Governor's Tax Proposal

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

February 2, 2001

Department of Revenue
Analysis of S.F. 473 (Pogemiller)/ H.F. 511 (Sviggum)

	Revenue Gain or (Loss)				
	F.Y. 2001	**F.Y. 2002**	**F.Y. 2003**	**F.Y. 2004**	**FY2005**
			(000's)		
Governor's Tax Proposal (including provisions in other bills)					
General Fund	($916,014)	($684,997)	($1,053,826)	($1,288,364)	($1,415,422)
Highway Fund		$2,500	$2,540	$2,590	$2,640
Health Care Access Fund		($40,300)	($100,974)	$21,173	$16,736
Solid Waste Fund		$83	$95	$100	$105
Total – All Funds	($916,014)	($722,714)	($1,152,165)	($1,264,501)	($1,395,941)

Various effective dates

EXPLANATION OF THE BILL

A section-by-section summary is attached.

REVENUE ANALYSIS DETAIL

A detailed table of the revenue impact of each provision is attached. The detailed table and the above summary include all provisions in the Governor's tax proposal. Some of these provisions are contained in other bills, specifically the sales tax rebate (H.F. 552), streamlined sales tax, and the penalty bill. The estimates also include associated administrative costs.

ADMINISTRATIVE/OPERATIONAL IMPACT

See fiscal note

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

sf0473(hf0511)-1 / cc

Governor's Tax Relief and Reform Proposals
($ 000's)

Tax Type		FY 02	FY 03	FY 04	FY 05
Sales Tax Rebate					
	FY 01 = ($925,414)				
General Fund recapture	$13,900				
Administrative Costs	($500)	($1,600)			
Individual Income Tax					
1 Rates reduced by 0.4% = 01 and 02, 0.5% = 03, 0.6% = 04		(601,000)	($483,000)	($628,000)	($717,000)
2 Enhanced working family credit: additional $100 for one child, $200 for two or more (1/1/01); additional increase in credit (1/1/03)		(26,500)	(26,600)	(101,700)	(103,300)
3 K-12 education credit: modify allowable expenses, credit at 75% (1/1/02)		0	15,100	15,800	16,600
4 Repeal child care credit (1/1/02)			12,000	12,000	12,000
5 Education subtraction - modify allowable expenses (1/1/02)		0	2,000	2,100	2,200
6 Federal Update	FY 01 = ($200)	(700)	(1,200)	(1,600)	(1,800)
7 Repeal alternative minimum tax (1/1/02)		0	(29,600)	(31,800)	(33,400)
8 Individual penalties		-	(5,100)	(5,400)	(5,800)
9 Offset for property tax		-	18,200	18,800	19,200
10 Offset for MVRT change		-	2,300	2,350	4,640
Subtotal: Individual Income Tax		($628,200)	($495,900)	($717,450)	($806,660)
Corporate Franchise Tax - Effective 1/1/01					
1 Change sales apportionment to 90%		($54,900)	($46,300)	($50,700)	($52,600)
2 Federal Update					
- Foreign income provisions		(16,000)	(13,500)	(14,800)	(15,400)
- Other	FY 01 = ($3,800)	(2,800)	(2,800)	(1,900)	(1,200)
3 Exemption of insurance companies who pay gross premiums tax		(10,100)	(8,600)	(9,400)	(9,700)
4 Amendment to Credit for Increasing Research Activities		18,100	15,600	17,500	19,700
5 Repeal of alternative minimum tax, also for occupation tax		(14,400)	(12,200)	(13,400)	(13,800)
6 Repeal FOC provisions		32,800	27,700	30,300	31,400
- Interaction with change in apportionment		1,800	1,600	1,700	1,800

	Tax Type	FY 02	FY 03	FY 04	FY 05
	Corporate Franchise Tax (Cont.)				
7	Repeal foreign royalty subtraction	$49,100	$41,500	$45,500	$47,200
	- Interaction with change in apportionment	7,200	6,000	6,600	6,900
8	Repeal job training credit	200	100	0	0
9	Replace dividend received deduction with federal provision	0	0	0	0
10	Replace contributions deduction with federal provision	6,200	5,300	5,800	6,000
	- Interaction with change in apportionment	(130)	(100)	(100)	(100)
11	Amendments to the definition of "net income"				
	- modifications not included in other items	(5,300)	(4,500)	(4,900)	(5,100)
12	Tax rate adjustment				
	- Reduce rate to 9.4%	(39,500)	(33,600)	(36,800)	(38,400)
13	Offset for property tax	-	12,200	12,800	13,500
14	Corporate penalties	-	(1,000)	(1,000)	(1,000)
	Subtotal: Corporate Franchise Tax	($27,730)	($12,600)	($12,800)	($10,800)
	Property Taxes - Effective taxes payable in 2002				
1	State takeover of general education levy				
	General education levy		($1,331,000)	($1,331,000)	($1,331,000)
	Education Homestead Credit eliminated		399,824	403,825	407,863
	Education Agricultural Credit eliminated		55,705	55,705	55,705
	Levy net of credits		($875,471)	($871,470)	($867,432)
	Effect of 90/10 metering		87,547		
	State General Fund Impact		($787,924)	($871,470)	($867,432)
2	HACA reduction				
	School HACA eliminated		$9,319	$5,973	$3,944
	Effect of 90/10 metering		(1,347)		
	City HACA eliminated		199,374	199,374	199,374
	Township HACA		29,259	29,259	29,259
	Special District HACA eliminated		28,713	28,713	28,713
	Mobile Home HACA (except county) eliminated		5,464	5,460	5,464
	Effect of 90/10 metering		(392)		
	State General Fund Impact		$270,390	$268,779	$266,754
3	County HACA transfers				
	Court costs		$9,097	$9,188	$9,280
	Foster care		67,364	67,364	67,364
	Family preservation aid		10,000	10,100	10,201
	County HACA replacement aid (Beltrami, Kooch.)		(1,785)	(1,785)	(1,785)
	State General Fund Impact		$84,676	$84,867	$85,060
4	Increase family preservation aid		(10,000)	(10,100)	(10,201)
5	Attached machinery aid elimination				
	Non-school		$2,382	$2,382	$2,382
	School		836	836	836
	State General Fund Impact		$3,218	$3,218	$3,218

Tax Type	FY 02	FY 03	FY 04	FY 05
Property Taxes (Cont.)				
6 Statewide general fund levy		$470,401	$484,513	$499,048
7 New market value homestead credit				
School		($85,308)	($87,867)	($90,503)
Adjustment for 90/10 metering		8,531		
Non-school		(285,595)	(294,163)	(302,988)
State General Fund Impact		($362,372)	($382,030)	($393,491)
8 New homestead agricultural land MV credit				
School		($4,713)	($4,855)	($5,000)
Adjustment for 90/10 metering		471		
Non-school		(16,711)	(17,212)	(17,729)
State General Fund Impact		($20,953)	($22,067)	($22,729)
9 Eliminate current local government aid				
City		$418,340	$429,213	$442,201
Township		3,856	3,956	4,059
State General Fund Impact		$422,196	$433,169	$446,260
10 New city local government aid		(471,963)	(491,393)	(511,850)
11 New township local government aid		(18,476)	(18,953)	(19,450)
12 Increased low-income housing aid (new construction)		(35)	(50)	(50)
13 Shift in aid payment schedule		(255,200)	-	-
14 Reduced disparity reduction credit				
School		$964	$993	$1,023
Adjustment for 90/10 metering		(96)		
Non-school		1,508	1,553	1,600
State General Fund Impact		$2,376	$2,546	$2,623
15 TIF grant aid		(65,600)	(65,600)	(65,600)
16 Elimination of TIF aid penalties		(5,400)	(5,400)	(5,400)
17 New homeowner PTR formula, increase maximum		(23,100)	(24,100)	(26,000)
18 Effect of reform plan on homeowner PTR		15,300	15,500	15,300
19 Effect of reform plan on targeting		1,100	1,200	1,400
20 School district referendum equalization aid				
Entitlement		($128,360)	($137,536)	($148,465)
Adjustment for 90/10 metering		12,836	918	1,093
State General Fund Impact		($115,524)	($136,618)	($147,372)
21 School district debt service equalization aid		(19,471)	(20,960)	(20,210)
Subtotal: Property Taxes	$0	($886,361)	($754,949)	($770,122)

