, if the birth occurred outside of Minnesota in a state or country where no certificate is issued for qualifying stillbirths (must be at least 20 week gestation).
- "**Stillbirth**" is defined by reference to the statute that requires a fetal death report, but without regard to whether the birth occurs in Minnesota.

Effective date: Retroactive to tax year 2016 (original effective date of the credit).

10 **Combined returns.** Modifies the combined return statute to incorporate the new definition of disqualified captive insurance companies—specifically that these captives, including ones incorporated in a foreign country, must include their income and apportionment factors in the combined report. The 2017 tax bill's definition of taxable captives is repealed, since it is replaced by section 4's definition.

Effective date: Retroactively to tax year 2017.

11 **Cross reference; estate tax.** Corrects a cross reference error that resulted from 2017 tax act's renumbering of clauses in the qualified property provisions of the estate tax.

Effective date: Day following final enactment.

12 **Qualified small business property.** Modifies the required holding period for qualified small business property to provide that ownership by either of the spouses in various ownership forms (undivided, joint, QTIP trust, etc.) can be used to satisfy the 3-year requirement. It does not matter if the spouse predeceased the decedent. Under present law, the decedent must own the property for the 3-year period.

Effective date: Decedents dying after December 31, 2017

13 **Qualified farm property.** Modifies the required holding period for qualified farm property to provide that ownership by either of the spouses in various ownership forms (undivided, joint, QTIP trust, etc.) can be used to satisfy the 3-year requirement. It does not matter if the spouse predeceased the decedent. Under present law, the decedent must own the property for the 3-year period.

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Effective date: Decedents dying after December 31, 2017.

14 **Recapture tax, temporary provision.** Provides a temporary special rule under the recapture tax that applies to estates claiming the subtraction for qualified property. The rule is limited to estates of decedents:

- Dying after June 30, 2011 and before January 1, 2017; and
- That filed a return reporting no tax liability and also claimed a qualified property treatment, which is triggering recapture tax.

The special rule limits the amount of the qualified property exclusion or subtraction (i.e., amount that triggers recapture tax) to the amount necessary to reduce the estate tax to zero. This prevents a (likely inadvertent) choice to forgo claiming the full general exclusion or exemption and instead to claim a larger qualified property subtraction from increasing the recapture tax. The 2017 conversion of the zero bracket amount to an exclusion (i.e., a subtraction from the estate's value, rather than an amount in the rate table) reduces the likelihood of these mistakes.

The section also corrects a cross reference error that resulted from 2017 tax act's renumbering of clauses in the qualified property provisions of the estate tax.

Effective date: Retroactive for estates of decedents dying after June 30, 2011.

15 **Angel credit.** Adds language to permit administration of the tax year 2018 allocation for the angel credit to reflect that various time deadlines, as specified in the statute, would be impossible to meet, since they passed before enactment of the allocation.

Effective date: Day following final enactment.

Article 4: Sales and Use Taxes

Overview

Provides a number of sales tax exemptions for various construction projects including:

- a number of public safety facilities;
- a municipal water treatment plant;
- medical facilities in underserved areas; and
- reconstruction after the Mazeppa fire.

Adds language to clarify that a local government may not impose a special tax on food or food containers.

Provides a number of other minor sales tax exemptions.

1 **Hospitals, outpatient surgical centers, and critical access dental providers.** Exempts sales to a qualifying medical facility from the sales tax. Defines "qualifying medical facility"

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as a facility that has been granted an abatement of the state general tax (carried in the property tax article).

Effective date: Effective for sales and purchases made after June 30, 2018.

2 **Ice arenas and rinks.** Expands the sales tax exemption for a nonprofit owning or operating an ice arena to the Westonka Sports Association which owns the ice arena at the David M. Thaler Sports Center.

Effective date: Effective for sales and purchases made after June 30, 2018.

3 **Nonprofit conservation clubs.** Provides a sales tax exemption for purchases made by nonprofit (501(c)(3)) clubs that provide instruction and training in, and shooting facilities for handguns or rifles.

Effective date: Effective for sales and purchases made after June 30, 2018.

4 **Public safety facilities.** Provides an upfront exemption for construction of the following public safety facilities:

- a new fire station in the city of Inver Grove Heights;
- a new fire station or remodeling of an existing fire station in the city of Virginia;
- a new fire station in the city of Minnetonka; and
- remodeling and expansion of an existing fire station in the city of Minnetonka to accommodate its use as a police station.

Applies to purchases by contractors and subcontractors as well as directly by the city.

Effective date: Effective for sales and purchases made after the day following final enactment but before January 1, 2021.

5 **Nonprofit snowmobile clubs.** Provides a sales tax exemption on building materials and supplies used by a nonprofit snowmobile club to construct, maintain, or improve a state or grant-in-aid snowmobile trail.

Effective date: Effective for sales and purchases made after June 30, 2018.

6 **Medical facility in underserved area.** Provides a construction materials exemption for qualifying medical facilities. Defines "qualifying medical facility" as a facility that has been granted an abatement of the state general tax (carried in the property tax article).

