2011 INDIVIDUAL INCOME AND ESTATE TAXES LEGISLATIVE BULLETIN
(2011 1st Special Session)

MINNESOTA · REVENUE

Appeals and Legal Services Division
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Unless otherwise noted, the provisions discussed in this bulletin can be found in 2011 Minn. Laws, 1st Special Session, Chapter 7, Articles 1 and 6.

INDIVIDUAL INCOME TAXES

Reciprocity with Wisconsin

Exchange of information with Wisconsin Department of Revenue. Minn. Stat. § 270B.12 was amended by adding a subdivision that allows the department to share information with the Wisconsin Department of Revenue for the purpose of performing an income tax reciprocity benchmark study.

Income tax reciprocity benchmark study. An uncodified provision directs the commissioner of revenue to conduct an income tax reciprocity study with the Wisconsin Department of Revenue. The study must use information from 2011 state income tax returns, and other available information, and must determine the number of residents of each state earning personal service income in the other state; the amount of that income; and the change in tax revenue for each state if reciprocity is resumed. The Department must submit a report containing the results of the study to the chairs and ranking minority members of the house and senate tax committees by March 1, 2013. The study does not need to be performed if Wisconsin does not agree to fully participate in conducting the study.

$291,000 in fiscal year 2012 and $314,000 in fiscal year 2013 are appropriated from the general fund to the department for the income reciprocity benchmark study. The appropriations are onetime and are not added to the department's base budget.

Negotiation of a new reciprocity agreement with Wisconsin. An uncodified provision directs the commissioner of revenue to initiate negotiations with Wisconsin for a new income tax reciprocity agreement effective for years beginning after December 31, 2011. At least 30 days before entering into any new agreement the commissioner is required to submit a copy of the proposed new agreement, along with any revenue estimates, to the chairs and ranking minority members of the House and Senate Tax Committees. The commissioner is required to consider comments from those legislative leaders prior to finalizing the agreement.

All of the reciprocity provisions are effective July 21, 2011.

Repeal of nonresident entertainer tax credit. Minn. Stat. § 290.9201, subd. 3, which allowed all nonresident entertainers to claim a nonrefundable credit of $120 of nonresident entertainment tax withheld, was repealed. Effective for compensation received after December 31, 2011.

Withholding requirements and imposition of the nonresident entertainer tax. Minn. Stat. § 290.9201, subd. 11, was amended to create an exemption from withholding on payments to a nonresident entertainer if the compensation paid to the entertainer is less than $600. Additionally, nonresident entertainers whose total compensation received for performances in Minnesota is less than the individual income tax filing requirements of nonresident individuals are now exempt from tax. Effective for compensation paid or received after December 31, 2011.

Repeal of Section 125 health care credit. Minn. Stat. § 290.0678 was repealed. That law allowed a nonrefundable income tax credit for certain moderate income taxpayers who purchased health insurance through an employer sponsored plan authorized under section 125 of the Internal Revenue Code. Effective for taxable years beginning after December 31, 2011.

Rent constituting property taxes. Minn. Stat. § 290A.03, subd. 11, was amended to reduce the percent of rent constituting property taxes from 19% of rent paid to 17% of rent paid. Effective for refunds based on rent paid in 2011 and thereafter.

Property taxes payable for manufactured homes. Minn. Stat. § 290A.03, subd. 13, was amended to reduce the property taxes payable associated with lot rents paid by manufactured home owners and owners of park trailers taxes as manufactured homes from 19% of gross rent paid to 17% of gross rent paid. Effective for refunds based on rents paid in 2011 and thereafter.

Homeowner property tax refund payments. Minn. Stat. § 290A.04, subd. 2, was amended to change the maximum homeowner refund for all homeowners with household income under $62,140. The copayment percentage for claimants with income from $10,880 to $93,240 was decreased, which will increase the refunds at those income levels. The statutory income brackets, including the maximum income, were adjusted for inflation that has occurred since the law was last amended in 2001, but were not otherwise changed. Effective beginning for refunds based on property taxes payable in 2012.

Property tax refund inflation adjustment. Minn. Stat. § 290A.04, subd. 4, was amended to provide that the annual inflation adjustment of income brackets and maximum refunds for homeowners is based on inflation that occurs from the year ending on June 30, 2011. Adjustments of income brackets and maximum refunds for renters will continue to use inflation that has occurred since the year ending on June 30, 2000. Effective beginning for refunds based on taxes payable in 2013.

Two year suspension of political contribution refund. 2010 Minn. Laws, 1st Spec. Sess., Chapter 1, Article 13, Section 4, was amended to provide that the political contribution refund does not apply to contributions made after June 30, 2009 and before July 1, 2013. Previously that law had applied only to contributions made before July 1, 2011. Effective retroactively from July 1, 2011.

ESTATE TAXES

Qualified farm and small business property estate tax exclusion. Minn. Stat. §§ 291.005, subd. 1 and 291.03, subd. 1, were amended to exclude from the Minnesota adjusted taxable estate, qualified small business and qualified farm property that is included in the federal adjusted taxable estate and passed at death to a qualified heir. This exclusion cannot exceed $4 million.

Minn. Stat. § 291.03, subds. 8-10, were added to define “family member,” “qualified heir,” “qualified property,” “qualified small business property,” and “qualified farm property.”

Minn. Stat. § 291.03, subd. 11, was added to impose a recapture tax if the qualified heir disposes of any interest in the qualified property, other than by a disposition to a family member, or if a family member fails to satisfy the three-year qualified use requirement. The recapture tax equals 16 percent of the value of the excluded property and is due six months after the property is disposed of or the qualifying use stops.

The qualified farm and small business exclusion is effective for decedents dying after June 30, 2011. The purpose of this estate tax law changes is to provide estate tax reductions to owner-operators of family farms and small businesses to allow their retention and continued operation by the families. (See purpose statement in 2011 Minn. Laws, 1st Special Session, Chapter 7, Article 10, Section 7.)

Estate tax study. An uncodified provision requires the commissioner to submit an estate tax study to the legislature by February 1, 2013. This study is to evaluate the estate tax using standard tax policy principals and methods of analysis. The study shall consider the implications of recent federal estate tax changes, the advantages and disadvantages of revenue neutral alternatives, and empirical evidence on the effects of the present estate tax and its alternatives on domicile and migration decisions of residents. The commissioner shall consult with the probate and estate section of the Minnesota State Bar Association. Effective July 21, 2011.