	Tax Type	FY 02	FY 03	FY 04	FY 05
Sales and Use Tax - Effective 1/1/02					
1	Service/Base Broadening @ 6.5%	$363,100	$903,500	$937,100	$972,200
2	Service/Base Broadening rate reduction from 6.5% to 6%	(27,900)	(69,500)	(72,100)	(74,800)
3	Streamlined sales tax - service sourcing at 6.5%	(1,900)	(5,000)	(5,200)	(5,500)
4	Streamlined sales tax - service sourcing rate reduction from 6.5% to 6%	100	400	400	400
5	Rate Reduction for general sales and use tax 6.5% to 6.0%	(131,600)	(339,300)	(358,000)	(377,700)
6	Rate reduction for motor vehicle sales tax	(16,900)	(45,200)	(46,600)	(48,000)
7	Telecommunications @ 6.5%	23,940	59,180	62,740	66,500
8	Telecommunications Rate Reduction 6.5% to 6.0%	(1,840)	(4,550)	(4,830)	(5,110)
9	Up-front exemption for capital equipment @ 6%	(39,000)	(47,500)	(31,100)	(33,800)
10	June accelerated payment @ 6%	(134,000)	(9,900)	(8,100)	(8,500)
11	Streamlined sales tax - definitional changes at 6%	1,800	3,800	4,000	4,100
Subtotal: Sales and Use Tax		$35,800	$445,930	$478,310	$489,790
Special Taxes					
1	Exempt paddlewheel and raffle games (7/1/01)				
	- Exempt from 8.5% tax	($310)	($335)	($335)	($335)
	- Subject to comb. Receipts tax	790	865	865	865
2	Reduce rates on bingo (7/1/01)				
	- Reduce from 8.5% to 5%	(495)	(540)	(540)	(540)
3	Change mortgage and deed tax to a %	-----------------------------(Negligible)------------------------------			
4	Change insurance premium/fire insurance taxes due dates (1/1/02)	(500)	(20)		
5	Eliminate 1 cent bottle tax (7/1/01)	(460)	(500)	(500)	(500)
6	Adjust brackets of combined receipts tax from: $500,000, $700,000, $900,000 to: $700,000, $900,000, $1,100,000 (7/1/01)	(5,500)	(6,000)	(6,000)	(6,000)
7	Repeal automobile self-insurance tax (1/1/00)	(100)	(100)	(100)	(100)
	`	50	50	50	50
8	Replace 10% reduction in Taconite Production Tax (1/1/01)	(8,800)	(8,800)	(8,800)	(8,800)
Subtotal: Special Taxes		($15,325)	($15,380)	($15,360)	($15,360)

Tax Type	FY 02	FY 03	FY 04	FY 05
MinnesotaCare Taxes				
1 Transfer to HCAF 85% of cigarette collections				
General Fund	$0	$0	($141,300)	($141,300)
Health Care Access Fund			141,300	141,300
2 Repeal of 1% premium tax (1/1/03)				
Health Care Access Fund	0	(17,594)	(33,727)	(35,144)
3 Reduce MNCare to 1.5% (1/1/02)				
Health Care Access Fund	(28,000)	(59,000)	(62,000)	(64,000)
4 Repeal wholesale drug distributor tax at 1.5% (1/02)				
Health Care Access Fund	(16,000)	(34,000)	(35,000)	(37,000)
5 Disallow deduction for drugs to other MNCare MNCare taxpayers (1/02)				
Health Care Access Fund	4,000	10,000	11,000	12,000
Subtotal: MinnesotaCare Taxes	($40,000)	($100,594)	($119,727)	($124,144)
General Fund	$0	$0	($141,300)	($141,300)
Health Care Access Fund	($40,000)	($100,594)	$21,573	$17,156
Petroleum Taxes - Effective 7/1/01				
1 Repeal farmers' up-front exemption for gasoline	$0	$0	$0	$0
2 Reduce the 3% shrinkage allowance to 2.5%				
Highway Fund	2,500	2,540	2,590	2,640
3 Impose inspection fee on certain petroleum products	300	300	300	300
Subtotal: Petroleum Taxes	$2,800	$2,840	$2,890	$2,940
Miscellaneous				
1 Motor vehicle registration tax - Maximum $189 1st year, $89 thereafter (1/02); Maximum of $75 for all years (1/04)	($41,000)	($85,000)	($120,000)	($156,000)
2 Electronic government services	0	0	0	0
Subtotal: Miscellaneous	($41,000)	($85,000)	($120,000)	($156,000)

Tax Type		FY 02	FY 03	FY 04	FY 05
Tax Policy Provisions					
1 Registration of ATV's - sales tax		60	60	60	60
2 Impose solid waste management use tax (7/01)					
General Fund		83	95	100	105
Solid Waste Fund		83	95	100	105
3 Adult day care centers exemption for MNCare					
Health Care Access Fund		(300)	(380)	(400)	(420)
Subtotal: Tax Policy Provisions		($74)	($130)	($140)	($150)
Administrative Costs		($7,385)	($4,970)	($5,275)	($5,435)
Total	FY 01 = ($916,014)	($722,714)	($1,152,165)	($1,264,501)	($1,395,941)
General Fund		($684,997)	($1,053,826)	($1,288,364)	($1,415,422)
Highway Fund		$2,500	$2,540	$2,590	$2,640
Health Care Access Fund		($40,300)	($100,974)	$21,173	$16,736
Solid Waste Fund		$83	$95	$100	$105

	FY 02	FY 03	FY 04	FY 05
Items replaced by direct spending:				
Repeal child care credit - Appropriation to CFL	$0	($12,000)	($12,000)	($12,000)
Repeal job training credit - Appropriation to DTED	(200)	(100)	0	0
HACA for:				
• Court costs - Appropriation to Courts		(9,097)	(9,188)	(9,280)
• Foster care - Appropriation to DHS		(67,364)	(67,364)	(67,364)
Total	($200)	($88,561)	($88,552)	($88,644)

Prepared by: Minnesota Department of Revenue, Tax Research Division

2001 POLICY/TAX REFORM BILL SUMMARY

MINNESOTA Department of Revenue

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

SF 473/HF 511
Article 1 Individual Income Tax Reform

Section 1. Subtraction from Federal Taxable Income. Amends Minn. Stat § 290.01, subd. 19b by removing equipment and materials used in school by a child in kindergarten through 12th grade from the expenditures by a parent which will qualify for subtraction. Also, transportation expenditures for the school day incurred by the parent will not qualify for the subtraction. This section deletes the obsolete subtractions for early 1980's ACRS, IRA, Keogh, and government pension plan subtractions which all should have been taken in 2000 or 2001. All of these changes are effective for tax years beginning after December 31, 2001.

Section 2. Regular Tax Rates. Amends Minn. Stat. § 290.06, subd. 2c, by reducing all of the tax rates .4 of a percent for tax years 2001 and 2002. The bottom rate would go from 5.35% to 4.95%, the middle rate from 7.05% to 6.65% and the top rate from 7.85% to 7.45%. For 2003 the rates are reduced an additional .1%. For 2004 and thereafter the rates are reduced an additional .1% for a total reduction of .6% in 2004 from current rates. This section also allows a part-year resident who has U.S. bond interest while they are a resident to subtract the assignable interest from the numerator of the ratio used to compute their tax. This section is effective for tax years beginning after December 31, 2000.

Section 3. Working Family Credit. Amends Minn. Stat. § 290.0671, subd. 1 to increase the credit. For tax years 2001 and 2002 taxpayers who are eligible for the credit will receive an additional $100 credit for each qualifying child they have up to a maximum additional credit of $200. For 2003 and thereafter the per child credit and maximum are doubled. Also for 2003 and thereafter the rate at which the credit is generated on earned income is increased by 50%. The phase-out rate is also increased to continue only to allow the credit to taxpayers who qualify for the federal earned income tax credit (EITC).

Section 4. Education Credit. Makes a number of changes to Minn. Stat. § 290.0674 which allows a credit for certain education expense of a qualifying child in grades kindergarten through 12th of families with household income under $37,500. The first change makes the credit 75% of the qualifying expenditures, from the current 100% credit. The next change precludes the sibling or parents or grandparents from being a "qualified instructor" for the purpose of generating fees for instruction that qualify for the credit. The third change is a clarification that fees for instruction for physical education do not qualify for the credit. The fourth change removes material and equipment required to be purchased for school from the list of qualifying expenditures. The fifth change removes educational computer software from qualifying expenditures. The final change removes school transportation expenditures from qualifying expenditures. All of the changes in this section are effective for tax years beginning after December 31, 2001.

Section 5. Limitation of Education Credit. Amends Minn. Stat. § 290.0674, subd. 2, to change the cite to the definition of "household income" found in Minn. Stat. §290.067 (Dependent Care Credit) which is being repealed in section 13 to the definition used for the property tax refund before the offset for number of dependents. Effective for tax years beginning after December 31, 2001.