Effective date: Effective for sales and purchases made after June 30, 2018.

7 **Properties destroyed by fire (Mazeppa).** Provides a sales tax exemption for reconstruction of the properties affected by the fire in Mazeppa on March 11, 2018. The tax must be paid at the time of purchase and refunded to the property owner. The exemption also covers durable restaurant equipment destroyed in the fire.

Effective date: Effective retroactively to purchases made after March 11, 2018, and before January 1, 2021.

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8 **Tax collected.** Requires the tax for items exempt under section 7 to be paid at the time of purchase and a refund applied for by the property owner. Also removes references to obsolete sales tax exemptions.

Effective date: Effective the day after final enactment.

9 **New taxes prohibited.** Modifies the general prohibition against local government imposing a tax on income or sales by explicitly prohibiting an increase or new excise tax or fee on food and beverages or their containers – at any stage in the distribution process. The prohibition applies to volume and unit taxes as well as those based on value. It applies to food for both human and annual consumption. The prohibition does not apply to a fee lawfully imposed in the exercise of regulatory authority to license a trade, business, or profession.

Effective date: Effective the day after final enactment.

10 **Melrose construction exemption effective date.** Extends the effective date for the sales tax exemption for reconstruction of properties destroyed by the Melrose fire from January 1, 2019 to January 2022.

Effective date: The day following final enactment.

11 **Municipality owned water treatment facility; city of Elko New Market.** Provides a retroactive sales tax exemption for the materials and supplies used in and equipment incorporated into a water treatment facility owned by the city of Elko New Market. The exemption applies to purchases by the city and by contractors, subcontractors, and builders. The city must apply for the refund of taxes paid by December 31, 2018, and the contractor, subcontractors, and builders must provide the city with the information necessary to make the application. Money is appropriated to the commissioner of revenue to pay the refund.

Effective date: Effect retroactively for sales and purchases made after June 1, 2014, and before June 1, 2016.

Article 5: Property Taxes

Overview

This article provides a number of changes related to property taxes, including abatements, classification, the state general levy, and special property tax programs, including:

- allowing a qualifying veteran's spouse to carry over the disabled veterans' homestead exclusion spousal benefit to a subsequent property;
- extending the application deadline for the disabled veterans' homestead exclusion from July 1 to December 15;
- extending the application deadline for the senior deferral program from July 1 to November 1;
- abating the state general levy on medical facilities in medically underserved counties where abatements of local taxes have been granted;

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- allowing agricultural property owned by different business entities or trusts to receive the agricultural homestead classification under certain conditions;
- requiring fractional homesteads to be determined based on each owner's deeded interest;
- allowing members of manufactured home cooperatives to include a portion of ground lease payments when applying for the homestead credit refund;
- establishing a school property tax working group to evaluate the impact of school capital investments on farmland property taxes and simplify school levies;
- abating the state general levy on certain natural gas pipelines;
- allowing agricultural classification on land used for certain environmental purposes;
- providing LGA increases for the cities of Hermantown and Lilydale;
- granting a property tax exemption to a pharmacy owned by a federally recognized Indian tribe; and
- making a number of changes to the levy authority of the Cloquet Area Fire and Ambulance District.

1 **County historical society levy.** Allows a city or town to fund its own historical society from its property tax levy. Current law only allows them only to fund the county's historical society.

2 **Records, data privacy.** Authorizes the county veterans' service officer to share certain data on veterans with the county assessor, for purposes of making eligibility determinations under the disabled veterans homestead exclusion, in conjunction with section 9.

Effective date: Day following final enactment.

3 **Certain property owned by an Indian tribe.** Provides a property tax exemption for a pharmacy in the city of Minneapolis owned by a federally recognized Indian tribe. The property must have been owned by the tribe on January 1, 2016. This exemption is limited to parcels and structures that do not exceed 4,000 square feet. The exemption expires with taxes payable in 2028.

Effective date: Effective beginning with taxes payable in 2019.

4 **Manufactured home park cooperative.** Allows members of manufactured home park cooperatives to add their ground lease payments to their property taxes when applying for the homestead credit refund.

Effective date: Taxes payable 2019.

5 **Homesteads owned by or leased to a farm business entity.** Allows agricultural property that is farmed by a business entity other than the business entity that owns the land to qualify for agricultural homestead, provided that each entity has the same owners.

Effective date: Assessments in 2018.

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6 **Special agricultural homestead rules.** Sections 6 and 7 allow agricultural property owned by an individual and a trust (of which the individual, their spouse, or deceased spouse is the grantor) or by two different trusts (of which the grantors of each trust are any combination of the individual, their spouse, or deceased spouse) to qualify for agricultural homestead. Current rules treat trust grantors as owners for purposes of qualifying for the agricultural homestead classification, but do not allow property owned by two different owners to qualify. Expanding the agricultural homestead rules for trusts may allow additional properties to qualify for the qualified farm property subtraction under the estate tax.

