Department Technical Bill

April 2, 2001

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 84 (Daggett)/ S.F. 1391 (Fowler)

	Revenue Gain or (Loss)			
	F.Y. 2002	F.Y. 2003	F.Y. 2004	FY2005
	(000's)			
General Fund	$0	$0	$0	$0

Various effective dates.

EXPLANATION OF THE BILL

A section-by-section summary is attached.

REVENUE ANALYSIS DETAIL

The changes in the bill are not expected to impact state revenues.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational costs or savings to DOR in administration of this bill.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/polic.html#analyses

hf0084(sf1391)_1 / cc

MINNESOTA Department of Revenue

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HF 84 (Daggett)/SF 1391 (Fowler)

Article 1 Income And Franchise Taxes

Sections 1, 3 through 6 and 9. Thresholds Indexed for Inflation Overview. Many income thresholds are automatically increased for inflation occurring after a given tax year (base year). The base year is initially set for the year the threshold is enacted. When the legislature enacts a change in the threshold, the base year for the inflation indexing is also changed to the year of the change. This results in each of the indexing provisions having a different base year. Further, some of the thresholds have not been changed for a number of years, resulting in the written statutory threshold being much less than the actual threshold resulting from the statutorily mandated adjustments for inflation. For simplicity, clarity, and ease of administration, the above sections increase the statutory thresholds to their current levels after the inflation adjustments and make the base year the same year for all of the thresholds.

Section 1. Hospital Debts. Amends Minn. Stat. § 270A.03, subd. 5 by indexing the income levels below which hospital debts are not subject to revenue recapture. Effective for debts incurred after December 31, 2000.

Section 2. Partnership Return. Amends a technical change to the cite to the information required on the Minnesota partnership return due to the repeal of redundant language in Minn. Stat. § 290.31, which is repealed in section 10. Effective for tax years beginning after December 31, 2000.

Sections 3 and 4. Dependent Care Credit. Amends Minn. Stat. § 290.067, subds. 2 and 2b by amending and indexing the income threshold for qualifying for the dependent care credit. The amendment to subd. 2b is effective for tax years beginning after December 31, 2000. The amendment to subd. 2 is effective for tax years beginning after December 31, 1999.

Sections 5 and 6. Working Family Credit. Amends Minn. Stat. § 290.0671, subds. 1 and 7 by amending and indexing the income threshold qualifying for the Working Family Credit. The amendment to subd. 1 is effective for taxable years beginning after December 31, 1999. The amendment for subd. 7 is effective for tax years beginning after December 31, 2000.

Section 7. Depreciation Modifications for Corporate AMT. Amends Minn. Stat. § 290.0921, subd. 3. Depreciation modifications made to various classes of property placed in service before January 1, 1990 are a depreciation allowance in the first taxable year after December 31, 2000 for the computation of alternative minimum taxable income. All depreciation modifications are deducted in one year. Effective day following final enactment.

Section 8. Franchise Tax on Insurance Companies. Amends Minn. Stat. § 290.35, subd. 2 to clarify that insurance companies subject to the tax compute the tax, not the commissioner. This does not change the present filing practice of insurance companies subject to the tax. Effective the day following final enactment.

Section 9. Property Tax Refund. Makes a technical change to Minn. Stat. § 290A.04, subd. 4 for the indexing of the Property Tax Refund income threshold, clarifying that the indexing is done the same way as federal indexing except that a different base year is used.

Section 10. Repeal of Redundant or Obsolete Provisions. Repeals Minn. Stat. § 290.095, subd. 7 which required individual, trusts and estates to make a separate application in order to carry-back a net operating loss to earlier tax years. The taxpayer then filed an amended Minnesota return claiming the loss and resulting refund for the carry-back year or years. The current practice of the department has been to consolidate the application and the amended return into the amended return. Thus the application language in subd. 7 is no longer needed.

The section also repeals Minn. Stat. §§ 290.23 and 290.25 which are fiduciary income tax provisions that mirror the federal income tax treatment of trusts, estates, and their beneficiaries. These sections are no longer necessary because of Minnesota's adoption of federal taxable income in Minn. Stat. § 290.01, subd. 19. Similarly, the partnership provisions of Minn. Stat. § 290.31, subds. 2, 2a, 3, 4, 5, and 19 are being repealed since they deal with the partnership and partners' computation of income which is redundant with Minnesota's adoption of "federal taxable income". The repeal of the above sections is effective for tax years beginning after December 31, 2000.

Article 2 Property Taxes

Section 1. County/Local District Assessments. Amends Minn. Stat. § 273.072, subd. 1 to eliminate the requirement that the commissioner of revenue approve local agreements that provide for the assessment of property within a city or town by the county assessor. Also strikes some obsolete language. Effective the day following final enactment.

Section 2. Obsolete Iron Ore Value Adjustment. Amends Minn. Stat. § 273.1104, subd. 2 to delete an obsolete reference to an adjustment that was formerly found under subdivision 1 and is no longer required by law. Effective the day following final enactment.

