

Subject Omnibus Tax Bill
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Article 1: Property Taxes and Aids

This article provides a number of changes relating to property taxes and aids to local governments. These changes include:

- exempting certain tribal-owned land;
- allowing additional qualifying relatives eligible for agricultural homesteads;
- classifying short-term rental property as 4(b)1 residential nonhomestead;
- allowing counties to choose a second settlement date for first-half property tax payments;
- providing a property tax deferral for an elderly living facility;
- providing 2019 local government aid (LGA) penalty forgiveness for the cities of Roosevelt and Sargeant; and

- allowing the spouse of a deceased veteran a onetime transfer of the disabled veterans' homestead exclusion.

Section Description: Article 1 – Property Taxes and Aids

1 Certain property owned by an Indian tribe.

Exempts from property taxes approximately 35 parcels owned by the Leech Lake Band of Ojibwe in Cass County. The parcels had been considered exempt as institutions of purely public charity, but have since had their applications denied because the tribe is not a 501(c)(3). This provision reestablishes the property tax exemptions for these parcels and provides for a refund of any taxes paid in 2020.

Effective retroactively from assessment year 2019.

2 General rule (agricultural relative homestead).

Adds grandparent, stepparent, stepchild, uncle, aunt, nephew, and niece to the list of qualifying relatives for agricultural relative homestead. This change would mean that qualifying relatives are the same for agricultural relative homesteads and residential relative homesteads.

Effective beginning with property taxes payable in 2021.

3 Elderly living facility deferral.

Establishes a deferral of property taxes for an elderly living facility. As long as the property continues to meet the requirements of subdivision 1, the facility is treated as if it were exempt from property taxes. If the property is sold, transferred, or no longer meets the requirements, the property owner must pay taxes that would have been due over the last five years.

Effective beginning with property taxes payable in 2021.

4 Class 4.

Adds to the 4(b)1 property tax classification short-term rental properties containing less than four units that were rented for more than 14 days in the preceding year. Under this provision, homestead properties are not considered short-term rental properties. The 4(b)1 classification has a class rate of 1.25 percent, is not subject to the state general levy, and is subject to referendum market value (RMV) taxes.

Effective beginning with assessments in 2020.

5 Homestead of veteran with a disability or family caregiver.

Allows the spouse of a deceased veteran to transfer the disabled veterans' homestead exclusion to a new property, provided that the new property has a

Section Description: Article 1 – Property Taxes and Aids

market value less than or equal to the value of the original property. The spouse would be limited to one such transfer.

Effective beginning with property taxes payable in 2021.

6 Distribution of funds.

Allows counties to distribute any property tax payments received after the first-half settlement day in May, for taxes payable in 2020 only. Counties would be allowed to choose a second settlement date for first-half payments. Counties choosing to do this would be required to file the same state auditor reports that are required for distribution of first-half payments.

Effective the day following final enactment.

7 2019 aid penalty forgiveness; city of Sargeant.

Provides that the city of Sargeant will receive its withheld 2019 LGA payment of \$9,280 by June 30, 2020. However, the first half payment of the city's 2020 LGA will be withheld until one month after the state auditor certifies that the city has filed its financial reports for both calendar years 2018 and 2019, and if the reports for both years are not filed by December 1, 2020, it will lose its entire 2020 LGA payment instead.

Effective the day following final enactment.

8 2019 aid penalty forgiveness; city of Roosevelt.

Provides that the city of Roosevelt will receive its withheld 2019 LGA payment of \$25,410 by June 30, 2020, provided the city is totally up to date on all its financial filings with the state auditor by that date. Its 2019 LGA payment was withheld because it did not file its calendar year 2018 financial reports in a timely fashion.

Effective the day following final enactment.

Article 2: Federal Conformity

This article adopts most of the federal changes included in the three federal tax acts that were enacted since December 31, 2018. The acts, and some of the more significant changes adopted, are as follows:

The Further Consolidated Appropriations Act (enacted December 2019):

- extends the exclusion from gross income for discharges of indebtedness on a principal residence (TY 2018-2020);

- allows distributions from section 529 college savings accounts for apprenticeship expenses and certain student loan payments;
- extends various provisions relating to depreciation and expensing;
- extends “Empowerment Zone” incentives; and
- includes several tax policies to aid individuals affected by natural disasters, including early retirement withdrawals, charitable contributions, and casualty losses.

The Families First Coronavirus Response Act (enacted March 2020):

- the limitation on the deductibility of wages used to claim employer sick leave and family medical leave credits.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act (enacted March 2020):

- special rules for early retirement distributions;
- \$300 above-the line deduction for charitable contributions (TY 2020 only);
- exclusion from gross income for up to \$5,250 in student loan payments made by an employer between March 28, 2020 and December 31, 2020; and
- expansions of deductible charitable contributions made by C Corporations.

