

MINNESOTA · REVENUE

Department Technical Bill

March 11, 2002

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

Department of Revenue

Analysis of H.F. 2878 (Abrams) /S.F. 3038 (Betzold) **As Amended in the Senate Tax Committee, February 26, 2002**

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>
	(000's)			
General Fund	(Negligible)	(Negligible)	(Negligible)	(Negligible)

Various effective dates.

EXPLANATION OF THE BILL

A section-by-section summary is attached.

REVENUE ANALYSIS DETAIL

- The only provision that may have some revenue impact is updating the Minnesota individual income tax for the provisions in the federal Victims of Terrorism Tax Relief Act of 2001.
- The new federal law provides tax relief to individuals who die as a result of wounds or injury incurred as a result of the terrorist attacks that occurred on September 11, 2001, or April 19, 1995 (Oklahoma City), or individuals who die as a result of illness incurred due to an attack involving anthrax that occurred between September 11 and December 31, 2001.
- It appears that none of the victims of these attacks were Minnesota residents. Even if a small number were Minnesota residents and/or were nonresidents with some Minnesota-source income, the revenue loss for Minnesota is likely to be small and not expected to exceed \$5,000.
- The bill would also update the newborn credit portion of the child care credit to the changes contained in the federal Economic Growth and Tax Relief Reconciliation Act of 2001. The child care credit was updated in general to the new federal law in the 2001 Special Session, but the increase in the maximum expenses from \$2,400 to \$3,000 was not changed for the newborn credit. The increase in the maximum expenses for the newborn credit was assumed in the current forecast estimate for the child care credit.

Department of Revenue

March 11, 2002

Analysis of H.F. 2878/S.F. 3038 **As Amended in the Senate Tax Committee**

MINNESOTA • REVENUE

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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>

hf2878(sf3038)_2/RH,cc

2002 TECHNICAL BILL AMENDMENT SUMMARY

MINNESOTA Department of Revenue

Appeals & Legal Services Division
(651) 296-1022
Mail Station 2220
600 North Robert Street
St. Paul, MN 55146-2220

Page 4, line 15. When determining real estate title, unrecorded quit claim deeds or unrecorded contracts for deed generally do not affect judgments against the record owner. The amendment clarifies that the law change applies to these types of unrecorded interests.

Page 36, delete Section 27. The amendment removes Section 27 from the technical bill since it was placed in the policy bill because of its policy implications.

Page 55, after line 15. This amendment repeals a number of rules that are now obsolete.

- Minn. Rules pt. 8130.1400 deals with temporary storage and use in Minnesota. This part is obsolete. Minnesota law no longer exempts tangible personal property if it is temporarily stored or used in Minnesota. Under current law, taxability depends on whether the item is brought into Minnesota in the course of interstate commerce. Under Minn. Stat. § 297A.68, subd. 14, property in transit is exempt.
- Minn. Rules pt. 8130.2100 deals with waste collection and disposal services. These services are no longer subject to sales tax; they are currently subject to a separate special tax.
- Minn. Rules pt. 8130.2350 deals with the computation of the sales tax. The rates provided in this part are no longer in effect.
- Minn. Rules pt. 8130.2600 deals with sales tax permits. This part is obsolete since the department no longer issues paper permits. Instead the department issues identification numbers.
- Minn. Rules pt. 8130.3000 deals with good faith acceptance of exemption certificates. Under the Streamline Sales Tax Project definitions adopted by the legislature, there is no longer a requirement for acceptance of a resale exemption certificate in good faith from the purchaser. The law now merely requires the seller to receive a resale exemption certificate.
- Minn. Rules pt. 8130.3850 deals with computation of the use tax. The rates dealt with in this part are no longer in effect.
- Minn. Rules pt. 8130.5000 deals with property shipped out of state. This part is obsolete since it deals with sales of property prior to 1973 and with the term “intermediate use” which is no longer used in current law and the provisions which deal with delivery outside Minnesota only duplicate Minn. Stat. § 297A.68, subd. 13.

Dated: January 22, 2002

2002 TECHNICAL BILL SUMMARY

MINNESOTA Department of Revenue

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Section 1. Police State Aid Formula. Amends Minn. Stat. § 69.021, subd. 5 which sets forth the requirement to calculate and certify for apportionment to police state aid an amount equal to the self-insurance tax received in fiscal 2001. As a result of 2001 legislation (Minn. Laws 2001, 1st Special Session, chapter 5, article 13, sections 1 & 15), the automobile self-insurance tax was repealed for years beginning after December 31, 1999. Those tax proceeds went to police state aid. As part of the repeal, the legislature directed that each year the department increase the apportionment to police state aid by an amount equal to the self-insurance tax received in fiscal 2001. The amendment would change the language to annually provide an apportionment of \$100,000 which is the amount received in relation to the returns filed for calendar year 1999. This section is effective beginning with fiscal year 2003.