Section 3. Green Acres 'low' Values. Amends Minn. Stat. § 273.111, subd. 4 to eliminate references to Minn. Stat. § 273.11, subd. 10. That subdivision was repealed as of July 1, 1999. The provision required sales data to be correlated with soil survey information for specified locations. The provision was repealed because the information generated by the survey was too specific to be very helpful. The stricken references to the repealed provision are in the context of developing agricultural-use market values for land in the 'green acres' program. Since the data is no longer available, deleting a requirement that it be used in this context will not have an impact. Effective the day following final enactment.

Section 4. Homestead Benefits. Amends Minn. Stat. § 273.124, subd. 13, para. (h) to change the definition of "homestead benefits." These are the amounts that must be repaid (in addition to a 100 percent penalty) if it is determined that the homestead was improperly claimed. The definition is amended to include the education homestead credit, and the agricultural education credit, both of which were added in recent years. The distribution of the repaid amounts will remain as it is under current law. That is: (i) the recaptured "benefit" amounts will be distributed as local taxes; (ii) the amounts attributable to taconite homestead credits will go to the taconite tax relief account; (iii) recovered supplemental homestead credits will be returned to the state general fund; and (iv) the 100% penalty will go to the county's general fund. Although this distribution reflects current law, it should be noted that the nature of the homestead property tax benefit has changed over time. In 1992, when the current distribution was enacted, the homestead benefit had a larger portion attributable to a locally funded preferential class rate than is the case now where the primary benefit is a state-paid credit. Effective for homestead applications submitted on or after the day following final enactment.

Section 5. Tax-forfeited Lands; Abandoned Personal Property. Amends Minn. Stat. § 282.04, subd. 2 to update the references in that statute directing how the county may sell personal property that has been abandoned on tax-forfeited land. The new references give the counties the same powers they currently have, but the new references are more specific. There is no specific effective date.

Section 6. "Existing" low-income Housing Aid; LGA City Aid Bases. Amends Minn. Stat. § 477A.011, subd. 36 to change several dates contained in the definition of "*city aid base*" for purposes of local government aid. The changes accommodate a two-year delay (enacted in 2000) for the elimination of the existing low-income housing aid as a separate program. The provision has no specific effective date.

Article 3 Sales And Use Taxes

Section 1. Purchaser Refunds. Amends Minn. Stat. § 289A.50, subd. 2a to clarify that a person registered to collect and remit sales or use tax is eligible to file a purchaser claim for refund. The law currently provides that a person must be registered for both sales and use tax in order to file a purchaser claim. Effective the day following final enactment.

Section 2. Exempt Drinks and Beverages. Amends Minn. Stat. § 297A.01, subd. 3(c)(3)(iv) to clarify that the exemption for bulk ice cream products and soft drinks and beverages containing milk products and fruit juices only applies to nonalcoholic beverages or drinks. Effective the day following final enactment.

Section 3. Prescribed Drugs. Amends Minn. Stat. § 297A.25, subd. 3 to clarify that all drugs are exempt if they are prescribed by a licensed health care professional. The current law allows an exemption for drugs that are prescribed by a physician only. Other provisions of the exemption refer to licensed health care professionals rather than physicians only. The exemption should include physician assistants, nurse practitioners and other health care professionals who are authorized to prescribe drugs. Effective the day following final enactment.

Section 4. Hospitals and Nursing Homes. Amends Minn. Stat. § 297A.25, subd. 11 to clarify that the exemption for sales to hospitals and nursing homes owned and operated by political subdivisions is limited to goods and services used at and by these facilities. Effective the day following final enactment.

Section 5. Park Trailers. Repeals Minn. Stat. § 297B.032 which provided for a refund of 35% of the sales tax on motor vehicles paid on park trailers purchased after January 1993 and before January 1997 since the statutory period for claiming refund expired on June 30, 2000. Effective the day following final enactment.

Article 4 Special Taxes

Section 1. Deed Tax - Reorganization. Amends Minn. Stat. § 287.20, subd. 9 to clarify the definition of reorganization for deed tax purposes by referencing applicable I. R. C. provisions. This is consistent with current department practice. For entities treated as corporations, the reference is to § 368(a) for transfers that are part of corporate reorganizations and for which gains need not be recognized. For entities treated as partnerships, the reference is to § 708 that describes the conditions under which a change in the structure of a partnership, such as a merger or consolidation will not be treated as creating a new partnership for federal tax purposes. Qualifying transfers under these definitions are subject to a minimal deed tax. Effective for taxable deeds recorded or registered on or after July 1, 2001.

Section 2. MN Care Tax - Gross Revenues of Staff Model Health Plan Companies. Amends Minn. Stat. § 295.50, subd. 3 to clarify that all gross revenues received by a staff model health plan company for patient services are subject to tax. The current law refers to fees for patient services covered under contracts with groups and enrollees. The new provision clarifies that any service given to a patient, even if that patient is not an enrollee or part of a group, is taxable. Effective the day following final enactment.