This article **does not** conform to the following provisions:

- the federal changes for net operating losses in the CARES Act, including the suspension of the excess business loss limits. Under this article, the state would decouple from federal net operating losses (NOLs) by requiring taxpayers to add-back their federal NOLs and then take a state subtraction in the amount allowed under state law. That amount would be determined under the corporate NOL section of state law, as amended for individual taxpayers, which would further provide that individual NOLs are determined under the Tax Cuts and Jobs Act’s provisions for losses that were suspended by the CARES act. The individual NOL provisions would be effective for tax year 2020 and later, except that any consequence of the federal changes (that is, the five-year carryback and increase in the taxable income threshold) would not affect an individual’s net income for any taxable year affected by the federal NOL changes;
- the increase in the business interest deduction limit in the CARES Act, effective for tax years 2018 and 2019;
- the limit on the deductibility of wages used to claim the employer retention credit, which was established in the CARES Act; and
- the above-the-line deduction for tuition, which was extended to tax years 2018, 2019, and 2020 in the Further Consolidated Appropriations Act.

Section Description: Article 2 – Federal Conformity

1 Internal revenue code.

Adopts federal tax administrative changes made between December 31, 2018, and March 31, 2020, that Minnesota references for state tax administration purposes under chapter 289A. The federal act did not change federal provisions referenced in chapter 289A.

2 Net income (definition).

Adopts all of the federal changes to adjusted gross income (for individuals) and federal taxable income (for corporations). The federal changes to adjusted gross income are effective retroactively to when they became effective for federal purposes.

3 Internal revenue code.

Adopts federal changes to federal adjusted gross income used for computing individual alternative minimum tax and determining withholding on wages.

4 Business interest addition (individuals).

Requires an addition for the business interest deduction.

Effective for tax year 2020 and later, and retroactively for tax years affected by the business interest changes in the CARES Act.

5 Excess business losses addition (individuals).

Requires an addition for excess business losses that exceed the suspended nonbusiness income thresholds (i.e. the TCJA thresholds). The disallowed amount would be a net operating loss carryover under section 11 due to the Tax Cuts and Jobs Act treatment of these losses.

Effective for tax year 2020 and later, and retroactively for tax years affected by the excess business loss changes in the CARES Act.

6 Net operating loss addition (individuals).

Requires an addition for federal net operating losses.

Effective for tax year 2020 and later, and retroactively for tax years affected by the NOL changes in the CARES Act.

7 Net operating losses subtraction (individuals).

Allows a subtraction for the state net operating losses that are determined under section 11.

Section Description: Article 2 – Federal Conformity

- Effective for tax year 2020 and later, and retroactively for tax years affected by the NOL changes in the CARES Act.
- 8 Business interest subtraction (individuals).**
Allows a business interest subtraction equal to the amount allowed under the Internal Revenue Code of 1986, as amended through December 31, 2018.
Effective for tax year 2020 and later, and retroactively for tax years affected by the business interest changes in the CARES Act.
- 9 Business interest addition (corporations).**
Requires an addition for the business interest deduction.
Effective for tax year 2020 and later, and retroactively for tax years affected by the business interest changes in the CARES Act.
- 10 Business interest subtraction (corporations).**
Allows a business interest subtraction equal to the amount allowed under the Internal Revenue Code of 1986, as amended through December 31, 2018.
Effective for tax year 2020 and later, and retroactively for tax years affected by the business interest changes in the CARES Act.
- 11 Operating loss deduction.**
Amends the corporate net operating loss provision to apply to individual net operating losses.
Individuals, trusts, and estates are allowed a net operating loss as provided under the Internal Revenue Code of 1986, as amended through December 31, 2018.
Unlike for corporations, the net operating loss carryover deduction would not be limited to 15 years.
Effective for tax year 2020, except that changes to net income resulting from the loss provisions in the CARES Act are effective retroactively for the taxable years affected by the federal changes.
- 12 Special limited adjustment.**
Clarifies that the changes in the bill are to be calculated after the “special limited adjustment for tax year 2018” enacted in the 2019 omnibus tax bill. This has the effect of retroactively changing taxpayers’ liability in tax year 2018 for provisions adopted under the bill.

Section Description: Article 2 – Federal Conformity

13 Internal revenue code (property tax refunds).

Prospectively adopts the federal changes that affect household income, which uses the definition of federal adjusted gross income as a starting point. Effective for refunds based on rent paid in 2020, and property taxes payable in 2021.

Property tax refund claimants will not amend returns to reflect the federal changes for refunds based on rent paid in 2018 or 2019 and property taxes payable in 2019 or 2020.

14 Scope (estate tax).

Updates to changes in federal law made between December 31, 2018, and March 31, 2020. This change has no substantive effect on computation of the estate tax, but instead keeps the Internal Revenue Code date reference consistent with other sections of statute.

Effective retroactively for the estates of decedents dying after December 31, 2017.

15 Individual income tax collection action prohibited.

Prohibits the commissioner from increasing the amount due from individual income taxpayers for tax years 2018 and 2019 as a result of changes enacted in this law, if the taxpayer filed a 2018 or 2019 return based on state law before enactment of this law.

16 Temporary nonconformity additions and subtractions.

Requires an addition or subtraction for two provisions the bill does not conform to:

- the extension of the federal above-the-line tuition deduction, effective for taxable years 2018 through 2020; and
- the limitation on the deductibility of wages used to claim the employer retention credit established in the CARES Act, effective for tax year 2020 only.