Section 6. Marriage Penalty Credit. Amends Minn. Stat. § 290.0675 slightly to provide that "earned income" used in the computation of the credit is only used to the extent it is subject to income taxation. Effective for tax years beginning after December 31, 2000.

Section 7. Marriage Penalty Credit Amount. Amends Minn. Stat. § 290.0675, subd. 2, by deleting the table in the statute and replacing it with a narrative of how the table is calculated. The section then requires the commissioner of revenue to construct the table each year based on the formula with income brackets of no more than $2000. Effective for tax years beginning after December 31, 2000.

Section 8. Alternative Minimum Tax Rate. Amends Minn. Stat. § 290.091, subd. 1 to reduce the alternative minimum tax rate to 6% for the 2001 tax year to correspond to the reduction in the regular tax rate in section 2. In section 13 the alternative minimum tax is repealed for tax years beginning after December 31, 2001.

Section 9. Alternative Minimum Tax Credit. Amends Minn. Stat. § 290.091, subd. 6 to reduce the credit generated in 2001 and used in 2001 down to the 6% in section 8. For 2002 and 2003 the unused prior year credits can be applied against the regular tax after non-refundable credits. The credit is then repealed for tax years beginning after December 31, 2003 in section 13.

Sections 10, 11, and 12. Conforming Withhold Tax Rate Changes. Amends Minn. Stat. § 290.92, subd. 3 (Supplemental Wage Withholding Rate), subdivision 28 (Withholding Rate for Jockeys and Trainers) and subdivision 29 (Lottery Prize Withholding Rate) to correspond to the income tax rate reductions in section 2. All of the sections are effective for payments after July 1, 2001.

Section 13. Repealer. Repeals the sunset cabin credit of Minn. Stat. § 290.06, subd. 25 and the dependent care credit of Minn. Stat. § 290.067 effective for the tax years beginning after December 31, 2001. This section also repeals the individual alternative minimum tax effective for tax years beginning after December 31, 2001 and repeals the carry-over alternative minimum tax credit for tax years beginning after December 31, 2003.

Article 2 Federal Update

Overview: Many Minnesota tax provisions are enacted with the tax definitions and methods being prescribed by reference to the federal Internal Revenue Code's definitions and methods. For example, Minnesota "net income" is defined in Minn. Stat. § 290.01, subd. 19 as federal "taxable income" as defined in the Internal Revenue Code as amended through December 31, 1999. Typically, each Minnesota legislative session, provisions are enacted to pick-up the federal changes to the Internal Revenue Code enacted in the last year by changing the term "Internal Revenue Code as amended through December 31, xxxx" to "December 31, xxxx +1."

In 2000 Congress only enacted three laws that changed the Internal Revenue Code: the FSC Repeal and Extraterritorial Income Exclusion Act of 2000; the Installment & Tax Correction Act of 2000; and the Consolidated Appropriation Act of 2001. The first act, which became law on November 15, 2000, was a response to a trade dispute between the United States and the World Trade Organization. The federal change is generally effective for transactions and FSC (Foreign Sales Corporation) elections made after September 30, 2000 with transition provisions through January of 2002. The new law repeals the provisions which allow the status of a foreign sales company. Thus, getting rid of the federal income tax advantages of a U.S. corporation owning foreign sales corporations. To offset the repeal of the advantage of having foreign sales companies, the legislation allows an exclusion from income for all types of U.S. taxpayers for net income attributable to sales made outside the U.S. subject to a number of limitations.

The second law was a response to a 1999 federal change which precluded accrual based taxpayers from using the installment method of reporting sales, even for the sale of the business. This was perceived as having a chilling effect on the sale of business assets by small business owners and thus the 1999 preclusion was repealed in the Installment Tax Correction Act of 2000 effective as if the 1999 change was never enacted.

The last federal tax legislation was passed in late December as part of an end of the year appropriations bill. The tax portions of the enactment contain a number of minor retroactive technical corrections, clarification of tax basis of stock received for property subject to liabilities, 2-year extension of medical savings accounts, fair market deduction of computers to schools, and expensing of brown field clean up costs, all of which were set to sunset on December 31, 2000, an increase in the private activity bond volume, modification of the treatment of securities futures contracting, and the allowance of 40 new "renewal communities" and 9 more empowerment zones starting the beginning of 2002, where businesses doing business in the communities are allowed enhanced section 179 expensing of assets, accelerated deduction for revitalization of buildings in the community, and individuals who invest in the capital of businesses in the community can exclude 60% of the gain from selling their interest in the business if they hold the interest at least 5 years (old law was a 50% exclusion). The final provision of note allows children who the police think have been kidnapped by someone other than a relative to be claimed as a dependent for exemption purposes or as a "qualified child" for the earned income tax credit until the child's 18th birthday or found dead effective for tax years ending after December 21, 2000.

Section 1. Federal Update Administrative. Amends Minn. Stat. § 289A.02, subd. 7, to adopt federal administrative changes made in 2000 federal legislation which Minnesota adopts by reference to the Internal Revenue Code. Since there was not any federal tax administration legislation in 2000, this change does not have any substantive affect on the Minnesota administration provisions in chapter 289A. Effective for tax years beginning after December 31, 1999.

Section 2. Net Income. Amends Minn. Stat. § 290.01, subd. 19 to adopt the 2000 federal change to federal "taxable income" discussed above. Effective for Minnesota at the same time and manner as for federal purposes.

Section 3. Income Tax Definitions in Chapter 290. Amends Minn. Stat. § 290.01, subd. 31 to pick up the federal repeal of FSC provision and the change in the working family credit for kidnapped qualified children. Effective at the same time as the federal changes were effective.

Section 4. Apportionment Factors for Extraterritorial Income. Amends Minn. Stat. § 290.191, subd. 5, to exclude from the sales factor receipts that have not been included in the determination of Minnesota net income. The Internal Revenue Code was amended to exclude extraterritorial income from federal gross income in section 114. As Minnesota's definition of net income starts from IRC § 63, federal taxable income, the extraterritorial income is also excluded from Minnesota's net income. Because the taxpayer has already excluded the income from taxation, it is reasonable not to lessen the taxpayer's apportionment percentage and income apportioned to Minnesota by including the receipts in the apportionment denominator. Effective for transactions after September 30, 2000, which is also the effective date for the federal amendments.

Sections 5 and 6. Federal Update PTR and Estate Tax. Updated the references in Minn. Stat. ch. 290A (Property Tax Refund) and ch. 291 (Estate Tax) to the federal Internal Revenue Code for federal changes made in 2000 of which there were none. Effective after December 31, 2000.

Article 3 Corporate Franchise Tax Reform

Overview. This article provides for conformity with federal tax provisions the dividend received deduction, charitable contributions deduction, percentage depletion and treatment of foreign income. It repeals alternative minimum tax provisions where the tax effect of compliance does not warrant the increased complexity of a complete second set of computations of alternative taxable income. The rate of tax is reduced to 9.4%, and apportionment factors are changed to 90% sales weighting, 5% property and 5% payroll. The corporate franchise tax credit for enterprise zones is rarely used, and the credit for Border City Development Zones has never been used, so they are repealed. The increasing research activities credit is amended to relate the credit to the standards for measuring increased research. Also insurance companies are defined and, if subject to the gross premiums tax, are exempted from the corporate franchise tax. Reinsurance companies which do not pay gross premiums tax are still subject to the corporate franchise tax. Changes are required for occupation taxes determined in the same manner as corporate franchise taxes because of some of the corporate franchise tax deletions and repealers.

Section 1. Definition of an Insurance Company. Adds a new subdivision to Minn. Stat. § 290.01, subd. 5b incorporating by reference the Internal Revenue Code (IRC) definitions of insurance companies. Effective for tax years beginning after December 31, 2000.

Sections 2 and 3. Minnesota Modifications Increasing and Decreasing Federal Taxable Income. The sections delete additions and subtractions from federal taxable income, the result being that there are fewer Minnesota modifications to federal taxable income.

