

2003 Supplement to the Minnesota Tax Handbook

This supplement to the 2002 Edition of the Minnesota Tax Handbook contains the major tax law changes enacted in the regular and first special sessions of the 2003 Minnesota Legislature. The page references are to the 2002 Edition. Also included in this supplement are the current rates for the major state taxes, the property tax class rates for taxes payable in 2004, and state tax collections for fiscal year 2003.

The 2002 Edition of the Minnesota Tax Handbook can be found on the Department of Revenue web site at <http://www.taxes.state.mn.us/reports/reports.html>

Minnesota Department of Revenue
Tax Research Division
February 2004

History of Major Changes

STATE TAXES

Individual Income Tax, Page 7

- 2003 – Adopted changes made by the federal Jobs and Growth Tax Relief Reconciliation Act of 2003, including increase in the standard deduction for married taxpayers for 2003 and 2004, increased expensing for 2003 to 2005, and the increase in bonus depreciation from 30% to 50%, subject to the Minnesota addback of 80%.
- Exemptions enacted for business, rental, and investment income generated by qualified businesses in a Job Opportunity Building Zone.

Corporation Franchise Tax, Page 12

- 2003 – Adopted changes made by the federal Jobs and Growth Tax Relief Reconciliation Act of 2003, including increased expensing for 2003 to 2005 and the increase in bonus depreciation from 30% to 50%, subject to the Minnesota addback of 80%.
- Exemptions from the regular tax, alternative minimum tax, and minimum fee and a refundable jobs credit enacted for qualified businesses in a Job Opportunity Building Zone or the Biotechnology and Health Sciences Industry Zone, which also includes a refundable research credit.

General Sales and Use Tax, Page 17

- 2003 – June accelerated payment re-enacted at 85% of June liability, beginning June 2004.
- Exemption enacted for all purchases made by qualified businesses in a Job Opportunity Building Zone or the Biotechnology and Health Sciences Industry Zone, including construction materials and supplies purchased by a contractor.

Motor Vehicle Sales Tax, Page 18

- 2003 – Exemption enacted for motor vehicles purchased by qualified businesses in a Job Opportunity Building Zone.

Alcoholic Beverage Taxes, Page 22

- 2003 – June accelerated payment re-enacted at 85% of June liability, beginning June 2004.

Cigarette Tax, Page 23

- 2003 – Fee of 35¢ per pack enacted for cigarettes produced by manufacturers that are not part of a settlement agreement with the state.
- Eliminated the discount for distributors.
- June accelerated payment re-enacted at 85% of June liability, beginning June 2004.

Tobacco Products Tax, Page 24

- 2003 – Eliminated the discount for distributors.
- June accelerated payment re-enacted at 85% of June liability, beginning June 2004.

Mortgage Registry Tax, Page 26

- 2003 – Counties required to accelerate remittance to the state of tax collected in June, beginning June 2004.

Deed Transfer Tax, Page 27

- 2003 – Counties required to accelerate remittance to the state of tax collected in June, beginning June 2004.

Insurance Premiums Taxes, Page 33

- 2003 – Exemptions eliminated for premiums paid under medical assistance, general assistance medical care, and MinnesotaCare.

Health Care Provider Surcharges, Page 34

- 2003 – Surcharges for nursing homes increased.

MinnesotaCare Tax on Health Care Providers, Hospitals, and Surgical Centers, Page 36

2003 – Exemptions eliminated for gross receipts paid under medical assistance, general assistance medical care, and MinnesotaCare.

State General Property Tax, Page 40

2003 – Exemption enacted for improvements to commercial, industrial, and utility property of qualified businesses in a Job Opportunity Building Zone or the Biotechnology and Health Sciences Industry Zone.

LOCAL TAXES

General Property Tax, Page 55

2003 – Exemption enacted for improvements to commercial, industrial, and utility property of qualified businesses in a Job Opportunity Building Zone or the Biotechnology and Health Sciences Industry Zone.

Local Sales Taxes, Page 63

2003 – City of Newport authorized to impose a lodging tax of up to 4% on hotels and motels with at least 25 rooms.