Article 3: Individual Income and Corporate Franchise Taxes

Makes the following changes to income and corporate franchise taxes:

- prospectively, and over a period of six years, allows a taxpayer to pay the tax due on a gain on property exchanged in a like-kind exchange if the exchanged property would have qualified for a deferral of gain under the old pre-TCJA tax rules and retroactively allows full section 179 expensing for tax years 2018 and 2019, on property acquired in a like-kind exchange in those years;

- establishes a subtraction for volunteer driver reimbursements;
- makes the student loan credit refundable;
- excludes student loans discharged due to death or disability in 2018 from state taxes; and
- requires the department to complete a report on free filing options.

Section Description: Article 3 – Individual Income and Corporate Franchise Taxes

1 Composite income returns for nonresident partners, shareholders, and beneficiaries.

Amends the definition of income for composite return provision to include the addition and subtraction for tax on like-kind exchange property provided in sections 2 and 3.

Effective for tax year 2020 and later.

2 Gain on like-kind exchange; addition (individual).

Allows an individual taxpayer to add-back one-fifth of the amount of the tax due on like-kind exchange property that may be subtracted under section 3.

Effective for tax year 2020 and later.

3 Gain on like-kind exchange; subtraction (individual).

Allows an individual taxpayer to subtract 80 percent of the amount of the tax due on the gain on like-kind exchange property that was allowed to be deferred under pre-TCJA federal tax rules.

Effective for tax year 2020 and later.

4 Volunteer driver reimbursement (subtraction).

Allows a subtraction for reimbursement paid by a charitable organization to a volunteer in excess of the federal charitable rate (14 cents/mile). The subtraction is limited to the reimbursement rate for businesses (currently 58 cents/mile).

Effective for tax year 2020 and expires after tax year 2029.

5 Gain on like-kind exchange; addition (corporations).

Allows a corporate taxpayer to add-back one-fifth of the amount of the tax due on like-kind exchange property that may be subtracted under section 6.

Effective for tax year 2020 and later.

Section Description: Article 3 – Individual Income and Corporate Franchise Taxes

- 6 Gain on a like-kind exchange; subtraction (corporations).**
Allows a corporate taxpayer to subtract 80 percent of the amount of the tax due on the gain on like-kind exchange property that was allowed to be deferred under pre-TCJA federal tax rules.

Effective for tax year 2020 and later.
- 7 Schedules of rates for individuals, estates, and trusts.**
Modifies the formula used to determine the amount of tax assigned to Minnesota for nonresidents to exclude the amounts added and subtracted under sections 2 and 3.

Effective retroactively for taxable years beginning after December 31, 2017.
- 8 Credit allowed; refundable; appropriation.**
Makes the student loan credit refundable, meaning a taxpayer who is eligible for a credit in excess of the taxpayer’s liability would receive the excess amount as a refund.

Effective for tax year 2020 and later.
- 9 Definitions.**
Allows an addition and subtraction under the individual alternative minimum tax (AMT) for the like-kind exchange property additions and subtractions in sections 2 and 3.

Effective for tax year 2020 and later.
- 10 Special limited adjustment.**
Excludes student loans discharged due to death or disability in tax year 2018 from being subject to Minnesota’s individual income tax.

Effective retroactively for taxable years beginning after December 31, 2017, and before January 1, 2019.
- 11 Special provision for exchanged property in 2018 and 2019.**
Allows 100 percent expensing retroactively for property placed in service in 2018 and 2019 that was acquired in a like-kind exchange for exchanged property that would have qualified for gain deferral under the pre-TCJA tax rules.

Effective retroactively for tax years 2018 and 2019.

Section Description: Article 3 – Individual Income and Corporate Franchise Taxes

12 Department of Revenue free filing report.

Requires the department to submit a report to the legislature on free electronic filing options for the individual income tax. The department is required to survey tax preparation software vendors for information about providing a free electronic preparation and filing option, including system development, costs per return, customer service issues, links with federal return software, protecting return privacy, and current availability of free filing products.

The report is due on January 15, 2022, and must include a review of free filing options in other states, an analysis of taxpayer needs, a description of alternative options for free filing, and an analysis of usage of the Internal Revenue Service Free File Program.

13 Appropriation; Department of Revenue free filing report.

Appropriates \$175,000 to DOR in fiscal year 2022 for the free filing study required in section 12.

Article 4: C-option Corporation Election

This article establishes a C-option tax whereby a pass-through business may make an election to file and pay the corporate franchise tax (i.e. it may choose to become a “C-option corporation”). The amount of tax paid by the C-option corporation would then be subtracted pro rata by each owner on the owner’s individual income tax returns.

Section Description: Article 4 – C-option Corporation Election

1 Election to file as C-option corporation.

Allows a pass-through business to elect to file and pay the corporate franchise tax as a corporation. Only persons holding a majority interest in the pass-through may make the election, which is binding on all owners.

The election is valid for four years, but may be revoked prior to the end of the four-year period. Once revoked, the pass-through may not make the C-option election for four years. In addition, revocations or expirations of the election are effective at the close of the C-option corporation’s taxable year.

The pass-through businesses that may make the election are defined as “qualifying entities,” which includes partnerships, LLCs, and S corps.

Instead of applying the corporate franchise tax rate of 9.8 percent on a C-option corporation, the bill would impose the highest individual rate of 9.85 percent.