1) Minn. Stat. § 290.01, subd. 19c(5). The addition of the federal dividend received deduction is deleted, permitting corporations to take IRC § 241-247 deductions, subject to apportionment. There is no substantial difference between the federal and state deduction. Repeal of the specially computed Minnesota dividend received deduction in Minn. Stat. § 290.21 [Section 4, below] is required because of this provision.
2) Minn. Stat. § 290.01, subd. 19c(8). The addition of the federal charitable contributions deduction is deleted, permitting corporations to take IRC § 170 charitable contributions, subject to apportionment. Repeal of the specially computed Minnesota charitable contributions deduction in Minn. Stat. § 290.21 [Section 4, below] is required because of this provision.
3) Minn. Stat. § 290.01, subd. 19c(10). The addition of percentage depletion is deleted, permitting corporations to take IRC § 611-614, percentage depletion deductions, subject to apportionment. Repeal of cost depletion provisions in Minn. Stat. § 290.01, subd. 19d(7) [item 10, below] is required because of this provision.
4) Minn. Stat. § 290.01, subd. 19c(11). The addition for the amortization deductions for pollution control equipment is deleted because the provision is obsolete.
5) Minn. Stat. § 290.01, subd. 19c(12). The addition of any deemed dividend from a foreign operating corporation is deleted. It is proposed that the foreign operating corporation provisions of the chapter be deleted. Generally the bill adopts federal treatment of foreign income and repeals special Minnesota provisions. The federal update adopts federal provisions repealing foreign sales corporation provisions of the IRC and permits

exclusion of "extraterritorial income." This affords corporations a substantial tax benefit for overseas operations not previously permitted by Minnesota statutes. [Article 3, §§ 2, 3, and 4.] In this article, in addition to this clause, Minn. Stat. § 290.01, subd. 19d(11) [item 13, below] is repealed, and Minn. Stat. § 290.17, subd. 4 [section 15, below] is amended.

6) Minn. Stat. § 290.01, subd. 19c(13). The addition of the environmental tax paid is deleted, as the provision is obsolete.
7) Minn. Stat. § 290.01, subd. 19d(3). The subtraction from income for dividends paid to U.S. exempt entities is deleted.
8) Minn. Stat. § 290.01, subd. 19d(4). The subtraction for disallowed intangible drilling costs due to the difference between the IRC and Minn. Stat. Chapter 290 in taxable years beginning before January 1, 1987 is permitted as a subtraction in two tax years.
9) Minn. Stat. § 290.01, subd 19d(5). The provisions for capital losses incurred before January 1, 1987, are deleted because they are obsolete.
10) Minn. Stat. § 290.01, subd. 19d(7). The subtraction for cost depletion is repealed, because in amendments to subd.19c percentage depletion is permitted.
11) Minn. Stat. § 290.01, subd. 19d(8). The subtraction for certified pollution control facilities Minnesota depreciation not previously deducted is permitted as a subtraction in two years.
12) Minn. Stat. § 290.01, subd. 19d (9). The subtraction for enterprise zones is deleted because it is minimally used, the subtraction for corporate franchise tax border city zone deductions is deleted because it has never been used.
13) Minn. Stat. § 290.01, subd. 19d (11). The subtraction for royalties, fees, or other like income received from a foreign operating corporation or a foreign corporation which is part of the same unitary business is deleted.

Effective for tax years beginning after December 31, 2000.

Section 4. Minnesota Dividend Received Deduction and Charitable Contributions Deductions. Minn. Stat. § 290.01, subd. 29 is amended to delete provisions for a specially computed Minnesota dividend received deduction and charitable contribution deduction. An apportioned federal dividend received deduction and charitable contribution deduction is allowed under Minn. Stat. § 290.01, subd. 19c as amended. [Section 2, items 1 and 2, above.] Effective for tax years beginning after December 31, 2000.

Section 5. Alternative Minimum Tax. Amends Minn. Stat. § 290.02 by deleting the language imposing an alternative minimum tax. Effective for tax years beginning after December 31, 2000.

Section 6. Exempt Entities. Amends Minn. Stat. § 290.05, subd. 1 by adding insurance companies that have a premium tax liability as exempt entities. Effective for tax years beginning after December 31, 2000.

Section 7. Taxes Imposed on Exempt Entities. Amends Minn. Stat. § 290.05, subd. 3, deleting the reference to § 290.21, which provides for the specially computed Minnesota dividends received and charitable contribution deductions which will be repealed. Effective for tax years beginning after December 31, 2000.

Section 8. Rates of Tax. Minn. Stat. § 290.06, subd. 1, is amended, reducing the corporate tax rate to 9.40%. Effective for tax years beginning after December 31, 2000.

Sections 9 and 10. Credit for Increasing Research Activities. Amends Minn. Stat. § 290.068 to define the "base amount" used to calculate the credit for increasing research activities to mean the preceding five year average of qualified research expenses. The amendment would allow a credit only if research expenses have been increased over the five year average. Presently the section requires use of gross receipts as the base amount to determine the increasing research credit. As a result of the computation's base, the credit can apply in a year when research expenditures decrease. The section also provides for a base amount for corporations that have no history of research expenditures. Effective for tax years beginning after December 31, 2000.

Sections 11 and 12. Alternative Minimum Tax Expiration and Credit Carryover. Minn. Stat. § 290.0921, subd 9, provides for the expiration of the corporate alternative minimum tax. The term expiration is used so the provision will be codified until the section is no longer effective for carryovers. Minn. Stat. § 290.0921, subd. 8 is amended to require corporations to claim credits that are available to them for previously paid alternative minimum tax in two tax years. Effective for tax years beginning after December 31, 2000.

Section 13. Minimum Fee Exemptions. *Minn. Stat. § 290.0922, subd. 2 is amended to exempt insurance companies that have a premiums tax liability from the minimum fee. Effective for tax years beginning after December 31, 2000.*

Section 14. Net Operating Loss Limitations. *Amends Minn. Stat. § 290.095, subd. 2 to delete references to statute sections that are being repealed. Effective for tax years beginning after December 31, 2000.*

Section 15. Foreign Operating Corporations. Amends Minn. Stat. § 290.17, subd. 4 to remove provisions that pertain to foreign operating corporations. Effective for tax years beginning after December 31, 2000.

Section 16 and 17. Apportionment Factors. Amends the apportionment formula for general application and financial institutions to 90% weighting for sales and receipts and 5% each for property and payroll. Effective for tax years beginning after December 31, 2000.

Section 18. Taxes for Part-Year Computation. Amends Minn. Stat. § 290.32 deleting references to section 290.21 which will be repealed. Effective for tax years beginning after December 31, 2000.

Section 19. Tax on Built-In Gains. Amends Minn. Stat. § 290.9727 deleting references to section 290.21 which will be repealed. Effective for tax years beginning after December 31, 2000.

Section 20. Tax on Capital Gains. Amends Minn. Stat. § 290.9728 deleting references to section 290.21 which will be repealed. Effective for tax years beginning after December 31, 2000.

Section 21. Tax on Passive Investment Income. Amends Minn. Stat. § 290.9729 deleting references to section 290.21 which will be repealed. Effective for tax years beginning after December 31, 2000.

The following proposals are a part of this article because they depend on the enactment of certain corporate franchise tax proposals regarding percentage depletion, the alternative minimum tax and tax credit, and an obsolete amortization provision. Sections 22 to 25 amend, and Section 26(b) repeals, provisions of the occupation tax, Minn. Stat. § 298.01, in conjunction with similar amendments to and repealers of provisions of the corporate franchise tax, found at sections 2, 3, 5, 11 and 12 of this article.

Sections 22 and 24. Occupation Tax; Elimination of References to Percentage Depletion Provision and Obsolete Amortization Provision. Amends both Minn. Stat. § 298.01, subd. 3b, paragraph (b), and subd. 4c, paragraph (a), to strike that part of a provision that states that the provisions of section 290.01, subds. 19c, clause (11), and 19d, clause (7) are not used to determine taxable income. These clauses are deleted in section 2 and 3 of this article. Effective for taxes payable May 1, 2002, and thereafter.

Sections 23 and 25. Occupation Tax; Alternative Minimum Tax Credit. Amends Minn. Stat. § 298.01, subds. 3d and 4e, to eliminate the alternative minimum tax credit after tax year ending December 31, 2002, for taxes payable on or before May 1, 2003. Effective for taxes payable May 1, 2002, and thereafter.

Section 26. Repealer.

(a) Minn. Stat. § 290.01, subd. 6b is the definition of a foreign operating corporation.

(b) Minn. Stat. § 290.0673. Job Training Program Credit, is repealed. The program is included in legislation making it a grant program administered by the Department of Trade and Economic Development.

(c) Minn. Stat. § 290.21, is repealed because the deductions to corporations contained therein, the dividend received deduction and the charitable contributions deductions, are no longer necessary after federal conformity.

(d) Minn. Stat. § 290.0921, is repealed except for subd. 8 regarding computations of the carryover credit.