Section 6 eliminates language allowing certain special agricultural homesteads owned by grantor trusts to qualify for homestead property tax status. This language is moved to section 7, which contains most of the rules relating to trust ownership of homestead and agricultural homestead property.

This section also changes the special agricultural homestead rules for agricultural property owned and operated by different business entities in the same manner as the rules are changed under section 5 for agricultural homesteads.

Effective date: Taxes payable in 2019.

7 **Agricultural homesteads; trust rules.** Modifies the statute that allow certain properties owned by trusts to qualify for homestead property tax treatment:

- Adds the language eliminated by section 6.
- Defines agricultural land for agricultural homestead rules and classification statutes so that the rules requiring agricultural property to have the same ownership (e.g., when a farm is divided into multiple parcels with different owners or when there are multiple owners of a parcel) are satisfied if the properties are owned by some combination of the individual owner, the individual's spouse or surviving spouse, or a trust or trusts, the grantor of which is the individual, spouse, surviving spouse, or deceased spouse.
- Extends that trust ownership rule to noncontiguous parcels located within four townships or cities.

Effective date: Taxes payable in 2019.

8 **Fractional homesteads.** Requires the assessor to prorate the percentage of a homestead that is owned by each owner of a homestead that has multiple owners based on each owner's deeded interest in the property. If the percentage ownership cannot be determined in this manner, percent ownership is prorated among owners in equal shares.

Effective date: Assessments beginning in 2018.

9 **Disclosure.** Authorizes the county assessor to share certain data on veterans with the county veterans' service officer, for purposes of making eligibility determinations under the disabled veterans homestead exclusion, in conjunction with section 2.

10 **Class 1 (homestead resorts).** Allows a property to qualify for the homestead resort classification when the resort portion of the property is owned by a business entity and the homestead portion is titled in the name of a member of that business entity. Requires a

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property owner seeking homestead resort classification to provide ownership information on the homestead to the assessor.

Effective date: Taxes payable in 2020.

11 **Class 2 (agricultural purposes).** Provides that land will still qualify for agricultural classification even if the greater of three acres or ten percent of the total land area is used to serve environmental purposes such as buffer strips or retention ponds. Also allows land consisting of a holding pond designed to hold back runoff from a rural expressway to retain agricultural classification.

Effective date: Effective beginning with 2019 assessments for taxes payable in 2020.

12 **Homestead of disabled veteran or family caregiver.** Moves the application date for the disabled veterans homestead exclusion from July 1 to December 15, requires the removal of the benefit for non-qualifying homeowners for the assessment year in which a qualifying veteran sells the property, and allows a qualifying veteran's spouse to retain the spousal benefit when the spouse moves to a home having a value less than or equal to the value of the first home.

Effective date: Assessments in 2018 for taxes payable in 2019.

13 **Homestead market value exclusion.** For purposes of calculating the homestead exclusion, requires the assessor to prorate the percentage of a homestead that is owned by each owner of a homestead that has multiple owners in the manner required in section 8.

Effective date: Taxes payable in 2019.

14 **Agricultural homestead market value credit.** For purposes of calculating the agricultural homestead credit, requires the assessor to prorate the percentage of a homestead that is owned by each owner of a homestead that has multiple owners in the manner provided in section 8. Includes a Department of Revenue technical provision clarifying that the maximum credit amount is prorated based on the percentage ownership.

Effective date: Taxes payable in 2019.

15 **Natural gas pipeline.** Requires the county to abate the state general levy on gas pipelines that meet the following criteria for 12 years:

- constructed after January 1, 2018;
- located outside the metro area; and
- located in an area where households or businesses lacked access to natural gas distributions as of January 1, 2018.

Effective date: Effective beginning with 2019 assessments for taxes payable in 2020.

16 **Medical facility in underserved area.** Abates the state general levy for property described in section 25 for 15 years.

Effective date: Taxes payable in 2019.

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17 **Duties of the commissioner after sale.** Requires the commissioner of revenue to issue a deed for land sold at a tax-forfeiture sale if the county auditor has written confirmation from a closing agent that the purchase money for the deed is held in escrow.

Effective date: Day following final enactment.

18 **Property taxes payable (homestead credit refund definition).** Clarifies that members of manufactured home co-ops can include ground lease payments with property taxes in applying for the homestead credit refund.

Effective date: Taxes payable 2019.

19 **Initial application.** Moves the application date for the senior deferral program from July 1 to November 1, and clarifies that a taxpayer may request early notification of approval or denial.

Effective date: Effective beginning with taxes payable in 2019.

20 **Restriction (border city enterprise zone).** Technical clean-up language restricting types of property that can qualify for border cities enterprise zone tax reductions.

Effective date: Day following final enactment.

21 **Scope.** Amends a cross reference necessary due to section 25.

Effective date: Taxes payable in 2019.

22 **Medical facility.** Defines "medical facility" as: an office, clinic, building or portion of a building used to provide primary or specialty care; birth center; hospital; urgent care clinic; or outpatient surgical center.

Effective date: Day following final enactment for taxes payable in 2019.