Section 2. Referendum Tax Base Replacement Aid. Amends Minn. Stat. § 126C.17, subd. 7a, to clarify that referendum tax base replacement aid for schools is based on the same tax base exclusions as now apply to school district referendum tax levies. In particular, these changes clarify that in the case of class 4c(1) properties (*i.e.*, seasonal recreational residential), only the prior-year referendum levy amounts applicable to the noncommercial properties (*i.e.*, private cabins) are used in determining the new aid. Effective retroactively for taxes payable in 2002 and thereafter.

Section 3. Effect of Tax Liens Against Unrecorded Interests in Real Estate; Perfection of Tax Liens Against Personal Property. Amendment to Minn. Stat. § 270.69, subd. 2. Clarifies that recorded tax liens have priority over unrecorded interests in real estate to the same extent that judgments and attachments have priority over such interests under the Minnesota recording act. This portion of the amendment is effective for tax liens already of record and for tax liens filed on or after the day following final enactment. Also, clarifies that the only place to file tax liens against personal property is with the Secretary of State, to conform to the newly revised Article 9 of the Uniform Commercial Code. This portion of the amendment is effective for tax liens filed on or after the day following final enactment.

Sections 4 and 5. Jurisdiction of Small Claims Division for Property Tax Cases. Amends Minn. Stat. §§ 271.01, subd. 5 and 271.21, subd. 2, to clarify that appeals involving the valuation, assessment or taxation of real or personal property are allowed in the small claims division of tax court if the appeal involves: (i) the denial of a current year homestead application; (ii) a single parcel containing one residential homestead dwelling unit; (iii) a farm homestead; or (iv) property having an estimated market value of less than \$300,000. In all other cases, the amount in controversy must not exceed \$5,000. No substantive changes are made. These changes simply eliminate language having to do with property tax appeals that was made obsolete because of the changes made in 2001 to those provisions. Effective retroactively for petitions pertaining to the 2002 assessment and thereafter.

Sections 6 and 46. Property Used to Generate Hydroelectric or Hydromechanical Power. Amends Minn. Stat. § 272.02, subd. 15 to make it identical to Minn. Stat. § 272.02, subd. 40 and Minn. Stat. § 295.44, and then repeals the current Minn. Stat. § 272.02, subd. 40 and Minn. Stat. § 295.44. Effective the day following final enactment.

Section 7. Valuation Notices. Amends Minn. Stat. § 273.121, to change an obsolete requirement that a notation be included when the property is a homestead and old enough to potentially qualify for a valuation exclusion under Minn. Stat. § 273.11, subd. 16. The correct requirements are that the property must be a homestead and at least 45 years old, not at least 35 years old. Effective retroactively for notices required to be mailed in 2002 and thereafter.

Section 8. Utility Personal Property. Amends Minn. Stat. § 273.13, subd. 24, to clarify that, within the definition of class 3 commercial properties, clause (2) refers only to the personal property of electric and pipeline systems. Effective retroactively for taxes payable in 2002 and thereafter.

Section 9. Attached Machinery Aid (“AMA”). Amends Minn. Stat. § 273.1392, to restore language that was inadvertently stricken in the 2001 omnibus tax act. The language in question instructs the commissioner of children, families and learning to pay the AMA amounts that school districts receive. Since AMA was not eliminated by the 2001 omnibus tax act, the stricken language should be restored. Effective retroactively for aids and credits payable in 2002 and thereafter.

Section 10. Temporary Aid; Court Administration Costs. Amends Minn. Stat. § 273.1398, subd. 4c, to clarify the computation of additional homestead and agricultural credit aid for a county in a judicial district that does not transfer its costs to the state by January 1 of 2004 or 2005. This provision was added by the 200-1 omnibus tax act. The current references to: (i) “the amount budgeted for court administration costs in 2001” by the county; and, (ii) “the maintenance of effort percent for the calendar year” are to nonexistent paragraphs within the statute. The amendments change the references to paragraph (b) and (a) respectively. Effective retroactively to July 1, 2001, the effective date of the 2001 omnibus tax act, and thereafter.