(e) Minn. Stat. § 290.35, subds. 3, 4, and 5, are repealed because they will not apply if an insurance company is not subject to the gross premiums tax.

(f) **Occupation Tax; Repeals Alternative Minimum Tax.** Repeals Minn. Stat. § 298.01, subd. 3c and 4d, the alternative minimum tax provisions for occupation tax. Effective for taxes payable May 1, 2002, and thereafter.

(g) **Border City Development Zone Corporate Franchise Credit.** Minn. Stat. §§ 469.1732, subd. 2, and 469.1734, subd. 4, are repealed, corporate franchise tax credits for Border City Development Zones. The credits have never been used and no applications are pending.

Article 4 Property Tax Reform

Section 1. Residential Assessed Value. Amends Minn. Stat. § 126C.01, to add the new subd. 12, defining “residential assessed value” as the assessed value of: (i) class 1a, 1b and 1c homesteads; (ii) the house, garage and immediately surrounding one acre of land of class 2a agricultural homesteads; (iii) class 4a apartments; (iv) class 4b(1) nonhomestead duplexes and triplexes; (v) class 4b(3) nonhomestead duplexes and triplexes located on farms; (vi) class 4bb single-unit residential rental properties; and, (vii) class 4d low-income housing units. This is the tax base used in later sections for school district operating cost referenda levies beginning with taxes payable in 2002. Effective for taxes payable in 2002 and thereafter.

Section 2. Adjusted Residential Assessed Value. Amends Minn. Stat. § 126C.01, to add the new subd. 13, defining “adjusted residential assessed value” as the value defined in the previous section after being adjusted and equalized by the commissioner of revenue according to the provisions of Minn. Stat. § 127A.48. This value is used to equalize various school district levies, including excess operating cost referenda levies. Effective for taxes payable in 2002 and thereafter.

Section 3. Adjusted Assessed Value. Amends Minn. Stat. § 126C.01, to add the new subd. 14, defining “adjusted assessed value” for the purpose of equalizing school district levies. Effective for taxes payable in 2002 and thereafter.

Section 4. School District Levy Adjustments. Amends Minn. Stat. ch. 126C, by adding a new section § 126C.02. This new section requires the commissioner of children, families and learning and the commissioner of revenue to make the necessary adjustments in consultation with one another so that the school district revenue authorities, tax rate limits, equalizing factors, and qualifying rates, currently expressed in law as being a function of net tax capacity or adjusted net tax capacity are converted to an assessed value or mill rate basis. Effective for taxes payable in 2002 and thereafter.

Section 5. General Education Tax Rate. Amends Minn. Stat. § 126C.13, subd. 1, to specify that the general education revenue property tax rate will be zero for all school districts beginning with fiscal year 2002. Fiscal year 2002 relates to the 2002-2003 school year. Effective the day following final enactment.

Section 6. General Education Levy. Amends Minn. Stat. § 126C.13, subd. 2, to eliminate the general education property tax levy for all school districts. For taxes payable in 2002 and thereafter, the amount of the general education property tax levy is explicitly set at zero for all districts. Effective for taxes payable in 2002 and thereafter.

Section 7. General Education Aid. Amends Minn. Stat. § 126C.13, subd. 4, to change the definition of general education aid for fiscal year 2002, and for fiscal year 2003 and thereafter. For fiscal year 2002, there is a change to the reference for the statute under which supplemental aid is computed. For fiscal year 2003 and thereafter the reference to school district general education property tax levies is eliminated. Effective July 1, 2001 and thereafter.

Section 8. Referendum Equalization Revenue. Amends Minn. Stat. § 126C.17, subd. 5, to define referendum equalization revenue. For fiscal year 2002, referendum equalization revenue equals the lesser of the district's per resident marginal cost pupil unit for the year, or $415. For fiscal year 2003 and thereafter, referendum equalization revenue allowance is divided into two tiers. The first tier is equal to the lesser of the district's per resident marginal cost pupil unit referendum revenue authority, or $600. The second tier referendum equalization allowance equals the lesser of the district's per resident marginal cost pupil unit referendum authority, or 25% of the formula allowance, minus the district's first tier allowance amount. Effective for fiscal year 2002 and thereafter.

Section 9. Referendum Equalization Levy. Amends Minn. Stat. § 126C.17, subd. 6, to define allowable referendum equalization levies. For fiscal year 2002, the referendum equalization levy permitted for a district equals the district's referendum equalization revenue multiplied by the ratio of the district's referendum market value per marginal cost pupil unit to $476,000 if that ratio is less than one. For fiscal year 2003 and thereafter, a district's first tier referendum equalization levy is limited to the district's first tier referendum equalization revenue times the lesser of one, or the ratio of the district's adjusted residential assessed value to $6,400. For fiscal year 2003 and thereafter, a district's second tier referendum equalization levy is limited the district's second tier referendum equalization revenue times to the lesser of one, or the ratio of the ratio of the district's adjusted residential assessed value per residential marginal cost pupil unit to $4,265. Effective for fiscal year 2002 and thereafter.

Section 10. Referendum Equalization Aid. Amends Minn. Stat. § 126C.17, subd. 7, to change the computation of school district referendum equalization aid for districts that do not levy the full amount of their first or second tier referendum equalization revenue limit. The changes merely reflect that there will now be two tiers for a district's referendum equalization allowance. Effective for fiscal year 2003 and thereafter.

Section 11. Unequalized Referendum Levy. Amends Minn. Stat. § 126C.17, subd. 8, to update the definition of a school district's unequalized referendum levy. The only change in the definition is to update the references to the proper subdivisions in this statute. A school district's unequalized referendum levy is still equal to basically the difference between their authority under the referendum and the amount of their equalized referendum levies. Effective for taxes payable in 2002 and thereafter.

Section 12. Referendum Ballots. Amends Minn. Stat. § 126C.17, subd. 9. Technical changes are made to the statute specifying what must be on the ballot for school district excess levy referenda. References to tax rates as percentages are changes to speak in terms of mill rates, and references to commercial and industrial taxable properties are eliminated to reflect that future excess operating revenue referenda will not apply to those types of properties. Effective the day following final enactment.

Section 13. School Referendum Levy. Amends Minn. Stat. § 126C.17, subd. 10 to clarify that school district excess operating cost referenda taxes will only be levied against the assessed value of residential type properties beginning with taxes payable in 2002. Effective for taxes payable in 2002 and thereafter.

Section 14. Computation of Adjusted Assessed Value. Amends Minn. Stat. § 127A.48, subd. 1. Specifies that, when the commissioner of revenue equalizes the taxable values of the various school districts, using the market values from the prior assessment year and the class rates for the current assessment year, the resulting figure is the adjusted assessed value of the district. Under current law that figure is the adjusted net tax capacity of the district. These changes will affect adjusted values computed in 2001, relative to taxes payable in 2002 and thereafter. Effective the day following final enactment.

Section 15. Institutions of Purely Public Charity. Amends Minn. Stat. § 272.02, subd. 7, to make technical corrections in the definition used for property tax purposes. The changes clarify that, under the conditions specified in Minn. Stat. § 272.02 and Minn. Stat. § 273.19, property held under a lease or similar arrangement by an institution of purely public charity can be considered to be property of the institution, for property tax purposes. Also clarifies that property that could qualify for the low-income housing treatment under class 4d is not exempt. This eliminates the argument that such property could be exempt simply by choosing not to apply for the 4d classification. Effective for taxes payable in 2002 and thereafter.

Section 16. Pollution Control Exemption. Amends Minn. Stat. § 272.02, subd. 10. This subdivision contains an exemption from property tax for personal property, and some types of real property, if used for abatement or control of air, water or land pollution. Under current law the exemption is limited to property installed or operated in accordance with a permit or order issued by the pollution control agency ("PCA"). This has lead to two types of pollution-control property not being covered by the statute. First, there is equipment that prevents discharges. Secondly, there is property installed and operated under federal rules and regulations. These changes would include both types. The changes also specify that the commissioner of revenue is to make the exemption decision, based on information and advice supplied by the PCA. Effective for exemption applications received on or after July 1, 2001.

Section 17. County Assessor Appointments. Amends Minn. Stat. § 273.061, subd. 1. Currently, the commissioner of revenue must approve the appointment of each county assessor for their four-year term. The new language authorizes the commissioner to grant probationary approvals for periods of two years. Effective the day following final enactment.

