

2013 Supplement to the Minnesota Tax Handbook

This supplement to the 2012 Edition of the Minnesota Tax Handbook contains the major tax law changes enacted in 2013. The page references are to the 2012 Edition. Also included are the current rates for the major state taxes, the property tax class rates for taxes payable in 2014, and state tax collections for fiscal year 2013.

The 2012 Edition of the Minnesota Tax Handbook can be found on the Department of Revenue web site at www.revenue.state.mn.us/research_stats/Pages/Tax_Handbooks.aspx

Minnesota Department of Revenue
Tax Research Division
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History of Major Changes

STATE TAXES

Individual Income Tax, Page 8

- 2013 – Fourth bracket with a tax rate of 9.85% enacted for taxable income exceeding \$250,000 for married-joint returns, \$125,000 for married-separate returns, \$150,000 for single persons, and \$200,000 for heads of households.
- Rate for the alternative minimum tax increased from 6.4% to 6.75%.
 - Research credit made nonrefundable.
 - Historic structure rehabilitation credit extended for six years.
 - Greater Minnesota internship credit enacted (1/1/14).

Corporate Franchise Tax, Page 14

- 2013 – Foreign royalty subtraction repealed.
- Foreign operating corporation provisions repealed.
 - Definition of Minnesota sales modified for unitary groups.
 - Minimum fee thresholds and amounts increased; indexed for inflation (1/1/14).
 - Research credit made nonrefundable.
 - Historic structure rehabilitation credit extended for six years.
 - Greater Minnesota internship credit enacted (1/1/14).

Estate Tax, Page 15

- 2013 – Taxable estate extended to include gifts made within three years of death.
- For a nonresident decedent, Minnesota property held in a pass-through entity subject to tax.

Gift Tax

- 2013 – Gift tax of 10% enacted, with a life-time credit of \$100,000.

General Sales and Use Tax, Page 20

- 2013 – Exemption enacted for purchases by cities and counties.
- Tax imposed on business purchases of electronic and commercial equipment repair and maintenance services and on warehousing and storage services.
 - Exemption for telecommunications equipment repealed.
 - Refund requirement for capital equipment exemption repealed (9/1/14).
 - Tax imposed on specified digital products.
 - Out-of-state retailers required to collect the sales tax if they have an agreement with a Minnesota resident or business to refer customers by a link on a web site.
 - Exemption enacted for aircraft parts and labor for general aviation.
 - Exemption enacted for all purchases made by qualifying businesses that expand in Greater Minnesota, limited in total to \$7 million per year.
 - Exemption of construction materials enacted for: a qualifying research facility; an industrial measurement facility; a biopharmaceutical facility; and a destination medical center.
 - Rate for the motor vehicle rental tax increased from 6.2% to 9.2%.

Motor Vehicle Sales Tax, Page 21

- 2013 – Exemption for sales between individuals limited to certain family members.
- Flat tax on collector vehicles increased from \$90 to \$150.

Motor Fuels Excise Taxes, Page 23

- 2013 – Aviation fuels tax for jet fuel increased from 5¢ to 15¢ per gallon; eliminated refund of a portion of the aviation fuels tax based on volume except for companies paying the airflight property tax (7/1/14).

Alcoholic Beverage Taxes, Page 25

- 2013 – Qualification for the small brewers' credit increased from less than 100,000 barrels to less than 250,000 barrels.

Cigarette Taxes and Fees, Page 27

- 2013 – Tax increased to \$2.83 per pack from total tax and fee of \$1.23. Fee of 75¢ per pack eliminated. Tax rate indexed (7/1/14).
- In-lieu sales tax increased from 6.5% to 6.875%.
 - Nonsettlement fee increased from 35¢ to 50¢ per pack.
 - Little cigars subject to the same tax as cigarettes, including the in-lieu sales tax and the nonsettlement fee, instead of being subject to the tobacco products tax and general sales and use tax.