23 **Medically underserved county.** Defines a "medically underserved county" as a county that includes an area designated by the federal health and human services secretary as a health professional shortage area. Requires the commissioner of health to certify the counties that qualify to the commissioner of revenue, and requires the commissioner of revenue to provide that information to the counties.

Effective date: Assessments in 2018 for taxes payable in 2019.

24 **Medical facility abatement.** Provides that the county must abate the state general levy for 15 years for a medical facility that has been granted local abatements from both the county and the city or town, provided that:

- the facility is in a medically underserved county;
- the facility is not in the metro area; and
- a local jurisdiction passes a resolution that the facility meets an unmet need.

Effective date: taxes payable in 2019.

25 **Till expiration started.** Authorizes a state agency or governmental unit to initiate expiration of an agricultural preserve.

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Effective date: Effective the day following final enactment.

26 **Expiration for park and trail purposes.** Provides that an agricultural preserve expires immediately when the public entity purchases the property or acquires an easement for purposes of the public trail or park. The expiration would apply only to the portion of the preserve used for park or trail purposes. Requires the public entity to notify the preserve authority accordingly.

Effective date: Effective the day following final enactment.

27 **Notice to others.** Conforming change to section 27.

28 **Certified aid adjustments.** Deletes obsolete provisions and provides onetime extra aid payments to the following two cities for aids payable in 2019 only:

- $97,260 to the city of Hermantown for their 2018 loss due to a formula glitch; and
- $150,000 to the city of Lilydale to help pay for some sewer costs.

Effective date: Effective for aids payable in calendar year 2019.

29 **Effective date (Northwest Minnesota Multicounty Housing and Redevelopment Authority).** Extends the levy authority of the Northwest Minnesota Multicounty Housing and Redevelopment authority by five years, to taxes payable in 2024.

Effective date: taxes payable in 2019.

30 **Agreement.** Changes the name of the Cloquet Area Fire and Ambulance Special Taxing District.

31 **Board.** Changes the name of the Cloquet Area Fire and Ambulance Special Taxing District.

32 **Tax (Cloquet Area Fire and Ambulance Special Taxing District).** Clarifies that the District may levy within its area for fire services or ambulance services or both.

33 **Public indebtedness (Cloquet Area Fire and Ambulance Special Taxing District).** Clarifies the district's ability to incur debt by allowing the district to issue certificates of indebtedness or capital notes.

34 **Withdrawal (Cloquet Area Fire and Ambulance Special Taxing District)**. Provides that a debt levy in a municipality that wishes to withdraw from the district remains in effect until the obligations outstanding on the date of withdrawal are satisfied.

Effective date: Effective upon compliance by the Cloquet Area Fire and Ambulance Special Taxing District Board with approval and filing requirements.

35 **Effective date; application (SFIA).** Amends the effective date to an SFIA provision enacted in 2017 that amended the definition of forest land to include land improved with a paved trail under an easement, lease, or license to the state or a political subdivision. The change to the effective date clarifies that land improved with a paved trail at the time an SFIA enrollee submits their annual certification meets the new definition of forest land.

36 **Special refund provision; disabled veterans homestead exclusion.** Provides a refund of property taxes paid by a veteran who received a retroactive 100% total and permanent disability certification from the United States Department of Veterans Affairs after the July

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1, 2017, application date for the disabled veterans homestead exclusion program. The amount of the refund is equal to the amount of tax paid on the property for taxes payable in 2017 and 2018 in excess of the amount of tax that would have been due for those years had the property been subject to the exclusion.

37 **School Property tax reform.** Establishes a school property tax working group to evaluate the impact of school capital investments on farmland property taxes, simplify school levies and coordinate interactions with the state general levy. Membership consists of four members of the house of representatives, four senators, four representatives of different sectors of the property tax base, and four representatives of school district organizations; the commissioners of education and revenue serve as ex-officio members. The group is charged with developing one or more legislative proposals by January 1, 2019.

Article 6: Public Finance

Overview

This article makes a number of minor changes in laws relating to municipal financing and borrowing authority.

1 **Maximum interest rates on drainage lien.** Increases the maximum interest rate that counties can charge on drainage lien principal to six percent. Present law sets the limit at the rate set by the State Court Administrator for interest on court judgments, a floating interest rate pegged to the rate on one-year Treasury securities. For 2018, that rate is four percent.

2 **Municipal bankruptcy**. Updates the reference to the United States Bankruptcy Code to reflect amendments made since 1996 and to adopt future amendments in law authorizing municipalities to file for bankruptcy.

3 **Metropolitan Council debt obligations.** Limits the prohibition on using Metropolitan Council debt for light rail improvements, enacted in 2017, to obligations authorized by the 2017 law. Under present law, the prohibition applies to any debt obligations issued by the council under the section of the statute.

4 **Bond allocation; public facilities projects.** Allows district heating projects owned by for-profit entities to qualify as public facilities projects under the Minnesota's bond allocation process. Under present law, these projects must be owned by a governmental entity or a nonprofit organization to qualify for an allocation of public facilities bonding.