Section 18. County Assessor Vacancies. Amends Minn. Stat. § 273.061, subd. 2. Currently, a county board has 30 days to fill a vacancy in the office of county assessor. The new language extends this to 90 days. This section also changes the conditions under which a county board may terminate the term of a county assessor prior to the end of that assessor's four-year term. Current law states that the commissioner of revenue must charge the assessor with "inefficiency or neglect of duty." The new language changes this to "malfeasance, misfeasance or nonfeasance" by the assessor. Effective the day following final enactment.

Section 19. County Instructional Meetings. Amends Minn. Stat. § 273.061, subd. 8, so that county assessors can require their assessment staff to attend instructional meetings with the department of revenue's regional representatives. Effective July 1, 2001 and thereafter.

Section 20. Training and Education of Assessment Personnel. Enacts the new Minn. Stat. § 273.0755. Provides that by July 1, 2004, and in every four-year period after that, each Minnesota assessor licensed as an Accredited or Senior Accredited Minnesota Assessor will have successfully completed a week-long course on Minnesota property tax laws sponsored by the department of revenue. Also allows the commissioner of revenue to require that each county, and each city for which the assessor performs the duties of county assessor, have a person on staff who has been certified by the commissioner to do sales ratio calculations, tax calculations, and preparation of the abstracts of assessment. Each county may be required to have a certified person prepare the abstracts of tax lists. Effective July 1, 2001 and thereafter.

Section 21. Limited Market Value. Amends Minn. Stat. § 273.11, subd. 1a. A three-year phase-in is created to ameliorate the impact of the sunsetting of the limited market value statute. This statute limited the amount of market value increases that could be recognized in any one assessment year for some types of properties. In effect since 1993, the statute covers primarily residential, agricultural and seasonal properties. The most recent limit for annual increases is, the greater of 8.5% of the prior year's value, or 15% of the actual increase in value for the year. The statute is not in effect for the 2002 assessment. These changes require that any difference between the actual value and the limited value of a parcel for the 2001 assessment be added to the property's taxable market value in three equal installments, beginning with the 2002 assessment. Effective the day following final enactment.

Section 22. Valuation and Classification Notices. Amends Minn. Stat. § 273.121, to make several changes to the valuation and classification notices. First, the notices will be required annually for all properties on the tax rolls, not just for those that were reassessed or reclassified that year. Second, unless the commissioner of revenue grants a variance, the notices may not be mailed to property owners along with, nor within five days of, the mailing of the tax statements that are related to the prior year's assessment. Third, the notices must show the market value and classification of the property for both the current and the prior assessment. Finally, the commissioner of revenue may specify the form of the notice for all counties. Effective for notices required in 2002 and thereafter.

Section 23. 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% penalty) if it is determined that the homestead was fraudulently claimed. The definition is changed to include the new market value credits enacted in a later section of this article. The distribution of the repaid amounts will remain as it is under current law. That is, the recaptured "benefit" amount is distributed as additional local taxes, except for amounts attributable to taconite homestead credits which are re-deposited in the appropriate taconite distribution fund, and except for the 100% penalty amount that is deposited in the county's general fund. Also corrects three inconsistent references. Effective for homestead applications submitted on or after the day following final enactment.

Section 24. Assessed Value. Enacts the new Minn. Stat. § 273.13, subd. 21c, to define the term "assessed value" as being equal to the product of the appropriate class rate for the property times its market value. In effect, the term assessed value will replace the term net tax capacity. Effective for taxes payable in 2002 and thereafter.

Section 25. Class Rates for Class 1 Properties. Amends Minn. Stat. § 273.13, subd. 22, to provide new class rates for class 1 properties. The proposed class rates for class 1a residential homesteads, class 1c homesteaded resorts, and for class 1d seasonal farm worker structures will be 0.50 (not a percentage) for the first $200,000 of market value, and 0.75 for the market value of the property above that amount. The class rate for the first $32,000 of market value for class 1b blind/disabled homesteads will be 0.225. Effective for taxes payable in 2002 and thereafter.

Section 26. Class Rates for Class 2 Properties. Amends Minn. Stat. § 273.13, subd. 23, to provide new class rates for class 2 properties. The class rates for class 2a agricultural homestead properties are 0.30 for the first $600,000 of market value, and 0.50 for the remainder. The proposed class rate for all other class 2 properties is 0.50. Effective for taxes payable in 2002 and thereafter.

Section 27. Class Rates for Class 3 Properties. Amends Minn. Stat. § 273.13, subd. 24, to provide new class rates for class 3 properties. The proposed class rates for class 3 properties are 0.75 for the first $200,000 of market value, and 1.00 for the remainder. Additional new language clarifies that railroad companies receive only one first-tier amount per county. Also, existing special provisions for certain transit zone properties are eliminated since the general second-tier class rate is now less than the preferential rate provided for the second-tier of the same properties. Effective for taxes payable in 2002 and thereafter.

Section 28. Class Rates for Class 4 Properties. Amends Minn. Stat. § 273.13, subd. 25, to provide new class rates for class 4 properties. The proposed class rate for class 4a apartments, and class 4b properties, is 0.75. The proposed class rate for class 4bb single-unit rental properties, and for noncommercial seasonal recreational residential properties (i.e., private cabins), is the same as the homestead rates at 0.50 for the first $200,000 of market value, and 0.75 for the remainder. The class rate for class 4c(1) commercial-use properties, class 4c(2) golf courses, and class 4c(6) nonprofit indoor fitness properties is 0.50. The class rate proposed for low-income rental units is 0.40. The class rate for all other class 4 properties is 0.75. Effective for taxes payable in 2002 and thereafter.

Section 29. Class Rates for Class 5 Properties. Amends Minn. Stat. § 273.13, subd. 31, to provide a new class rate for class 5 properties. The proposed class rate is 1.0 of market value. Effective for taxes payable in 2002 and thereafter.

Section 30. Inflation Adjustment. Amends Minn. Stat. § 273.13, by adding the new subdivision 34. This new law provides an inflation adjustment for the valuation limits specified in law for the class 1, 2, 3, and 4 properties. Effective July 1, 2001 and thereafter.

Section 31. Market Value Homestead Credits. Enacts the new Minn. Stat. § 273.1384. Provides a market value based credit against taxes for homesteads. The credit for residential homesteads and the house, garage and immediately surrounding one acre of land for agricultural homesteads is 0.5% of the market value, up to $330, and limited to an amount that would reduce the remaining tax on the homestead to 0.85% of its market value. The credit for the remaining portions of agricultural homesteads is 0.25% of market value. A standing appropriation for the amounts necessary to reimburse local units of government for these tax reductions is provided. Effective for taxes, credits and reimbursements payable in 2002 and thereafter.

Section 32. Payments to School Districts. Amends Minn. Stat. § 273.1392, to provide that the reimbursements to school districts for the tax reductions provided in section 31 of the article are paid on a fiscal year basis and in semi-monthly installments. Effective for aids and credits payable in 2002 and thereafter.

Section 33. Computation of Net Property Taxes. Amends Minn. Stat. § 273.1393, to specify the order in which the market-value credits provided in section 31 of the article are to be computed. Effective for taxes payable in 2002 and thereafter.

Section 34. Homestead and Agricultural Credit Aid (HACA). Amends Minn. Stat. § 273.1398, subd. 1, to change the date of the population data or estimate used to compute HACA for a county to June 1 of the aid calculation year from July 1. Effective the day following final enactment.

Section 35. Homestead and Agricultural Credit Aid (HACA). Amends Minn. Stat. § 273.1398, by adding a new subdivision 4b, that permanently reduces the amount of HACA paid to counties and eliminates HACA for cities, towns, school districts and special taxing districts. County HACA payments are reduced for: (1) the estimated calendar year 2001 county costs for guardians *ad litem*, court interpreters, Rule 20 and civil commitment examinations and hearings, and in forma paupers costs, for counties in the first through fourth, sixth, and tenth judicial districts; (2) the 1999 nonfederal expenditures for child family foster care; and, (3) the amount of increase in family preservation aid the county will receive due to the additional $10,000,000 allocated to that program under a later section in this article. Effective for aid payable in 2002 and thereafter.

Section 36. Homestead and Agricultural Credit Aid (HACA). Amends Minn. Stat. § 273.1398, subd. 8, to make a technical change. Specifies that the cost of preparation of local impact notes, up to $200,000 a year, will be deducted from HACA for counties rather than from HACA for counties and cities. This accommodates the HACA changes made in section 35 of the article which eliminate HACA for cities. Effective January 1, 2002 and thereafter.

Sections 37-39. Manufactured Home HACA. Amends Minn. Stat. § 273.166, subds. 2, 3 and 5 to eliminate manufactured home HACA for cities, towns, school districts and special taxing districts. The remaining manufactured home HACA is for counties. Effective for aids payable in 2002 and thereafter, and at a corresponding time for the related standing appropriation.