**Rates of Major State Taxes
As of December 31, 2003**

Individual Income Tax: Tax Year 2004

Rates and Taxable Income Brackets

	<u>5.35% up to</u>	<u>7.05%</u>	<u>7.85% over</u>
Married Joint	\$28,420	\$28,421 - \$112,910	\$112,910
Married Sep.	\$14,210	\$14,211 - \$56,460	\$56,460
Single	\$19,440	\$19,441 - \$63,860	\$63,860
Head of Hshld.	\$23,940	\$23,941 - \$96,180	\$96,180

Corporation Franchise Tax: 9.8%

General Sales and Use Tax:

General rate	6.5%
Liquor and beer, on-sale and off-sale	9.0%

Motor Vehicle Sales Tax: 6.5%

Motor Fuels Excise Taxes

Highway fuels:	20¢ per gallon
Aviation fuels:	0.5¢ - 5¢ per gallon
Other rates apply to LPG, LNG, and CNG	

Alcoholic Beverage Taxes

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

Cigarette Tax: 48¢ per pack of 20 cigarettes

Tobacco Products Tax: 35% of wholesale price

Mortgage Registry Tax: 0.23% of principal debt

Deed Transfer Tax: 0.33% of consideration

Motor Vehicle Registration Tax: \$10 plus 1.25% of base value based on age for passenger cars, pickup trucks, and vans. Maximum tax of \$189 for first renewal period and \$99 for subsequent ones. Trucks, tractors, and buses based on type, weight, and age of the vehicle.

State General Property Tax: for taxes payable in 2004, 53.937% of the net tax capacity of commercial, industrial, and seasonal recreational property.

**Class Rates for Major Classes of Property Tax
Taxes Payable in 2004**

<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 \$32,000 MV	0.45%
Excess is Class 1a or 2a	
1c Small homestead resorts	1.0%
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 \$600,000 MV	0.55% ^a
Over \$600,000 MV	1.0% ^a
2b Nonhomestead agricultural land; timberland	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,c}
3b Employment property – same as Class 3a	
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	
Post-secondary student housing	1.0% ^a
Manufactured home parks	1.25%
Noncommercial seasonal recreational residential – Same as Class 1a ^{a,b}	
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.

^cElectric generating public utility machinery exempt from state property tax.

Minnesota State Tax Collections Fiscal Year 2003
All Funds - Net After Refunds

	FY 2003 Collections	
	<u>Amount</u> (000's)	<u>% of Total</u>
Individual Income Tax	\$5,371,829	39.34%
Income Tax Reciprocity	49,010	0.36
Corporation Franchise Tax	588,656	4.31
Estate Tax	127,687	0.94
General Sales & Use Tax	3,897,941	28.55
Motor Vehicle Rental Tax	12,193	0.09
Motor Vehicle Sales Tax	604,675	4.43
Motor Fuels Excise Taxes	638,676	4.68
Alcoholic Beverage Taxes	63,240	0.46
Cigarette Tax	161,616	1.18
Tobacco Products Tax	18,038	0.13
Controlled Substances Tax	37	*
Mortgage Registry Tax	203,064	1.49
Deed Transfer Tax	94,554	0.69
Lawful Gambling Taxes	55,731	0.41
Pari-mutuel Tax	1,357	0.01
Insurance Premiums Taxes	235,303	1.72
Health Care Surcharges	171,203	1.25
MinnesotaCare Taxes	201,080	1.47
Fur Clothing Tax	206	*
Mining Occupation Taxes	2,010	0.01
State Property Tax	585,416	4.29
Contamination Tax	66	*
Motor Vehicle Registration Tax	492,147	3.61
Airflight Property Tax	7,497	0.05
Aircraft Registration Tax	7,485	0.05
Rural Electric Co-ops	52	*
Solid Waste Management Taxes	57,428	0.42
Hazardous Waste Tax	1,261	0.01
Metropolitan Landfill Fee	<u>3,898</u>	<u>0.03</u>
Total	\$13,653,356	100.0%

*Less than .005%