Section Description: Article 4 – C-option Corporation Election

The adjusted basis of the pass-through owners would be the same as the federal basis, and a qualifying entity could not have another pass-through business or corporation as an owner.

Effective for tax year 2020 and later.

2 C-option corporations.

Amends the definition of “taxpayer” in the administration and compliance chapter of the state tax code (chapter 289A), and applies the administrative provisions of that chapter to a C-option corporation.

Effective for tax year 2020 and later.

3 C-option corporation (definition).

Adds a definition for “C-option corporation” to the income tax chapter of state law. A “C-option corporation” is defined as a qualifying entity making the election in section 1.

Effective for tax year 2020 and later.

4 Income of partners, members, or shareholders.

Provides an individual income tax subtraction for the owners of a pass-through business making a C-option election for the amount of the tax paid by the C-option corporation at the entity level. The amount of the subtraction is distributed to each individual owner based on their share of the net income of the C-option corporation after assignment or apportionment.

Effective for tax year 2020 and later.

5 Schedules of rates for individuals, estates, and trusts.

Modifies the formula by which a nonresident’s income tax liability to Minnesota is calculated, to exclude the amounts subtracted under section 4 in the fraction used to determine the amount of a nonresident’s federal adjusted gross income that is subject to tax in Minnesota.

Effective for tax year 2020 and later.

6 Credit for taxes paid to another state.

Provides a credit for taxes paid to other states to a C-option corporation, for any income that is assigned, rather than apportioned to the state.

Effective for tax year 2020 and later.

Section Description: Article 4 – C-option Corporation Election

7 Definitions.

Allows a subtraction under the individual AMT for the subtraction allowed in section 4.

Effective for tax year 2020 and later.

8 Special rules for C-option corporations.

Provides a number of special rules for administering the tax on C-option corporations.

Any carryover for a C-option corporation's subtraction or credit that remains after a C-option election terminates cannot be used by the individual owners of the pass-through.

Nonrefundable credits would be allocated to the C-option corporations, while the portion of a refundable credit that exceeds the C-option corporation's taxable net income would be refunded to the individual owners. A C-option corporation would also be allowed to use credits claimed by an individual owner on the owner's individual return.

Tax refunds would also be paid to individual owners pro rata, in the same manner as the carryovers and refundable credits are distributed.

The requirement for corporations to make estimated payments of tax would apply to a C-option corporation and any of these payments made after the election terminates would be distributed to the individual owners.

Effective for tax year 2020 and later.

9 Withholding by partnerships.

Extends the exemption on withholding for nonresident partners to a C-option corporation.

Effective for tax year 2020 and later.

10 Withholding by S corporations.

Extends the exemption on withholding for nonresident shareholders to a C-option corporation.

Effective for tax year 2020 and later.

Article 5: Sales and Use Taxes

Makes the following changes to state sales taxes:

- fixes a sales tax exemption for sales made by student-run organizations needed because of a school accounting change;
- provides a number of refundable sales tax exemptions for constructions of public safety facilities in specific cities;
- provides a refundable sales tax exemption related to recovering from a fire in the city of Alexandria as well as a onetime grant of up to \$150,000 for costs related to the fire; and
- provides the Minnesota State High School League with flexibility in the use of up to a total of \$500,000 of revenues equivalent to forgone sales tax revenues on state high school league tournaments for school years 2019-2020 and 2020-2021.

Section Description: Article 5 – Sales and Use Taxes

1 **Fund-raising sales by or for nonprofit groups.**

Corrects a problem caused by a change in school district accounting standards that occurred last year and reinstates the sales tax exemption on sales made by school-associated student groups even when the money is recorded as part of school district revenues, provided that (1) the sales are for fund-raising purposes of an elementary or secondary student organization for the purposes of funding extracurricular activities such as sports, arts, etc., and (2) the school district rerecords the revenue separately and the money raised for a specific activity is spent on that activity.

Effective the day following final enactment.

2 **Construction; certain local government facilities.**

Expands the existing refundable sales tax exemption for construction materials and supplies and equipment incorporated into certain local government facilities as follows:

- extends the end date for the existing exemption for a fire station and police station in the city of Minnetonka from January 1, 2021, to January 1, 2022;
- adds a new fire station and emergency management center in the city of Maplewood for purchases made after September 30, 2020, and before April 1, 2023;
- adds a new police station in the city of Crystal for purchases made after December 31, 2020, and before January 1, 2024;
- adds a new fire station in the city of Buffalo for purchases made after April 30, 2020, and before November 1, 2021;
- adds a new fire station in the city of Grand Rapids for purchases made after July 31, 2020, and before August 1, 2022;

Section Description: Article 5 – Sales and Use Taxes

- adds a new fire station in the city of Bloomington for purchases made after December 31, 2020, and before January 1, 2023; and
- adds a fire station in the city of St. Peter for purchases made after June 30, 2020, and before March 1, 2022.

3 Properties destroyed or damaged by a fire.

Provides a refundable sales tax exemption for construction materials, supplies, and equipment used for the construction or replacement of real property destroyed by a fire in the city of Alexandria on February 25, 2020. Capital equipment purchased to replace destroyed capital equipment, such as equipment used in a restaurant for food storage, preparation, and serving is also exempt. Purchases must be made after February 24, 2020, and before February 28, 2023.