Tobacco Products Tax and Fee, Page 29

- 2013 – Tax rate increased to 95% of wholesale price from a total tax and fee of 70%. Fee of 35¢ eliminated.
- Minimum tax of \$2.83 per container imposed on moist snuff.
 - Premium cigars subject to a maximum tax of \$3.50 per cigar.

Insurance Premiums Taxes, Page 37

- 2013 – Historic structure rehabilitation credit extended for six years.

Aircraft Registration Tax, Page 48

- 2013 – Structure of the tax changed from 1% of base price, reduced for depreciation after the first year and subject to a minimum tax, to a tax schedule by range of base price.

LOCAL TAXES

General Property Tax, Page 58

- 2013 – Property tax refund increased for homeowners in the middle to high end of the income range.
- Property tax refund increased for renters in the high end of the income range; maximum refunds increased.
 - Class rate reduced for class 4d, low-income rental housing for market value of each unit over \$100,000 (pay 2015).

Mining Production Taxes, Page 63

- 2013 – Rate set at \$2.56 per ton for 2013.

**Rates of Major State Taxes
As of January 1, 2014**

Individual Income Tax: Tax Year 2014

Rates and Taxable Income Brackets

| | 5.35% | 7.05% | 7.85% | 9.85% |
|----|----------|--------------------|---------------------|-----------|
| | up to | | | over |
| MJ | \$36,080 | \$36,081-\$143,350 | \$143,351-\$254,240 | \$254,240 |
| MS | \$18,040 | \$18,041- \$71,680 | \$71,681-\$127,120 | \$127,120 |
| S | \$24,680 | \$24,681- \$81,080 | \$81,081-\$152,540 | \$152,540 |
| HH | \$30,390 | \$30,391-\$122,110 | \$122,111-\$203,390 | \$203,390 |

Corporate Franchise Tax: 9.8%

General Sales and Use Tax: 6.875%

Liquor Gross Receipts Tax: 2.5%

Motor Vehicle Rental Tax: 9.2%

Motor Vehicle Rental Fee: 5%

Motor Vehicle Sales Tax: 6.5%

Highway Fuels Excise Taxes: 28.5¢ per gallon

Alcoholic Beverage Taxes

| | |
|------------------------------|---------------------------|
| Distilled spirits: | \$5.03 per gallon |
| Beer: more than 3.2% alcohol | \$4.60 per barrel |
| 3.2% or less: | \$2.40 per barrel |
| Wine: | \$.30 - \$3.52 per gallon |

Cigarette Tax: \$2.83 per pack of 20 cigarettes

Tobacco Products Tax: 95% of wholesale price

Mortgage Registry Tax: 0.23% of principal debt

Deed Transfer Tax: 0.33% of consideration

MinnesotaCare Taxes: 2% of gross revenues for health care providers, hospitals, surgical centers, and wholesale drug distributors.

Motor Vehicle Registration Tax: \$10 plus 1.25% of base value based on age for passenger cars, pickup trucks, and vans. Trucks, tractors, and buses based on type, weight, and age of the vehicle.

State General Property Tax: for taxes payable in 2014, 52.16% of the net tax capacity for commercial and industrial property; 22.836% for seasonal recreational property.

