VARIOUS TAXES
Tax Credits and Exemptions

February 8, 2001

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

Department of Revenue
Analysis of H.F. 251 (Mulder) / S.F. 304 (Lesewski)

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**FY2005**
		(000's)		
General Fund	($61)	($61)	($61)	($0)

Effective upon compliance by the city of Luverne with the requirements in M.S. 645.021.

EXPLANATION OF THE BILL

Current Law: A 1998 law permitted a qualifying business to receive a reduction in one or a combination of the following taxes: property, sales, individual income, and corporate franchise taxes (M.S. 469.1732 – 469.1734). The tax reductions are given to businesses operating in a border city or border city zone. The 1998 law defined a border city as one of the following cities: Breckenridge, Dilworth, East Grand Forks, Moorhead and Ortonville. In total $1,970,000 is provided for tax reductions in the five cities.

Proposed Law: The proposed law allows the city of Luverne to grant the same type of tax reductions given to border cities in 1998 (M.S. 469.1732 – 469.1734). Under the bill the city of Luverne may grant a total of $183,000 in tax reductions.

Also, the bill would adopt a provision enacted in 1999 that if certain conditions are met, the Commissioner of Revenue may allow a city to give tax reductions that exceed its limit. In this case, Luverne would be allowed to exceed the $183,000 total permitted. In order to grant a waiver, the commissioner must find that four conditions are met:

1. the tax reductions are needed to obtain or retain a business in the city,
2. the business invests private capital of at least $1 million within the city,
3. the business employs an additional 25 or more full-time employees, and
4. the business pays wages, on average, that exceed the average wage paid in the county where the city is located.

REVNUE ANALYSIS DETAIL

- In the absence of specific information on how and when Luverne would use its tax reduction authority, it was assumed that the reductions would be spread over fiscal years 2002 through 2004.
- The cost of the waiver provision is unknown because it is not known to what extent waivers will be requested from the city of Luverne and granted by the commissioner. As is the case for the other zones, an enterprise zone in the city of Luverne could be authorized to exist for a period up to fifteen years. Requests for waivers could involve significant revenue losses.

ADMINISTRATIVE/OPERATIONAL ISSUES

See fiscal note.

Source: Minnesota Department of Revenue
Tax Research Division

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