Also provides an exemption for cleaning and disinfecting services relating to smoke damage mitigation for buildings impacted by the same fire. Sales and purchases must be made after February 24, 2020, and before January 1, 2021.

Effective the day after final enactment and applies retroactively to purchases made after February 24, 2020.

4 Tax collected.

Adds the exemption for the Alexandria fire in section 3 to the list of sales tax exemptions where the tax is paid at that time of purchase and then refunded.

This section is effective the day following final enactment.

5 State high school league; funding flexibility.

The Minnesota State High School League (MSHSL) currently has a sales tax exemption for all admissions to regional and state tournaments and events provided an amount equal to the foregone revenues is transferred to a nonprofit for use in supporting extracurricular activities and scholarships. This provision allows the MSHSL to not transfer up to a total of \$500,000 of the revenue over a two year period, provided that the retained revenue is used for MSHSL operations.

Effective the day after final enactment and applies retroactively to sales tax savings in the 2019–2020 and 2020-2021 school years.

6 Appropriation.

Provides a onetime appropriation from the general fund in fiscal year 2020 of up to \$150,000 to the commissioner of public safety for the purpose of providing grants to the city of Alexandria. The grants funds, which are available until June 30, 2022, may

Section Description: Article 5 – Sales and Use Taxes

be provided to public or private entities and are to be used for fire remediation costs, including:

- disaster recovery;
- infrastructure;
- reimbursement for emergency personnel costs; and
- reimbursement for property tax abatements.

Effective the day following final enactment.

Article 6: Miscellaneous

This article includes various other tax provisions such as:

- expanding the workforce and affordable homeownership development program by adding loans in addition to grants;
- modifying the statutory local lodging tax authority to include accommodations intermediaries in the tax base and allow changes in remittance dates;
- providing temporary flexibility in the use of unencumbered TIF revenues;
- providing temporary flexibility in the use of revenues from most local sales taxes, except for the lodging taxes dedicated to a tourism or convention bureau;
- extending the five-year tax increment financing rule to ten years for redevelopment districts in greater Minnesota; and
- establishing a local sales tax working group to make recommendations regarding types of capital projects to be funded with local sales taxes and criteria for judging a project's regional significance.

Section Description: Article 6 – Miscellaneous

1 Workforce and affordable homeownership development program.

Expands the scope of the program to include loans, as well as grants. Beginning in fiscal year 2022, requires the commissioner of Minnesota Management and Budget to annually transfer by September 15, \$4 million of the revenue derived from the mortgage registry and deed taxes into a newly created account within the housing development fund. These transfers run through fiscal year 2031. Requires the repayment of loans to be repaid into the newly established account.

Effective July 1, 2020.

Section Description: Article 6 – Miscellaneous

2 Temporary use of increment authorized.

Allows TIF authorities to transfer unobligated increment to the municipality's general fund. The transferred increment is limited to the excess of increment that is required to make bond payments or other financial obligations within six months of the transfer. Transfers may be made through December 31, 2021.

Contains a requirement for the municipality to approve a spending plan, amend the tax increment financing plan, and hold a public hearing that discusses the use of transferred increment. Also contains administrative provisions related to reporting to the Office of the State Auditor.

Effective for current unobligated increment the day following final enactment for any TIF district regardless of its certification date.

3 Five-year rule.

Extends the five-year pooling rule to ten years for all redevelopment districts located outside of the seven-county metro area. This change only applies to districts certified after June 30, 2020.

Effective the day following final enactment.

4 Use of revenues for decertification.

Extends the six-year rule that requires increment to be spent on efforts to decertify the district to 11 years for redevelopment districts whose five-year pooling rules are extended to ten years.

Effective the day following final enactment.

5 Authorization (lodging taxes).

States that local lodging taxes apply to the whole price of lodging including services provided by accommodation intermediaries. "Accommodation intermediaries" are online lodging and travel providers who resell rooms. This conforms to the definition used for the state sales tax and for local lodging taxes currently collected by the state. Also allows cities and towns that collect their own lodging tax and have ten or fewer lodging establishments to opt out of collecting lodging tax on accommodation intermediaries.

Effective the day after final enactment.

6 Collection (lodging taxes).

Allows any local government that collects its own lodging tax to limit the required filing and remittance of the tax by accommodation intermediaries to once a year. The collection date must coincide with one of the monthly filing dates for state taxes. The

Section Description: Article 6 – Miscellaneous

local government is also responsible for providing these intermediaries with the geographic and zip code information needed to correctly apply the tax.

Effective the day after final enactment.

7 Temporary use of special tax revenues.

Allows local governments the temporary authority to divert a portion of certain local sales tax revenues to their general fund for through December 31, 2021. This applies to unencumbered revenues from the following local taxes:

- general local taxes, including county transit taxes;
- food and beverage taxes;
- liquor taxes;
- admissions and amusement taxes; and
- lodging taxes imposed by special law, except for the portions dedicated to funding a local tourism or convention bureau.

It excludes lodging taxes imposed under general statutory authority which also must be used for funding a local tourism or convention bureau.

The local government may only divert the money received in a calendar quarter not needed to fund debt obligations in the next calendar quarter. It also must have a plan for the use of the revenues and hold a public hearing on the topic prior to the diversion of any funds.