Class Rates for Major Classes of Property for 2014

| <u>Class and Type of Property</u> | <u>Net Class Rate</u> |
|---|-----------------------|
| 1a Residential homestead | |
| First \$500,000 market value (MV) | 1.0% |
| Over \$500,000 MV | 1.25% |
| 1b Homestead of blind or disabled | |
| First \$50,000 MV | 0.45% |
| Excess is Class 1a or 2a | |
| 1c Homestead resorts | |
| First \$600,000 MV | 0.5% |
| Next \$1,700,000 MV | 1.0% |
| Over \$2,300,000 MV | 1.25% ^b |
| 1d Seasonal farm worker housing - same as Class 1a | |
| 2a Agricultural homestead | |
| House, garage, and one acre - same as Class 1a | |
| Remaining land and buildings | |
| First \$1,500,000 MV | 0.5% ^a |
| Over \$1,500,000 MV | 1.0% ^a |
| Nonhomestead agricultural land | 1.0% ^a |
| 2b Rural vacant land | 1.0% |
| 2c Managed forest land | 0.65% ^a |
| 2d Private airport | 1.0% ^a |
| 2e Unmined commercial aggregate deposit land | 1.0% ^a |
| 3a Commercial and industrial, utility real property | |
| First \$150,000 MV | 1.5% ^b |
| Over \$150,000 MV | 2.0% ^b |
| Public utility machinery | 2.0% ^b |
| 3b Employment property – same as Class 3a ^b | |
| 4a Apartments, 4 or more units; private hospitals | 1.25% |
| 4b Residential or farm nonhomestead, 2-3 units; manufactured homes | 1.25% |
| 4bb Residential or farm nonhomestead, 1 unit – same as Class 1a | |
| 4c Commercial seasonal recreational residential – same as Class 1a ^b | |
| Nonprofit community service organization | 1.5% |
| Post-secondary student housing | 1.0% ^a |
| Manufactured home parks | 1.25% |
| Noncommercial seasonal recreational residential – Same as Class 1a ^{a, b} | |
| Qualifying golf courses | 1.25% |
| Nonprofit fitness and recreational facilities in the metro area | 1.25% |
| 4d Low-income rental housing | 0.75% |
| 5 Unmined iron ore and low-grade iron ore | 2.0% ^b |
| All other property | 2.0% |

^aExempt from school district referendum levies.

^bSubject to state general property tax, except for electric generating public utility machinery.

Minnesota State Tax Collections Fiscal Year 2013
All Funds - Net After Refunds

| | FY 2013 Collections | |
|---------------------------------|----------------------------|-----------------------|
| | Amount (000's) | % of Total |
| Individual Income Tax | \$9,012,546 | 43.99% |
| Corporate Franchise Tax | 1,280,843 | 6.25 |
| Estate Tax | 158,928 | 0.78 |
| General Sales & Use Tax | 4,990,005 | 24.35 |
| Liquor Gross Receipts Tax | 77,524 | 0.38 |
| Motor Vehicle Rental Tax | 14,958 | 0.07 |
| Motor Vehicle Rental Fee | 1,342 | 0.01 |
| Motor Vehicle Sales Tax | 597,796 | 2.92 |
| Motor Fuels Excise Taxes | 862,615 | 4.21 |
| Alcoholic Beverage Taxes | 81,808 | 0.40 |
| Cigarette Taxes and Fees | 369,922 | 1.80 |
| Tobacco Products Taxes and Fees | 53,940 | 0.26 |
| Mortgage Registry Tax | 139,928 | 0.68 |
| Deed Transfer Tax | 75,561 | 0.37 |
| Lawful Gambling Taxes | 36,995 | 0.18 |
| Pari-mutuel Tax | 566 | * |
| Insurance Premiums Taxes | 415,906 | 2.03 |
| Health Care Surcharges | 255,426 | 1.25 |
| MinnesotaCare Taxes | 513,776 | 2.51 |
| Mining Occupation Taxes | 19,883 | 0.10 |
| State Property Tax | 811,388 | 3.96 |
| Contamination Tax | 299 | * |
| Motor Vehicle Registration Tax | 622,540 | 3.04 |
| Airflight Property Tax | 12,017 | 0.06 |
| Aircraft Registration Tax | 8,704 | 0.04 |
| Rural Electric Co-ops | 50 | * |
| Solid Waste Management Taxes | 70,475 | 0.34 |
| Metropolitan Landfill Fee | <u>3,238</u> | <u>0.02</u> |
| Total | \$20,488,979 | 100.00% |

* Less than .005%