Section 11. Notices of Proposed Property Taxes. Amends Minn. Stat. § 275.065, subd. 3, to make a couple of technical changes to the parcel-specific notices of proposed property taxes. References to showing the actual and proposed amounts of state-determined general education tax on the property are eliminated. Instead the language will require that the actual and proposed state general property tax amounts be shown. Finally, references to the tax amounts being “net of” the old education homestead credit are changed so that the tax amounts will be “net of” the new residential and agricultural homestead credits. Effective for notices required in 2002, for taxes payable in 2003, and thereafter.

Section 12. Levy Limits. Amends Minn. Stat. § 275.71, subd. 3, to clarify that the levy limit base reduction for the costs of state-assumed court administration costs is net of the “fee and fine revenues” or “fees and fines revenue” (to be grammatical) also assumed by the state.

Effective retroactively for taxes payable in 2002 and 2003.

Section 13. Levy Limits. Amends Minn. Stat. § 275.74, subd. 2, to correct two references to the clause under which the special levy for natural disasters is defined. The references will be to a certain clause (7) instead of clause (6) in the same statutory section. Effective for taxes payable in 2002 and 2003.

Section 14. Citation to Federal Withholding Tax Regulations. Amends Minn. Stat. § 289A.20, subd. 2 to update the citation to the federal regulations that establish the due date for employer withholding tax deposits. Effective the day following final enactment.

Section 15. June Accelerated Payment. Minnesota Statutes § 289A.20, subd. 4, is amended to clarify that the requirement to make June sales tax accelerated payment will terminate with the 2002 payment. The change clarifies that a vendor will look at their 2001 sales tax liability to determine whether an accelerated payment is due in 2002. Effective the day following final enactment.

Section 16. Individual Income Tax Late Filing Penalty. Amends Minn. Stat. § 289A.60, subd. 2. Clarifies that the new 5 percent late filing penalty that applies uniformly to all tax types in Chapter 289A is imposed for individual income tax on October 15 instead of April 15. The October 15 due date was inadvertently repealed in the 2001 session. Effective the day following final enactment.

Section 17. Obsolete IRA, Keogh and State and Local Pension Subtraction. Amends Minn. Stat. § 290.01, subd. 19b to delete the obsolete subtraction for early 80's IRA, Keogh, and Minnesota state and local pension contributions which were not deductible in the year of contribution. The ability to subtract these amounts sunset for tax years beginning after December 31, 2001. The deletion of the subtraction is effective the day following final enactment.

Section 18. Marriage Penalty Calculation. Amends Minn. Stat. § 290.0675, subd. 1 to correct the formula used by the Department of Revenue in computing the table used by taxpayers to compute the marriage bracket penalty credit to reflect the method used to calculate the table used in the original 1999 statutory table. This change is retroactively effective for tax years beginning after December 31, 2000.

Section 19. Marriage Penalty Tables. Amends Minn. Stat. § 290.0675, subd. 3 to remove redundant language requiring the commissioner to redo the marriage penalty credit table each year which is already required under subd. 5 of Minn. Stat. § 290.0675. Effective for tax years beginning after December 31, 2000.

Section 20. Household Income for Dependent Care Credit. Amends Minn Stat. § 290.067, subd. 2a to clarify that "income" used for computing the dependent care credit does not include restitution and damages received by victims of the World War II Holocaust which become exempt or nontaxable income for the purposes of federal adjusted gross income under

2001 federal tax legislation. Under clause (2)(i) of the current definition of income, all nontaxable income is included in income. Effective for tax years beginning after December 31, 2000.

Section 21. Individual Alternative Minimum Taxable Income Subtractions.

Amends Minn. Stat. § 290.091, subd. 2 by deleting an exclusion from Minnesota alternative minimum taxable income for holocaust victim payments since the payments would already be excluded from federal alternative minimum taxable income which is the starting point for the computation of Minnesota alternative minimum taxable income. This section also deletes the subtraction for the early 1980's pension contribution which sunsets after 2001. Both changes are effective the day following final enactment.

Section 22. Corporate Alternative Minimum Tax, Definitions. Amends Minn. Stat. § 290.0921, subd. 2(d), definition of "Minnesota alternative minimum taxable income," by deleting a reference to a subdivision repealed later in this bill. Effective for taxable years beginning after December 31, 2001.