5 **Authority of towns to issue capital improvement bonds**. Modifies the definition of "municipality" for purposes of capital improvement bonds so that any town can issue these bonds. Under present law, only towns with populations of 1,000 or more are authorized to issue capital improvement bonds. These bonds may be issued, subject to a reverse referendum (rather than a direct referendum), for various types of public buildings but may not be used for parks, roads, bridges, or transit facilities. This will permit the town board for the added towns to issue capital improvement bonds without holding a town meeting.

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Article 7: Miscellaneous

Overview

This article:

- Provides for a refund of the occupation tax for taconite producers.
- Guarantees the taconite municipal aid account at 100 percent and provides for a onetime 10 cents per ton distribution to the IRRRB.
- Provides special tax increment financing (TIF) authority to the cities of Champlin and Bloomington.
- Allows St. Cloud to increase its food and beverage and lodging taxes if approved by the voters at a general election.
- Allows St. Paul to increase its lodging tax.
- Allows Excelsior to impose a local sales tax.
- Increases the maximum tax allowed on lodging in the city of Minneapolis
- Modifies the allowed use of the Cloquet local sales tax.
- Appropriates money to local governments for the March 11, 2018, fire in Mazeppa.

1 **Occupation tax to be apportioned; refund.** Provides a pro-rated refund of the occupation tax to taconite producers, from any occupation tax revenues remaining in the general fund after all statutory appropriations of the tax are made. Refunds are limited to the amount of tax paid by a producer, and the total amount of refunds may not exceed $5,000,000 per year.

Effective date: Distributions in 2020.

2 **Guaranteed distribution.** Guarantees the amount of the production tax on taconite that is distributed to the taconite municipal aid account at 100 percent of the maximum guarantee amount. Currently, the amount guaranteed declines with production.

Effective date: Distributions in 2020.

3 **Taconite economic development fund (TEDF).** Modifies the projects for which funds may be released. Allows the commissioner of IRRRB to release funds prior to the next board meeting and requires un-released TEDF funds to be distributed to the taconite environmental protection fund.

Effective date: Day following final enactment.

4 **TEDF.** Clarifies that TEDF distributions must be made to a Minnesota taconite pellet producer's fund.

5 **St. Cloud liquor and food tax authorized.** Allows the city of St. Cloud to increase its existing food and beverage tax from one percent to 1.5 percent if approved by the voters at a

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general election. The proceeds from the tax increase must be used to pay for improvements to the Municipal Athletic Center, including associated bond costs.

Effective date: Local approval by the city.

6 **Expiration of taxing authority.** Requires the increased food and beverage tax rate allowed in section 5 to expire at the earlier of 25 years, or when revenues from the increase are sufficient to pay for the project. Allows the city to terminate the tax increase at any time by ordinance.

Effective date. Local approval by the city.

7 **St. Cloud additional tax authorized (lodging).** Allows the city of St. Cloud to increase its extra two percent lodging tax to three percent if approved by the voters at a general election. The proceeds from the tax increase must be used to pay for marketing and promotion of the Municipal Athletic Center, including associated bond costs.

Effective date: Local approval by the city.

8 **Minneapolis liquor, lodging, and restaurant taxes.** Increases the maximum total tax on lodging in the city of Minneapolis from 13% to 13.875%. This allows its local lodging tax, which was reduced due to the Hennepin County general taxes and the state legacy tax, to revert back to the 3% rate allowed under the law.

Effective date: Effective for sales and purchases made after September 30, 2018.

9 **Authority for taxation (St. Paul).** Allows the city of St. Paul to increase its lodging tax from three percent to four percent.

Effective date: Local approval by the city.

10 **Bloomington TIF.** Extends the five-year rule for the Bloomington Central Station TIF district from 15 years to 20 years. (The five-year rule was previously extended.) In addition, it exempts the district from the requirement that after that period, in-district increments must be used to decertify the district early.

Effective date: Local approval by the city.

11 **Cloquet local sales tax; use of revenues.** Provides that the city of Cloquet may shift the use of its sales tax revenue from development along Highway 33 and Interstate 35, to infrastructure projects including roads and bridges as well as the current authorized sewer and water projects.

12 **Appropriation; Melrose fire remediation grants.** Adjusts the amounts appropriated to Melrose in the 2017 tax act so that more of the grant will be directed to the city and a lesser amount to the county, and allows the appropriation to remain available until June 30, 2019.

13 **City of Excelsior; taxes authorized.** Allows the city of Excelsior to impose up to a one-half of one percent sales tax to pay for up to $5 million of improvements to the area known as the commons based on their 2014 referendum. Allows them to issue up to $5 million of bonds without an additional referendum but requires voter approval at a general election if the city wants to bond for more. The tax expires at the earlier of 25 years or when funds are sufficient to pay for the $5 million in improvements plus associated bond costs.

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Effective date: Local approval by the city.

14 **Champlin TIF.** Allows the city of Champlin to elect to extend for its Mississippi Crossings TIF district the five-year rule to ten years. In addition, it exempts the district from the requirement that after that period in-district increments must be used to decertify the district early.

Effective date: Local approval by the city.