Section 3. MN Care Tax - Definition of Legend Drug. Amends Minn. Stat. § 295.50, subd. 15 to clarify that a legend drug is a drug that is required to bear one of two statements: "Caution: Federal law prohibits dispensing without prescription" or "Rx only." Current law refers only to the first statement. Under federal law, legend drugs are now allowed to bear the statement “Rx only.” Previously, these drugs were required to bear the statement “Caution: Federal law prohibits dispensing without prescription.” The MinnesotaCare definition should be changed to meet the new federal requirements. Effective the day following final enactment.

Section 4. MN Care Tax - Use Tax on Prescription Drugs. Amends Minn. Stat. § 295.52, subd. 4 to replace the term ‘paid the tax’ with ‘subject to tax.’ Under current law, a person who receives drugs other than from a wholesale drug distributor that paid the tax is subject to the use tax. The proposal clarifies that the tax applies to a person who bought the drugs other than from a wholesale drug distributor who is subject to tax. Effective the day following final enactment.

Section 5. MN Care Tax - Application of other Chapters. Amends Minn. Stat. § 295.57, subd. 1 to clarify that enforcement, interest, and penalty provisions under Chapter 289A apply to the MinnesotaCare tax. Chapter 294, which the MinnesotaCare law currently refers to, is obsolete. It refers to the gross earnings taxes, which no longer exist. Also, Chapter 294 does not include a notice provision when a subpoena is issued to a third party. Effective the day following final enactment.

Section 6. Petroleum Tax - Fuel used in other Vehicle; Claim for Refund. Amends Minn. Stat. § 296A.16, subd. 2, as follows:

(1) deletes archaic language and clarifies that “claim” means “claim for refund” (includes amendment to headnote);
(2) clarifies that “off-highway business use” does not include the use of a licensed motor vehicle tank in lieu of a separate storage tank for storing fuel to be used for other qualifying purposes. Fuel purchased to be used for another qualifying purpose cannot be placed in a licensed motor vehicle and must be stored in a separate supply tank; and
(3) deletes the last sentence of the subdivision, which required the commissioner to adopt rules for power takeoff refunds by July 1, 1998. (These rules have been adopted).

Effective the day following final enactment.

Section 7. Petroleum Tax - Assessments. Adds a new section, Minn. Stat. § 296A.201, for orders assessing taxes and commissioner filed returns in Chapter 296A. When the Petroleum Tax Chapter 296A, (formerly codified as Chapter 296), was recodified in 1998, a provision for orders assessing taxes was inadvertently omitted. Effective the day following final enactment.

Section 8. Petroleum Tax - Statute of Limitations. Amends Minn. Stat. § 296A.21, subd. 1 to clarify the general 3-1/2 year statute of limitations for assessments and claims for refund. Effective the day following final enactment.

Section 9. Petroleum Tax -Time Limit for Certain Refunds. Amends Minn. Stat. § 296A.21, subd. 4 in three ways:

(1) clarifies that the one-year statute of limitations for filing a claim for refund applies only to claims filed under Minn. Stat. § 296A.16, subd. 2;
(2) replaces the archaic term “repayment” with “refund”;
(3) deletes the last sentence of the subdivision, regarding the postmark on the envelope determining the date of filing. This language is redundant and not needed in the statute, because Minn. Stat. § 270.271 covers this issue for all tax types, including the Petroleum taxes.

Effective the day following final enactment.

Sections 10 and 11. Cigarette/ Liquor Taxes - Erroneous Refund Assessments. Amends Minn. Stat. §§ 297F.16, subd. 4; and 297G.15, subd. 4, to correct an error in the recodification of the cigarette and tobacco and liquor tax chapters in 1997. The time limit for assessing taxes that result from an erroneous refund is supposed to be two years after the refund check is sent out. Effective the day following final enactment.

Sections 12 and 13. Liquor Tax - Time Limit for Claiming Refunds. Amends Minn. Stat. § 297G.16, subds. 5 and 7. Corrects an error resulting from the recent recodification of the liquor tax chapter. The time limit for filing a claim for refund based upon an order assessing additional tax is supposed to be one year after the date of the order. Also, the notice requirements of Minn. Stat. § 289A.38, subd. 7, only apply to refund claims based upon a bad debt deduction, so that sentence is stricken from subdivision 5 and moved to subdivision 7. Section 12 is effective for returns due or orders assessing tax issued on or after the day following final enactment, and Section 13 is effective the day following final enactment.

Section 14. Petroleum Tax - Repealer. Repeals an obsolete credit in Minn. Stat. §296A.16, subd. 6. This ethanol credit for certain sales of fuel to governmental units or school districts was phased out completely in October of 1999. The obsolete language is no longer needed in the statute. Effective the day following final enactment.

Article 5 Miscellaneous

Section 1. Water Connection Fee. Amends Minn. Stat. § 144.3831, subd. 2 to transfer the responsibility of collecting the water connection fee from the Commissioner of Revenue to the Department of Health. Codifies a long standing agreement between the departments. Effective the day following final enactment.

Section 2. Substitutes “bar” for “disbar.” Amends terminology in Minn. Stat. § 270.06 (16) so that a tax practitioner can be “barred,” rather than “disbarred,” from practicing before the commissioner for certain misconduct. Effective the day following