Section 23. Nonresident Gambling Winnings. Amends Minn. Stat. § 290.17, subd. 2 to clarify that a nonresident who wins money by betting while in Minnesota generates Minnesota assignable income. Effective for tax years beginning after December 31, 2001.

Section 24. Trade or Business Income. Amends Minn. Stat. § 290.17, subd. 3(b) by correcting the statement that a trade or business physically located exclusively without this state is carried on within and without this state if sales or receipts are allocated within this state. The section currently states that such a trade or business is doing business within and without the state if sales or receipts are allocated without this state, which is true but not helpful in determining taxation by Minnesota. Effective for tax years beginning after December 31, 2001.

Section 25. Household Income for Property Tax Refund. Amends Minn. Stat. § 290A.03, subd. 3 to clarify that household income used for calculating the Minnesota property tax refund does not include restitution payments received by victims of the World War II Holocaust which become exempt or nontaxable income for the purposes of federal adjusted gross income under 2001 federal tax legislation. Under clause (b)(i) of the current definition of household income, all nontaxable income is included in household income. Effective the day following final enactment.

Section 26. Effective Date of 2001 Changes to the Target Property Tax Refund. Amends Minn. Stat. § 290A.04, subd. 2h to clarify that the changes made in 2001 to the target property tax refund are effective beginning with refunds payable in 2002.

Section 27. Exemption for Amounts Paid for Legend Drugs. Amends Minn. Stat. § 295.53, subd. 1 to clarify that hospitals, surgical centers, and health care providers who deduct their cost of legend drugs from the gross revenues subject to the MinnesotaCare tax, are required to reduce from the deduction all reimbursements that are exempt from tax under other

exclusions. The current deduction does not mention the exemption for payments received from the government. Effective for payments received after December 31, 2001.

Section 28. Fur Clothing Use Tax. Amends Minn. Stat. § 295.60 by adding a subdivision to provide that a person who receives fur clothing for use or storage in Minnesota from a furrier who is not subject to the tax on fur clothing, is subject to a use tax. A person who pays a tax on the same transaction to another jurisdiction, is entitled to a credit for the tax paid to the other jurisdiction. Effective for fur clothing purchased and brought into Minnesota after January 1, 2002.

Section 29. Collection of Use Tax. Adds a subdivision to Minn. Stat. § 295.60 to clarify that a furrier with nexus in Minnesota, who is not subject to the tax on fur clothing, is required to collect the use tax. Effective for fur clothing purchased and brought into Minnesota after January 1, 2002.

Section 30. Credit for Tax Paid to Another Jurisdiction. Adds a subdivision to §295.60 to provide a credit to a furrier who pays a tax measured by gross revenue to another jurisdiction. Effective for gross revenues received on or after January 1, 2002.

Section 31. Application of Other Chapters. Amends Minn. Stat. § 295.60, subd. 7 to clarify that unless otherwise provided in §295.60, civil penalty provisions applicable to withholding and sales tax, enforcement, interest, appeals, criminal penalties, and refund provisions under chapter 289A apply to the special fur clothing tax. Effective January 1, 2002.

Section 32. State Airports Fund. Amends Minn. Stat. § 296A.18, subd. 8 which deals with the petroleum taxes to change the reference of “aviation fuel tax fund” to “state airports fund” which is consistent with other statutory references to this fund. This section is effective the day following final enactment.

Section 33. Biosolids Construction Materials. Minn. Stat. § 297A.70, subd. 3, is amended to remove language providing exemption for materials used to construct buildings to house biosolids equipment since the exemption was only effective for materials purchased before July 1, 2001. Effective the date following final enactment.

Section 34. Insurance Premiums Tax. Amends Minn. Stat. § 297I.05 subd. 11 (d) to correct an erroneous cross reference resulting from the 2000 insurance tax recodification. This section is effective retroactively to tax years beginning on or after January 1, 2001 (the effective date of the recodification).

Section 35. Occupation Tax; Corrects References. Amends Minn. Stat. § 298.01, subd. 3b, para. (b), to correct a cite. The statute as it currently exists, incorrectly cites to 290.01, subd. 19c, clause (10), rather than to clause (9). This modification should have been made as a technical change when the clauses in section 290.01, subd. 19c were reordered a few years ago. Effective the day following final enactment.