Effective the day after final enactment.

8 Local sales tax criteria working group.

Establishes a working group made up of the commissioner of revenue, or their designee, representatives from various local government groups, and individuals representing nongovernment groups that may have an interest in the issue. The group must develop a list of capital projects that may qualify as a project of regional significance and criteria to be used to judge whether it does qualify, along with a list of capital projects that should not be considered as projects of regional significance for local sales tax purposes. The lists, criteria, and proposed legislation to codify their findings should be included in a report sent to the ranking members of the house and senate committees with jurisdiction over local sales taxes by July 31, 2021.

Effective the day following final enactment.

Section Description: Article 6 – Miscellaneous

9 Waiver of fee for payment agreements.

Temporarily allows the commissioner of revenue to waive the fee associated with entering into a payment plan with the department. This authority expires July 1, 2022.

Effective for agreements entered into the day following final enactment.

10 Tax expenditure statement of purpose.

Establishes tax expenditure purpose statements for the volunteer driver subtraction created in article 3, section 4, and the sales tax exemptions created in article 5, sections 2 and 3.

Article 7: Department of Revenue – Income and Corporate Franchise Taxes

This article makes technical changes to the rounding of the inflation adjustment, casualty and theft losses, and special limited adjustments. This article also modifies certain allowances and the sales apportionment factor.

Section Description: Article 7 – DOR – Income and Corporate Franchise Taxes

1 Composite income tax returns for nonresident partners, shareholders, and beneficiaries.

Clarifies that the taxable income computed for purposes of composite returns includes the modifications for foreign income.

Effective retroactively for taxable years beginning after December 31, 2015.

2 Inflation adjustment.

Removes superfluous language regarding the rounding of the inflation adjustment. This language is unnecessary because there is already rounding language in the previous sentence.

Effective the day following final enactment.

3 Losses.

Clarifies that only casualty and theft losses as defined in sections 165(c)(2), 165(c)(3), and 165(d) of the Internal Revenue Code (IRC), to the extent not compensated by insurance or otherwise, are deductible for state income tax purposes.

Section Description: Article 7 – DOR – Income and Corporate Franchise Taxes

Also clarifies that the limitations provided in section 165(h) and 67(b)(3), except those in 165(h)(5), also apply.

Effective retroactively for taxable years beginning after December 31, 2018.

4 Determination of sales factor.

Excludes the sale of derivatives, such as options and swaps, from the sales apportionment factor.

Effective the day following final enactment.

5 Allowances.

Allows the department to calculate allowances for withholding purposes, to ensure the correct amount will be withheld for individual income tax purposes. The allowances must be computed in a form and manner prescribed by the commissioner.

Creates new paragraph (b) that includes allowances for dependents as defined in the IRC, excepting the allowances given for the federal dependent credit. Also creates allowances for the standard deduction or estimated itemized deductions, as long as the employee's spouse does not have the same, and any other allowances the commissioner deems are in the best interests of determining proper amounts to withhold for the payment of taxes under chapter 290.

Creates new paragraph (e) that allows employers not to deduct and withhold for those employees that certify they will incur no tax liability under section 3402(n) of the IRC.

Effective retroactively for taxable years beginning after December 31, 2019.

6 Special limited adjustment.

Clarifies that the special limited adjustment applies to individuals, estates, and trusts.

Effective retroactively for taxable years beginning after December 31, 2017, and before January 1, 2019.

Article 8: Department of Revenue – Property Taxes

This article provides modifications to provisions related to Board of Assessor education requirements, powers and duties of county and city assessors, wind and solar energy production tax, and cross-references to certain PILT payments.

Section Description: Article 8 – DOR – Property Taxes

- 1 Report on disciplinary actions (Board of Assessor reports).**
Combines separate reports that the department makes to the governor and to the legislature into a single report containing the same information as already required under law.
- 2 Definitions.**
Clarifies that the original construction date of a wind energy conversion system is not altered if the system is replaced, repaired, or otherwise maintained or altered.

Effective the day following final enactment.
- 3 Definitions.**
Clarifies that the original construction date of a solar energy generating system is not altered if the system is replaced, repaired, or otherwise maintained or altered.

Effective the day following final enactment.
- 4 Notification of tax.**
Allows the commissioner to correct clerical errors until December 31 each year, if the commissioner determines that the amount of production tax is erroneously calculated for a solar energy generating system.

Effective the day following final enactment.
- 5 Applications; limitations (assessor powers and duties).**
Clarifies that the powers and duties performed by a city assessor in a county having a city of the first class are the powers and duties of a county assessor.

Effective the day following final enactment.
- 6 Training and education of property tax personnel.**
Specifies that licensed assessors must complete 30 hours of education on Minnesota laws, assessment administration, and administrative procedures. These hours may be spread out over every four-year licensing cycle, rather than mandating completion of a single weeklong course on these topics.

Effective for the four-year licensing period starting July 1, 2020, and thereafter.
- 7, 8, 10 Lake Vermillion-Soudan Underground Mine State Park PILT.**
Amends payment in-lieu of taxes (PILT) references in Minn. Stat. §§ 273.124, 273.18, and 477A.10, to include cross-references to the Lake Vermillion-Soudan Underground Mine State Park PILT statute.