15 **Transfer 2018 distributions.** Requires a onetime transfer of 10 cents per ton from the property tax relief account to the IRRRB, if there are excess funds in the tax relief account after the required distributions.

Effective date. Distributions in 2018 and within ten days of the August payment.

16 **Appropriation (Mazeppa fire).** Appropriates $2,600 to the city of Mazeppa and $2,400 to Wabasha County in fiscal year 2019 to reimburse for property tax abatements and other costs associated with the fire on March 11, 2018.

17 **Appropriation.** Appropriates $1.977 million in fiscal year 2018 and $1.978 million in fiscal year 2019 to the commissioner of revenue to administer this act.

Article 8: Department of Revenue; Property Tax; Policy Changes

Overview

This article contains property tax provisions related the Small Cities Assistance program, Board of Assessors sanctions recommendations, and CRV filing and deed tax thresholds.

1 **Administration (Small Cities Assistance).** Provides that the commissioner of transportation will certify aid amounts for the Small Cities Assistance program to the commissioner of revenue by June 1.

Effective date: Effective for aids payable in 2018 and thereafter.

2 **Assessor sanctions; refusal to license.** Requires the commissioner of revenue to make recommendations to the Board of Assessors for sanctions and clarifies the notice and hearing procedures for an applicant or licensee who disputes the commissioner's recommendation.

Effective date: Effective for sanctions or refusals to grant or renew a license recommended by the commissioner of revenue after June 30, 2018.

3 **Requirement (Certificates of Real Estate Value).** Changes the threshold for filing a Certificate of Real Estate Value at consideration in excess of $1,000 to in excess of $3,000.

Effective date: Effective for certificates of value filed after December 31, 2018.

4 **Determination of tax (deed tax).** Changes the minimum consideration for real property, used in calculating the deed tax, from $500 or less to $3,000 or less.

Effective date: Effective for deeds recorded after December 31, 2018.

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Article 9: Department of Revenue; Miscellaneous; Policy Changes

Overview

Article 6 contains the Department of Revenue's policy language relating to sales tax permit issuance. The article forbids the Department of Revenue from issuing a permit to a business or person with an unpaid sales tax liability, and allows certain data about a sales tax permit holder to be disclosed if the permit is revoked or cancelled.

1 **Revocation or cancellation.** Permits the Department of Revenue to disclose information about the holder of a sales tax permit to any person, if the department cancelled the permit under section 270C.722 or 297A.84. The department may disclose the basis for the cancellation, the date of the cancellation, and if the permit was reinstated, the date upon which it was reinstated.

Effective date: Effective the day following final enactment.

2 **Permits issued and not issued; cancellation (sales tax).** Forbids the Department of Revenue from issuing a new sales tax permit to a business or person that has an unpaid sales tax liability not under appeal. Permits the department to cancel a permit (with notice) if a permit was issued that does not comply with the statutory requirements for issuing a permit. Requires the department to reissue a permit if the permit holder demonstrates that the permit was issued in accordance with statute.

Effective date: Effective for permits applied for after December 31, 2018.

3 **Cancellation of permits.** Adds the cancellation provision from section 2 to the list of conditions that allow the commissioner to cancel a sales tax permit.

Effective date: Effective for permits applied for after December 31, 2018.

Article 10: Department of Revenue; Partnership Tax; Policy Changes

Overview

This article modifies Minnesota's reporting and payment requirements generated by federal audits and assessments in response to federal changes enacted in 2015. The federal changes provided for conducting audits at the partnership, rather than the partner, level. The changes made by the article parallel model legislation being developed by the Multistate Tax Commission.

The article is effective beginning with tax year 2018. However, for partnerships that elect partnership audits for prior periods under federal law, the article is effective retroactively and applies to the same tax periods to which the election relates.

Section

1 **Enforcement; administrative order; penalties, cease and desist.** Updates a cross-reference.

2 **Individual income, fiduciary income, mining company, corporate franchise, and entertainment taxes.** Updates a cross-reference.

3 **Erroneous refunds.** Updates a cross-reference.

4 **Incorrect determination of federally adjusted gross income.** Updates a cross-reference.

5 **Definitions; partnerships; federal adjustments.** Defines various terms relating to the reporting of federal adjustments, and federal adjustments to partnership returns that are used in sections 6 to 8.

6 **Reporting federal adjustments; general rule.** Recodifies the general requirement that taxpayers report federal audit adjustments, and amended federal returns to Minnesota within 180 days. Partnerships having undergone entity level audits are exempt from this provision and are required to report adjustments to Minnesota under section 7.

7 **Reporting and payment requirements (adjustments following a partnership level audit).** Provides for the reporting of federal adjustments following a partnership level audit by the IRS. By default, each partnership will be required to file a federal adjustments report related to federal changes, and submit the report to both Minnesota and its direct partners within 90 days. Each partnership reporting changes must also file amended composite and withholding reports for resident partners within 180 days. Each direct partner, other than tiered partners, receiving an adjustment report as described above is also required to make a federal adjustment report and pay any additional tax due within 180 days of the final determination date.