Section 36. Occupation Tax; Corrects References; Deletes Depreciation Deduction. Amends Minn. Stat. § 298.01, subd. 4c, para. (a), current item (1), to correct a cite. The statute as it currently exists incorrectly cites to 290.01, subd. 19c, clause (10), rather than to clause (9). This modification should have been made as a technical change when the clauses in section 290.01, subd. 19c were reordered a few years ago. Also amends Minn. Stat. § 298.01, subd. 4c, para. (a), by deleting the current item (2), to eliminate obsolete depreciation deductions. The producers that were eligible to take these deductions have already done so. Effective for taxes payable May 1, 2002, and thereafter.

Sections 37 and 44. Interfund Loans. Amends Minn. Stat. § 469.174, subd. 3 and Laws 2001, chapter 5, article 15, section 3 for duplicative language. Effective August 1, 2001 and thereafter.

Section 38. Local Government Aid; Net Tax Capacity. Amends Minn. Stat. § 477A.011, subd. 20, to clarify that class rates in effect for taxes payable in the year of the aid distribution are to be used in computing a city's "net tax capacity" as that figure is used in the local government aid determination formula. Effective for aid payable in 2002 and thereafter.

Section 39. Local Government Aid; City Aid Base. Amends Minn. Stat. § 477A.011, subd. 36. This subdivision defines "city aid base" for purposes of local government aid. First, language referring to the paragraphs within the subdivision is replaced by a generic reference to all the applicable paragraphs within the subdivision. This means the referencing language will no longer need to be amended every time a paragraph is added. Secondly, language within paragraph (g) is amended to reflect the two-year delay (enacted in 2000) for when "existing low-income housing aid" is to be folded into each city's local government aid base. Effective for aid payable in 2002 and thereafter.

Section 40. Local Government Aid; City Aid Max. Amends Minn. Stat. § 477A.013, subd. 9, to clarify that the maximum 2002 aid for a non-first class city equals: 40% of its payable 2001 net levy; plus 40% of its payable 2001 HACA; plus all of its 2001 LGA. Also removes references to repealed and obsolete statutes. Effective for aid payable in 2002 and thereafter.

Section 41. Apartment Tax Base Replacement Aid. Amends Minn. Stat. § 477A.07, subd. 1, to clarify the formula for determining apartment tax base replacement aid for counties and cities. Effective for aid payable in 2003 and thereafter.

Section 42. Limited Market Value Report. Amends Laws 1993, chapter 375, article 5, section 42 to provide that the commissioner of revenue has until March 1 of each year (currently February 1) to report to the legislature on the use of limited market value under Minn. Stat. § 273.11, subd. 1a, and the valuation exclusion for certain homestead improvements under Minn. Stat. § 273.11, subd. 16. Also corrects references to those programs. No effective date is specified, therefore the changes will impact the reports required in 2003 and thereafter.

Section 43. Income Tax Subtraction for Foreign Taxes. Changes the effective date for the subtraction for foreign taxes which was enacted last year from tax years beginning after December 31, 2001 to tax years beginning after December 31, 2000 which was the original intention of last year's legislation.

Section 45. Early Decertification of Tax Increment Financing Districts. Amends Laws 2001, First Special Session, chapter 5, article 15, section 12, to specify that the 2001 provision requiring the commissioner of revenue's approval for any "early decertification" of an existing district is effective for decertifications occurring after July 1, 2001.

Section 46(a). Repealer. Repeals Minn. Stat. § 272.02, subd. 40 which provided a property tax exemption for property used for hydromechanical or hydroelectrical power generation as now contained in Minn. Stat. § 272.02, subd. 15. Also repeals Minn. Stat. § 290.01, subd. 19(g) which described the computation of the subtraction for early 1980's assets which were depreciated by the federal percentage accelerated cost recovery system (ACRS). This subtraction was allowed for tax years beginning before December 31, 2000 and is therefore now obsolete. Also repeals Minn. Stat. § 290.01, subd. 32 which was a definition of Holocaust victims' settlement payment which became unnecessary after the federal exclusion of those payments in the 2001 federal legislation. Also repeals Minn. Stat. § 295.44 which provided a property tax exemption for property used for hydromechanical or hydroelectrical power generation as now contained in Minn. Stat. § 272.02, subd. 15. These repeals are effective the day following final enactment.

Section 46(b). Repealer. Repeals Minn. Stat. § 290.0921, subd. 5. That subdivision references Minn. Stat. § 290.21, subd. 3, which was repealed in the 2001 session. The 2001 law changes allowed an apportioned federal charitable contribution deduction; the Minnesota computation for a charitable contribution deduction was repealed. Effective for tax years beginning after December 31, 2001.

Dated: December 31, 2001