Section Description: Article 8 – DOR – Property Taxes

Effective the day following final enactment.

9 Exemptions.

Provides an exemption to the mortgage registry tax for mortgage loans made under low or moderate income housing program if the assignee of the mortgage is a governmental agency. Currently, the governmental agency must be listed as the mortgagee for the exemption to apply.

The provision also corrects the format to reflect that the exemptions are listed as clauses, not paragraphs.

Effective for mortgages recorded after July 31, 2020.

Article 9: Department of Revenue – Fire and Police State Aids

This article includes updates to the recodification of the fire state aid and police state aid programs that were enacted in 2019.

Section Description: Article 9 – DOR – Fire and Police State Aids

1 Report to commissioner of revenue.

Provides due dates for financial compliance reports submitted by the state auditor to the commissioner of revenue. These reports certify which relief associations are eligible to receive fire state aid.

Effective for aids payable in calendar year 2021 and thereafter.

2 Penalties.

Eliminates obscure penalty language no longer needed by the commissioner of revenue. A cross-reference is also added to clarify consequences for an insurance company that knowingly makes and files an inaccurate or false report.

Effective for reports required to be filed after December 31, 2020.

3 Apportionment agreement.

Defines “apportionment agreement” for the purposes of fire state aid.

Effective for aids payable in calendar year 2021 and thereafter.

Section Description: Article 9 – DOR – Fire and Police State Aids

4 Fire department.

Adds joint powers entities and fire protection special taxing districts for purposes of fire state aid.

Effective for aids payable in calendar year 2021 and thereafter.

5 Fire protection special taxing district.

Defines “fire protection special taxing district” for the purposes of fire state aid.

Effective the day following final enactment.

6 Joint powers entity.

Defines “joint powers entity” for the purposes of fire state aid.

Effective the day following final enactment.

7 Municipality.

Includes joint powers entities and fire protection special taxing districts in the definition of “municipality” for the purposes of fire state aid. Eliminates park districts and the University of Minnesota from the definition. These entities do not currently receive fire state aid and are not anticipated to qualify for the aid in the future.

Effective for aids payable in calendar year 2021 and thereafter.

8 Secretary.

Includes the secretary of a joint powers board or fire protection special taxing district board in the definition of “secretary” for fire state aid purposes.

Effective for aids payable in calendar year 2021 and thereafter.

9 Establishment of fire department.

Requires a fire department to have a fire department identification number issued by the state fire marshal as one of the criteria for receiving fire state aid.

Effective for aids payable in calendar year 2021 and thereafter.

10 Benefits requirements.

Eliminates outdated personnel criteria for fire departments to receive fire state aid. Adds language to clarify that a fire department may not be associated with two retirement benefit plans at the same time.

Effective for aids payable in calendar year 2021 and thereafter.

Section Description: Article 9 – DOR – Fire and Police State Aids

11 Public safety answering point requirement.

Requires a fire department to be dispatched by a public safety answering point in order to qualify for fire state aid.

Effective for aids payable in calendar year 2021 and thereafter.

12, 17 Documentation filing requirements.

Clarifies the documentation and information required to be filed with the commissioner by municipalities and independent nonprofit firefighting corporations. Notifications of contract termination, apportionment agreements, joint powers agreements, fire protection special taxing district resolutions or agreements, and any amended versions of such documents must all be filed with the commissioner at the time and in the form and manner as the commissioner prescribes.

In the event a fire department is located in an unorganized territory, the county auditor is also required to provide information that the commissioner needs to apportion the estimated market value of the fire department service area.

Effective for aids payable in calendar year 2021 and thereafter.

13 PERA certification to commissioner.

Provides that the executive director of the Public Employees Retirement Association only needs to certify to the commissioner changes to the fire department's retirement coverage by the voluntary statewide volunteer firefighter retirement plan since the previous certification.

Effective for aids payable in calendar year 2021 and thereafter.

14 Fire department certification to commissioner.

Requires the municipal clerk or the secretary to annually certify a fire department's fire department service area and whether all the qualification criteria for fire state aid are met. The municipal clerk or secretary must send a copy of the certification to the fire chief within five business days of filing.

Effective for aids payable in calendar year 2021 and thereafter.

15 Penalty for failure to file or correct certification.

Eliminates the ten-day grace period between the fire state aid certification due date and the time a penalty begins accruing. The grace period is replaced by a notification issued by the commissioner on March 1, alerting a municipal clerk or secretary that has not yet filed the certification form of the March 15 due date and applicable penalty for late filed certifications.

Section Description: Article 9 – DOR – Fire and Police State Aids

Adds a requirement that a municipal clerk or secretary correct a certification form rejected by the commissioner within 30 days of the notice of rejection.

Shortens the penalty timeline to ten weeks and applies to both late certifications and corrective certifications filed after March 15 that are also filed more than 30 days after the date on the notice of rejection.

Effective for aids payable in calendar year 2021 and thereafter.

16 Population and estimated market value.

Requires the commissioner to use population estimates from the state demographer rather than federal census data to calculate fire state aid.

Effective for aids payable in calendar year 2021 and thereafter.