Section 40. Transmission and Distribution Lines. Amends Minn. Stat. § 273.42, by adding the new subd. 3, to provide that the portion of transmission and distribution power line value that is pooled within each county to fund credits for these landowners is subject to the state's property tax levy. Effective for taxes payable in 2002 and thereafter.

Sections 41 - 42. Local and County Boards of Review and Equalization. Amends Minn. Stat. §§ 274.01, subd. 1 and 274.13, subd. 1, to allow a local board of review, and the county boards of equalization to be referred to as the board of appeal and equalization. Also eliminates the mandate for counties to have Saturday informational meetings if 25% or more of the tax base for a city or town within the county is noncommercial seasonal recreational residential property. Effective January 1, 2002 and thereafter.

Section 43. Conversion of Net Tax Capacity Limits. Amends Minn. Stat. § 275.011, by adding the new subd. 4, that requires the commissioner of revenue to prescribe the conversion factors and methods that may become necessary due to the switch from net tax capacity to assessed value, or due to the switch from net tax capacity local tax rates to mill rates. Effective for taxes payable in 2002 and thereafter.

Section 44. State Property Tax Levy. Amends Minn. Stat. § 275.02, to provide for a new state property tax levy of $470.4 million applicable to class 3 commercial and industrial properties, except for certain electric generating attached machinery, class 4c(1) resort properties, class 4c(2) golf courses, and class 5(1) unmined iron ore. The amount to be raised after the initial year is indexed to an inflation measure. Effective for taxes payable in 2002 and thereafter.

Section 45. Notices of Proposed Property Taxes. Amends Minn. Stat. § 275.065, subd. 3, to make three changes to the proposed property tax notices. First, the notices must only refer to a subsequent public hearing in those cases where the local unit must hold a hearing under the amended public hearing statute. Second, the notices must contain a phone number for taxpayers to call if they have questions about the notice. Third, the column on the notice for the tax change due to spending factors is eliminated. Effective for notices required in 2001 for taxes payable in 2002, and thereafter.

Section 46. Proposed Property Taxes Public Advertisements. Amends Minn. Stat. § 275.065, subd. 5a, to state that the advertisement for a particular local unit must state that the local unit will conduct a proposed tax public hearing only if they are required to under the revised Minn. Stat. § 275.065, subd. 6 (amended in the next section of the article). Effective for advertisements required in 2001 for taxes payable in 2002, and thereafter.

Section 47. Proposed Property Taxes Public Hearings. Amends Minn. Stat. § 275.065, subd. 6, to provide that a local unit of government need not conduct a proposed property tax public hearing unless itsproposed property tax levy for taxes payable in the subsequent year exceeds its levy for taxes payable in the current year by more than an inflationary increase. Effective for hearings required in 2001 for taxes payable in 2002, and thereafter.

Sections 48-50. County Auditors Compute Mill Rates Based on Assessed Values. Amends Minn. Stat. § 275.08, subds. 1, 1a and 1b to instruct county auditors to compute assessed values and mill rates. Under current law the corresponding amounts would be net tax capacity, and net tax capacity tax rates. Effective for taxes payable in 2002 and thereafter.

Section 51. Local Option Public Safety Fee. Enacts the new Minn. Stat. § 275.083, to allow cities to impose a uniform tax on properties exempt from the general property tax under Minn. Stat. § 272.02, subd. 7 ("institutions of purely public charity"). The maximum amount that could be imposed would be the market value of the property times a class rate of 0.75 times the ratio of the city's public safety expenditures to its total expenditures. Effective for taxes payable in 2002 and thereafter.

Section 52. Transportation Utility Fee. Enacts the new Minn. Stat. § 275.084, to allow cities to impose service fees against a property based on the road traffic generated by the property. The fees could not be imposed until after a public hearing was held on the issue. The fee revenues could only be used to fund the upgrade and maintenance items reflected in the municipality's master plan. Effective for fees payable in 2002 and thereafter.

Section 53. Tax Lists. Amends Minn. Stat. § 275.28, subd. 1, to make two technical changes. First, county auditors will now compute mill rates based on assessed values. Second, the total property tax against a property will consist of the local taxes plus the state's levy. Effective for taxes payable in 2002 and thereafter.

Section 54. Voter Approved Levies. Amends Minn. Stat. § 275.61 to provide that all voter-approved levies for governmental subdivisions other than school districts will be levied against the assessed values of all taxable property in the subdivision. Under current law, voter approved levies for taxes payable in 1993 and thereafter are levied against the referendum market value of property within the subdivision. Effective for taxes payable in 2002 and thereafter.

Section 55. Property Tax Statements. Amends Minn. Stat. § 276.04, subd. 2, to make three changes. First, references to a state determined school tax are stricken and replaced with references to the state tax. Second, deletes the instruction to place a sentence on the statements to the effect that the state does not receive property tax revenues. Third, replaces the instruction to show education homestead credits that are repealed under this article on the statement for each property with the instruction to show the market value homestead credits that are enacted under this article. Effective July 1, 2001 and thereafter for statements required in 2002 and thereafter.

Sections 56 and 67. Fiscal Disparities. Amends Minn. Stat. §§ 276A.06, subd. 3 and 473F.08, subd. 3, to make a technical change in the fiscal disparities computations. For taxes payable in 2002 and thereafter, the general education tax rate for the preceding year is eliminated when computing the current year distribution amounts. Effective the day following final enactment.

Sections 57 - 58. Conveyances of Tax-forfeited Lands. Amends Minn. Stat. § 282.01, subds. 1a and 1b. Under current law, the state will convey tax-forfeited land to any governmental subdivision for an authorized public use upon approval of the county board. The commissioner of revenue is charged with monitoring the subsequent actual use of the property. These changes eliminate those conveyances, except in the case of land located within targeted neighborhoods and for which the commissioner has no monitoring duty. Effective for deeds issued on or after July 1, 2001.

Section 59. Apportionment of Proceeds. Amends Minn. Stat. § 282.08 to provide that upon the sale of tax-forfeited lands, the amount necessary to recoup any actual unpaid state tax levy amount is forwarded to the state's general fund; without including interest or penalties. Effective July 1, 2001 and thereafter.

Section 60. Homeowner Property Tax Refunds. Amends Minn. Stat. § 290A.04, subd. 2, to reflect the effect of prior year inflation-adjustments to the income brackets. Additionally, the maximum refunds are generally increased to $1,190 to coincide with the maximum refunds available for renters. Effective beginning with refunds based on property taxes payable in 2002.

Section 61. Renter Property Tax Refunds. Amends Minn. Stat. § 290A.04, subd. 2a, to reflect the effect of prior year inflation-adjustments to the income brackets and the maximum refunds. Effective beginning with refunds based on rent paid in 2001.

Section 62. Inflation Adjustment of Property Tax Refund. Amends Minn. Stat. § 290A.04, subd. 4, to change the base year used as the starting point for future inflation adjustments of the income brackets and maximum refunds for homeowner and renter property refunds. Effective the day following final enactment.

Section 63. Pooling Permitted. Amends Minn. Stat. § 469.1763, subd. 6, to redefine when pooling is permitted for deficits in increment revenues. The new allowance is for districts for which the request for certification was made before June 2, 2001, and covers reductions in increments as a result of the class rate changes and the elimination of the general education tax levy under this article. Effective January 2, 2003 and thereafter.

Section 64. Original Local Tax Rate. Amends Minn. Stat. § 469.177, subd. 1a, to make a technical change. Clarifies that the original local tax rate for a district does not include the rate or amount attributable to a state property tax levy. Effective the day following final enactment.

Section 65. Deduction for Enforcement Costs. Amends Minn. Stat. § 469.177, subd. 11, to make a technical change. The portion of tax increments dedicated to the office of the state auditor for enforcement is changed from 0.25% to 0.34% to maintain approximately the current level of funding in light of the elimination of the general education tax levy. Effective for taxes payable in 2002 and thereafter.

Section 66. Metropolitan Council Transit Levy. Amends Minn. Stat. § 473.446, subd. 1 to increase the Metropolitan Council's levy limit for transit purposes. A $17.4 million increase is allowed for taxes payable in 2002. The $17.4 million increase is eliminated for taxes payable in 2003, and replaced with a $11.5 million increase, which is subsequently folded into the council's levy limit base. In any year that the council utilizes these additional authorities, 13.8% of the additional amount levied must be used as additional aid for the replacement or opt-out communities. Effective for taxes payable in 2002 and thereafter.