Each partnership reporting federal adjustments after a partnership level audit is also eligible to make an election to pay the additional tax due to Minnesota at the entity level. A partnership making the election is required to do so on a federal adjustment report filed with the commissioner within 90 days of the final determination date. A partnership making the election must be able to determine and report the residency status of all direct and indirect partners, and pay tax on the properly allocated and apportioned share of all income at the highest marginal rate for its individual and corporate partners.

8 **Assessment of tax, interest, penalties, and additional amounts (statute of limitations).** Provides that when a taxpayer reports federal adjustments under sections 6 and 7 in a timely fashion that the statute of limitations on assessment for state tax purposes is extended by one year. When a taxpayer files a federal adjustment report in an untimely fashion the statute of limitations is extended for the shorter of either (1) one year after the filing of the untimely report; or (2) six years.

9 **Statute of limitations on refund claims.** Provides that the statute of limitations on refund claims related to adjustments made by the IRS is equal to the extended period for additional assessments under section 8.

10 **Consent to extend refunds.** Makes changes to correct cross references and generally comport with the changes in other sections. In addition, eliminates the authority to make assessments for an additional six month period when no federal changes are made.

Section

11 **Penalty for failure to notify of federal change.** Updates a cross-reference.

12 **Partners, not partnership, subject to tax.** Updates a cross-reference.

13 **Time limit for bad debt refund.** Updates a cross-reference.

14 **Time limit for a bad debt deduction.** Updates a cross-reference.

15 **JOBZ repayment procedures.** Updates a cross-reference.

16 **Repealer.** Repeals section 289A.38, subdivisions 7, 8, and 9, which are replaced by sections 6 to 8.

Article 11: Department of Revenue; Individual Income and Corporate Franchise Taxes; Technical Changes

Overview

This article includes provisions related to reporting adjustments after an Internal Revenue Service (IRS) settlement, ensuring that married filing separate brackets are exactly half of the married filing joint brackets, and the designation of required beneficiaries for first-time home-buyers.

1 **Accelerated recognition of certain installment sales gains.** Deletes the phrase “allocable amount” which is rendered unnecessary due to the changes in paragraph (e) section 3.

Effective date: Effective the day following final enactment.

2 **Schedule of rates for individuals, estates, and trusts.** Ensures the general tax brackets for married filing separate are exactly half of married filing joint. Also provides for the representation of accelerated installment sale receipts in the nonresident apportionment fraction of taxpayers who pay income taxes on accelerated installment sale gains under section 2.

Effective date: Effective for taxable years beginning after December 31, 2017.

3 **Inflation adjustment of brackets.** Ensures the general tax brackets for married filing separate are exactly half of married filing joint.

Effective date: Effective for taxable years beginning after December 31, 2017.

4 **Payments to horse racing license holders.** Corrects a cross-reference that was moved in a prior session.

Effective date: Effective the day following final enactment.

5 **Designation of qualified beneficiary (first time home buyer).** Allows a taxpayer to designate the required beneficiary when the taxpayer files the income tax return for the first year after establishing the account.

Effective date: Effective the day following final enactment.

Article 12: Department of Revenue; Sales and Use Taxes; Technical Changes

Overview

This article includes technical provisions and recodification corrections related to sales taxes.

1 **Ships used in interstate commerce.** Clarifies an ambiguity created in the chapter 297A recodification in 2000.

Effective date: Effective the day following final enactment.

2 **DEED certification of Greater Minnesota businesses.** Clarifies that the commissioner of employment and economic development must certify a Greater Minnesota business as a qualifying business under Minn. Stat. § 116J.8738, and that any purchase and delivery received exempt from the sales tax occurred during the duration of the business subsidy agreement.

Effective date: Effective the day following final enactment.

3 **DEED certification of biopharmaceutical manufacturing facilities.** Clarifies that the commissioner of employment and economic development must certify to the commissioner of revenue that the biopharmaceutical manufacturing facility is qualified for the sales tax exemption.

Effective date: Effective the day following final enactment.

4 **Recordkeeping requirement.** Reinstates a record keeping requirement inadvertently omitted during the chapter 289A recodification in 1990.

Effective date: Effective the day following final enactment.

Article 13: Department of Revenue; Tobacco Taxes; Technical Changes

Overview

This article includes technical provisions related to the taxation of vapor products.

1 **Definition of tobacco product**. Amends the definition of tobacco products to include vapor products.

Effective date: Effective the day following final enactment.

2 **Definition of vapor product**. Creates a definition of "vapor product" that includes electronic cigarettes and other components and accessories sold with a nicotine solution, as well as solutions containing nicotine produced from sources other than tobacco.

Effective date: Effective the day following final enactment except the inclusion of nontobacco nicotine in the definition is effective January 1, 2019.

3 **Definition of wholesales sales price**. Amends the definition of wholesale sales price so that it does not include the cost of electronic cigarettes and other components and accessories sold separately from a nicotine solution.

Effective date: Effective the day following final enactment.