18 Appeal.

Provides that objections to fire state aid apportionment may only be raised within 60 days after the apportioned fire state aid is paid.

Effective for aids payable in calendar year 2021 and thereafter.

19 Payments.

Clarifies that aid is withheld from payment for noncompliance with financial reporting requirements. If the Office of the State Auditor certifies that the requirements have been met, the commissioner must make the payments within ten business days of receipt of the certification.

Clarifies that joint powers entities and independent nonprofit firefighting corporations must designate in writing the city or town to be paid fire state aid on its behalf.

Effective for aids payable in calendar year 2021 and thereafter.

20 Aid amount corrections.

Specifies how clerical errors that resulted in an incorrect payment are to be adjusted. Adjustments may only occur within three years after payment was issued.

Effective for aids payable in calendar year 2021 and thereafter.

21 Penalty for failure to file or correct certification.

Eliminates the ten-day grace period between the police state aid certification due date and the time a penalty begins accruing. The grace period is replaced by a notification issued by the commissioner on March 1, alerting a municipal clerk,

Section Description: Article 9 – DOR – Fire and Police State Aids

municipal clerk-treasurer, or county auditor that has not yet filed the certification form of the March 15 due date and applicable penalty for late filed certifications.

Adds a requirement that a municipal clerk, municipal clerk-treasurer, or county auditor correct a certification form rejected by the commissioner within 30 days of the notice of rejection.

Shortens the penalty timeline to ten weeks and applies to both late certifications and corrective certifications filed after March 15 that are also filed more than 30 days after the date on the notice of rejection.

Effective for aids payable in calendar year 2021 and thereafter.

22 , 24 Police state aid amount corrections.

Specifies how clerical errors that resulted in an incorrect payment are to be adjusted. Adjustments may only occur within three years after payment was issued. Deletes vague language describing aid payment adjustments.

Effective for aids payable in calendar year 2021 and thereafter.

23 Appeal.

Provides that objections to police state aid apportionments may only be raised within 60 days after the aid is paid.

Effective for aids payable in calendar year 2021 and thereafter.

25 Repealer.

Repeals outdated equipment requirements for fire departments that should no longer be used as a factor in determining qualification for fire state aid. Also repeals vague language describing aid payment adjustments.

Effective for aids payable in calendar year 2021 and thereafter.

Article 10: Department of Revenue – Miscellaneous

This article includes technical provisions relating to sales and use tax, cigarette and tobacco tax and liquor tax administration, and a definition of special fuel dealer.

Section Description: Article 10 – DOR – Miscellaneous

- 1 Adjustment; definition; period; rounding**
Corrects the statutory year calculation of inflation for the property tax refund chapter.

Effective for property tax refunds based on property taxes payable in 2020, and rent paid in 2019.
- 2 Standards of conduct.**
Clarifies that a paid tax preparer may not take control or ownership of a client’s tax refund regardless of the manner in which the refund is paid.

Effective the day following final enactment.
- 3 Sales and use tax.**
Provides a technical change so that the June accelerated sales tax payment percentages referred to in paragraph (c), clause (2), correctly match with the percentages specified in paragraph (b), clause (1).

Effective the day following final enactment.
- 4 Gross receipts tax imposed.**
Clarifies that a liquor retailer may (but is not required to) collect liquor gross receipts tax from the purchaser and the tax is excluded from sales price for purposes of sales tax if separately stated on the receipt given to the purchaser.

Effective the day following final enactment.
- 5 Suspension of license.**
Clarifies that “fuel dealer” refers to “special fuel dealer” as defined in section 296A.01, subd. 47.

Effective the day following final enactment.
- 6 Marketplace provider liability.**
Clarifies that a marketplace provider is deemed to be the retailer or seller for all retail sales the marketplace provider facilitates.

Effective the day following final enactment.
- 7 Refusal to issue or renew; revocation.**
Clarifies that any convictions for crimes involving tobacco, in addition to cigarettes, are reasons the commissioner must not issue or renew a license under chapter 297F.

Section Description: Article 10 – DOR – Miscellaneous

Effective the day following final enactment.

8 Accelerated tax payment; cigarette or tobacco products distributor.

Reorganizes for readability and clarifies the appropriate rates for the applicable years and penalty exceptions.

Effective for estimated payments required to be made after the date of final enactment.

9 General rule.

Deletes unnecessary language in section 297F.17, subd. 1, because sufficiency of notice is already covered in section 270C.33, subd. 8, which applies to all tax administered by the commissioner.

Effective for notices of tax assessment issued after the date of final enactment.

10 Accelerated tax payment; penalty.

Reorganizes for readability and clarifies the appropriate rates for the applicable years and penalty exceptions related to liquor taxes.

Effective for estimated payments required to be made after the date of final enactment.

11 Cigarette and tobacco distributor or subjobber license; suspension or revocation.

Amends cross-reference to section 297F.04 within section 609B.153 to be consistent with the amendment being made to section 297F.04, subd. 2.

Effective the day following final enactment.

12 Repealer.

Repeals the requirement that local units of government, whose tax is administered by the department, pay for new computer system development costs. This provision is unnecessary as the commissioner is required to deduct from the proceeds remitted any direct or indirect costs to administer, audit, and collect local sales taxes.

Effective the day following final enactment.



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