

2005 Supplement to the Minnesota Tax Handbook

This supplement to the 2004 Edition of the Minnesota Tax Handbook contains the major tax law changes enacted in the regular and first special sessions of the 2005 Minnesota Legislature. The page references are to the 2004 Edition. Also included are the current rates for the major state taxes, the property tax class rates for taxes payable in 2006, and state tax collections for fiscal year 2005.

The 2004 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
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History of Major Changes

STATE TAXES

Individual Income Tax, Page 7

- 2005 – Adopted selected provisions of 2003 and 2004 federal bills including health savings accounts, the Working Families Tax Relief Act of 2004, except for the increased standard deduction for married filers, and the American Job Creation Act of 2004, except for the deduction for U.S. production activities. Increased expensing for 2006 and 2007 is subject to an addback of 80%, with that amount subtracted over the next five years.
- Subtractions enacted for active duty military service outside Minnesota, National Guard service in Minnesota, and human organ donation expenses.
 - For the alternative minimum tax, removed the threshold of 1% of adjusted gross income for the deduction of charitable contributions.
 - For the K-12 education credit, increased the maximum credit and phase-out range for taxpayers with three or more children.

Corporate Franchise Tax, Page 12

- 2005 – Increased the weighting of the sales factor in the apportionment formula from 75% to 100% over eight years, from 2007 through 2014.
- Modified qualifications for foreign operating corporations.

General Sales and Use Tax, Page 17

- 2005 – Exemption for drugs and medicines expanded to include all nonprescription drugs.
- Exemption for medical devices modified.
 - Cigarettes exempted from the sales tax and made subject to an alternative tax at the wholesale level. The tax rate is determined annually and is 25.5¢ per pack the first year.
 - For motor vehicle leases, sales tax required to be paid upfront on the total lease price. Previously, the tax was imposed on each monthly payment.
 - Repealed sunset date for the additional 6.2% tax on short-term car rentals.
 - Gross receipts tax of 2.5% imposed on retail sales of liquor and beer, on-sale and off-sale. Replaces additional 2.5% sales tax which expired.
 - Made natural gas pipelines taxable.
 - Enacted exemptions for ready-to-eat meats and seafood, solar energy systems, and construction of several facilities.

Cigarette Tax, Page 24

- 2005 – Enacted a fee of 75¢ per pack, in addition to the existing tax of 48¢ per pack.

Tobacco Products Tax, Page 24

- 2005 – Enacted a fee of 35% of wholesale price, in addition to the existing tax of 35% of wholesale price.

Insurance Premiums Taxes, Page 33

- 2005 – For life insurance, reduced the tax rate from 2% to 1.5% over four years, from 2006 to 2009.
- Imposed premiums tax on stop-loss insurance

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

- 2005 – Exempted TRICARE program payments.

LOCAL TAXES

General Property Tax, Page 55

- 2005 – Delayed the phaseout of limited market value by two years.
- Changed class rates for class 1c resorts.
 - Established class 4d for low-income rental housing.

**Rates of Major State Taxes
As of January 1, 2006**

Individual Income Tax: Tax Year 2006

Rates and Taxable Income Brackets

	<u>5.35% up to</u>	<u>7.05%</u>	<u>7.85% over</u>
Married Joint	\$29,980	\$29,981 - \$119,100	\$119,100
Married Sep.	\$14,990	\$14,991 - \$59,550	\$59,550
Single	\$20,510	\$20,511 - \$67,360	\$67,360
Head of Hshld.	\$25,250	\$25,251 - \$101,450	\$101,450

Corporate Franchise Tax: 9.8%

General Sales and Use Tax: 6.5%

Motor Vehicle Sales Tax: 6.5%

Motor Fuels Excise Taxes

Highway gasoline and diesel: 20¢ per gallon
Aviation fuels: 0.5¢ - 5¢ per gallon

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 and Fee: \$1.23 per pack of 20 cigarettes

Tobacco Products Tax and Fee: 70% 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 2006, 50.827% of the net tax capacity of commercial and industrial property; 28.385% for seasonal recreational property.

**Class Rates for Major Classes of Property Tax
Taxes Payable in 2006**

<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	
First \$500,000 MV	0.55%
Next \$1,700,000 MV	1.0%
Over \$2,200,000 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 \$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 ^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	
Post-secondary student housing	1.0% ^a
Manufactured home parks	1.25%
Noncommercial seasonal recreational residential – Same as Class 1a ^{a,b}	
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.

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

Minnesota State Tax Collections Fiscal Year 2005
All Funds - Net After Refunds

	<u>FY 2005 Collections</u>	
	<u>Amount</u>	<u>% of</u>
	(000's)	<u>Total</u>
Individual Income Tax	\$6,341,164	40.86%
Income Tax Reciprocity	49,850	0.32
Corporate Franchise Tax	925,874	5.97
Estate Tax	68,952	0.44
General Sales & Use Tax	4,198,146	27.05
Motor Vehicle Rental Tax	12,249	0.08
Motor Vehicle Sales Tax	556,860	3.59
Motor Fuels Excise Taxes	654,516	4.22
Alcoholic Beverage Taxes	69,740	0.45
Cigarette Tax	161,515	1.04
Tobacco Products Tax	21,042	0.14
Controlled Substances Tax	8	*
Mortgage Registry Tax	162,919	1.05
Deed Transfer Tax	124,222	0.80
Lawful Gambling Taxes	54,945	0.35
Pari-mutuel Tax	1,539	0.01
Insurance Premiums Taxes	320,661	2.07
Health Care Surcharges	254,766	1.64
MinnesotaCare Taxes	349,365	2.25
Fur Clothing Tax	201	*
Mining Occupation Taxes	4,953	0.03
State Property Tax	610,874	3.94
Contamination Tax	173	*
Motor Vehicle Registration Tax	496,299	3.20
Airflight Property Tax	7,742	0.05
Aircraft Registration Tax	7,486	0.05
Rural Electric Co-ops	48	*
Solid Waste Management Taxes	59,546	0.38
Hazardous Waste Tax	146	*
Metropolitan Landfill Fee	<u>2,888</u>	<u>0.02</u>
Total	\$15,518,689	100.00%

*Less than .005%