Section

Article 14: Department of Revenue; Property Taxes; Technical Changes

Overview

This section contains provisions related to property tax data collection.

1 **Powers and duties; property tax data reports.** Amends the commissioner's powers to administer the state's property tax laws by clarifying that the commissioner of revenue may collect property tax data at the parcel level or higher in the time, form, and manner as the commissioner may prescribe. This method of collection is consistent with property tax data collection under the Property Record Information System of Minnesota.

2 **Initial report.** Conforming changes and cross-references added to the changes in section 1.

3 **Final report.** Conforming changes and cross-references added to the changes in section 1.

4 **Record of proceedings changing net tax capacity; duties of county auditor.** Conforming changes to the changes in section 1.

5 **Additional general duties.** Conforming changes and cross-references added to the changes in section 1.

6 **Training and education of property tax personnel.** Conforming changes and cross-references added to the changes in section 1.

7 **Reimbursement for lost revenue.** Conforming changes and cross-references added to the changes in section 1.

8 **Reimbursement for lost revenue.** Conforming changes and cross-references added to the changes in section 1.

9 **Disaster or emergency area.** Conforming changes and cross-references added to the changes in section 1.

10 **Reduction amounts submitted to county.** Conforming changes and cross-references added to the changes in section 1.

11 **Credit reimbursements.** Conforming changes and cross-references added to the changes in section 1.

12 **Credit reimbursements.** Conforming changes and cross-references added to the changes in section 1.

13 **Listing, valuation, and assessment of exempt property by county auditors.** Conforming changes and cross-references added to the changes in section 1.

14 **Length of session; record.** Conforming changes to the changes in section 1.

15 **Corrected lists, abstracts.** Conforming changes to the changes in section 1.

16 **Levy amount.** Conforming changes and cross-references added to the changes in section 1.

Section

17 **Determination; payment.** Conforming changes and cross-references added to the changes in section 1.

18 **Original net tax capacity.** Conforming changes and cross-references added to the changes in section 1.

19 **Repealer.** Repeals the statute describing the abstract of tax lists.

Effective date: Effective the day following final enactment.

Article 15: Department of Revenue; Miscellaneous; Technical Changes

Overview

This article amends various sections of law to replace references to disabled or blind persons to persons with a disability or persons who are blind. In addition, this section also amends gender-specific language regarding married persons with non-gender specific references. Also amends a section of law regarding the time to file post-trial motions.

1 **Superior National Forest; recreational property for use by disabled veterans.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

2 **Certain recreational property for disabled veterans.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

3 **Market value definition.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

4 **Class 1.** Amends the statute to update language for persons who are blind or have a disability.

Effective date: Effective the day following final enactment.

5 **Homestead of disabled veteran or family caregiver.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

6 **Returns of married persons.** Updates gender-specific language for spouses.

Effective date: Effective the day following final enactment.

7 **Requirements to pay.** Updates gender-specific language for spouses.

Effective date: Effective the day following final enactment.

8 **Joint income tax returns.** Updates gender-specific language for spouses.

Effective date: Effective the day following final enactment.

Section

9 **Order of assessment if joint income tax return.** Updates gender-specific language for spouses.

Effective date: Effective the day following final enactment.

10 **Subtraction.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

11 **Restrictions; married couples.** Amends the statutes listed below to update gender-specific language for spouses.

Effective date: Effective the day following final enactment.

12 **Definitions.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

13 **Income.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

14 **Household.** Updated gender-specific language for spouses.

Effective date: Effective the day following final enactment.

15 **Claimant.** Updated gender-specific language for spouses.

Effective date: Effective the day following final enactment.

16 **Combined household income.** Amends the statutes listed below to update gender-specific language for spouses.

Effective date: Effective the day following final enactment.

17 **One claimant per household.** Amends the statutes listed below to update gender-specific language for spouses.

Effective date: Effective the day following final enactment.

18 **Proof of claim.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

19 **Disabled.** Amends the statute to update language for persons who have a disability.

Effective the day following final enactment.

20 **Other exempt meals.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

21 **Parts and accessories used to make a motor vehicle disabled accessible.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

22 **Sales of certain goods and services to government.** Amends the statute to update language for persons who have a disability.

Section

Effective date: Effective the day following final enactment.

23 **Sales to nonprofit groups.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

24 **Camp fees.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

25 **Materials used to make residential property disabled accessible.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

26 **Tax collected.** Amends the statute to update language for persons who have a disability.

Effective date: Effective the day following final enactment.

27 **Purchase price.** Amends the statute to update language for persons who have a disability. Amends the statutes listed below to update gender-specific language for spouses.

Effective date: Effective the day following final enactment.

28 **Sale, sells, selling, purchase, purchased, or acquired.** Amends the statutes listed below to update gender-specific language for spouses.

Effective date: Effective the day following final enactment.

29 **Effective date.** Amends the effective date in Laws 2017, First Special Session chapter 1, article 8, section 3 concerning the period of time to file post-trial motions. After June 30, 2018, all cases have 30 days to file post-trial motions.

Effective date: Effective the day following final enactment.