Section 68. Agricultural Preserves. Amends Minn. Stat. § 473H.10, subd. 3, to provide that the state's reimbursement to local taxing authorities for the taxes lost as a result of the agricultural preserve tax credits shall be paid on December 15 of each year instead of December 26. (The other state payments that are to be paid on the date in this statute are also changed; including disaster credit under Minn. Stat. § 273.123, disparity reduction credit under Minn. Stat. § 273.1398, and enterprise zone credits under Minn. Stat. § 469.170.) Also makes technical changes to reflect the nomenclature changes involving net tax capacity and assessed value. Effective for taxes and reimbursements payable in 2002 and thereafter.

Sections 69 – 76 and 78. Local Government Aid and Family Preservation Aid. Enacts Minn. Stat. § 477A.011, subds. 3b, 3c, 3d and 36a. Amends Minn. Stat. § 477A.011, subd. 34; § 477A.013, subds. 1, 8 and 9; and, § 477A.03, subd. 2. Provides a new local government aid program for cities and towns beginning with aid payable in 2002. In 2002, towns will receive $9 per capita plus an amount related to the town's non-agricultural tax base. In subsequent years, the amount for each town will be increased to account for the growth in the number of households within the town; prorated if necessary to not exceed the total appropriation for towns under § 477A.03 for the year. In 2002 and thereafter, cities receive aid based on a new formula. Generally, the formula is: (1) the city's per capita revenue need, minus (2) a portion of its per capita tax base, times (3) its population. The revenue need factors are specified in statute for each of the first class cities of Duluth, Minneapolis and St. Paul. Categorical revenue need factors are specified by category for all other cities. Non-first class cities in the metropolitan area have their population adjusted for population density; and cities of 5,000 population and over outside the metropolitan area, other than Duluth, have their population figures adjusted for a sprawl factor. For the years 2002 through 2006, nonmetropolitan cities, other then Duluth, will have a decreasing portion of their annual aid based on the amount of local government aid they received in 2001 plus a portion of the homestead and agricultural credit aid they received in 2001. Specific appropriation amounts, subject to annual inflation, are provided for the following categories: (1) the cities of Duluth, St. Paul and Minneapolis, (2) metropolitan cities other than Minneapolis and St. Paul, (3) nonmetropolitan cities other than Duluth, and (4) towns. For each category, the formula aid is prorated if necessary to stay within the appropriation for the category for the year. The amendments to Minn. Stat. § 477A.03, subd. 2 also provide for a permanent one-time increase in family preservation aid of $10 million; to be distributed proportionately among the counties. Effective for aid payable in 2002 and thereafter.

Section 77. Local Government Aid Payment Dates. Amends Minn. Stat. § 477A.015 to provide that local government aid will be paid to the affected taxing authorities on June 20 (currently July 20) and December 15 (currently December 26) annually. Effective for payments made in 2002 and thereafter.

Section 79. New Construction Low Income Housing Aid. Amends Minn. Stat. § 477A.065 to increase the new construction low income housing aid by approximately one-third. Effective for aid payable in 2002 and thereafter.

Section 80. TIF Grants. An uncodified provision appropriates $65.6 million in each of fiscal years 2003, 2004 and 2005 to be used by the commissioner of revenue to fund grants to municipalities that cannot pay for bonds issued or binding contracts entered into before June 2, 2001 due to deficits in tax increment financing districts that are caused by the class rate changes in this article and the elimination of the general education tax levy under this article. All of the appropriated amounts remain available to fund grants made in calendar years 2003, 2004 and 2005. The program terminates on January 1, 2006. Effective January 1, 2002 and thereafter, as noted.

Section 81. Revisor Instructions. An uncodified provision instructs the revisor of statutes to replace every occurrence of “net tax capacity” with the phrase “assessed value” in the next edition of the Minnesota Statutes; except for the references in Minn. Stat. § 275.011. Effective the day following final enactment.

Section 82. Repealer. The following statutes are repealed.
(a) Effective for taxes payable in 2002 and thereafter:
Minn. Stat. § 126C.13, subd. 1 (annual computation of the statewide general education tax rate),
Minn. Stat. § 126C.18, subd. 1 (obsolete expiration for some school district referenda levies),
Minn. Stat. § 273.13, subd. 21b (definition of tax capacity),
Minn. Stat. § 273.1382 (education homestead credits),
Minn. Stat. § 275.078 (authorization for tax increase), and
Minn. Stat. § 275.08, subd. 1e (education homestead credit tax rate adjustment).
(b) Effective for aids payable in 2002 and thereafter:
Minn. Stat. § 273.138 (attached machinery aid),
Minn. Stat. § 273.1399 (tax increment financing aid reductions),
Minn. Stat. § 477A.011, subds. 30-33, 36 and 37 (local government aid), and
Minn. Stat. § 477A.03, subd. 4 (additional money for city aid).
(c) No effective date specified (i.e., July 1, 2001 and thereafter):
Minn. Stat. § 275.065, subd. 3a (constant spending levy amount).
(d) Effective for deeds issued on or after July 1, 2001:
Minn. Stat. § 282.01, subds. 1c, 1d and 1e (so-called “use deeds” for tax-forfeited property).

Article 5 Sales Tax Reform

Unless otherwise notes, the effective dates for the provisions in this article is for sales and purchases after December 31, 2001.

Section 1. Repeal of June Accelerated Payment. Amends Minn. Stat. § 289A.11, subd. 1, to remove language referencing the filing date for the June accelerated tax return. Effective for returns due after January 1, 2002.

Section 2. Repeal of June Accelerated Payment. Amends Minn. Stat. § 289A.18, subd. 4, to remove language establishing the filing date for the June accelerated tax return. Effective for returns due after January 1, 2002.

Section 3. Repeal of June Accelerated Payment. Amends Minn. Stat. § 289A.20, subd. 4, to remove language establishing the threshold amount for filing the June accelerated payment, the due date of the June accelerated payment and the amount of the June accelerated payment. Effective for taxes due after January 1, 2002.

Section 4. Capital Equipment Refunds. Amends Minn. Stat. § 289A.56, subd. 4, to remove language providing the date from which interest is to be computed on capital equipment refunds since the bill is proposing an upfront exemption for capital equipment.

Section 5. EFT Penalty. Amends Minn. Stat. § 289A.60, subd. 21, to correct a statutory reference resulting from the repeal of the June Accelerated payment. No specified effective date.

Section 6. Sewer and Telephone Services. Amends Minn. Stat. § 297A.61, subd. 3, to provide that the furnishing of sewer services is a taxable service. This section also removes language relating to the taxation of telephone services as it is replaced in another section by a new definition of telecommunications services that are taxable.

Section 7. Landscaping and Flooring Materials; Service Inputs. Amends Minn. Stat. § 297A.61, subd. 4, to provide that the sales of building materials and supplies; trees, shrubs and sod; or flooring materials are a retail sale even when sold installed. This section also removes language relating to the taxation of property used in providing services since the bill provides for the exemption of certain inputs and capital equipment used in providing taxable services.

Section 8. Advertising Materials. Amends Minn. Stat. § 297A.61, subd. 6, to remove language referring to printed materials used in nontaxable advertising since the bill provides that advertising materials and advertising services are subject to the sales tax.

Section 9. Sales Price. Amends Minn. Stat. § 297A.61, subd. 7, to provide that all transportation or delivery charges and all installation charges related to the sale of tangible personal property are included in the sales price of the property being purchased.

[redacted]

Section 10. Tangible Personal Property. Amends Minn. Stat. § 297A.61, subd. 10, to provide that large or ponderous machinery or equipment used in a business or production activity will be treated as personal property regardless of its method of attachment to real property. This section also repeals language, which provided that poles, wires, and mains were real property prior to their attachment to realty. This section provides that building materials and supplies will be treated as personal property when they are initially incorporated into and attached to real property.

Section 11. Farm Machinery. Amends Minn. Stat. § 297A.61, subd. 12, to provide that farm machinery would include machinery and equipment used to produce any type of plant that was grown for sale including flowering and ornamental plants. This section clarifies that barn cleaners, milking systems, grain dryers, automatic feeding systems and irrigations systems would qualify as farm machinery and removes language referencing the attachment to realty since these items are used in a business or production activity. This section provides that repair and replacement parts, including tires, for farm machinery are included within the definition of farm machinery and are exempt from the sales tax. The current exemption for these parts is repealed in this bill. This section also provides that animal handling equipment qualifies as farm machinery. This section provides that all-terrain vehicles do not qualify as farm machinery.

Section 12. Taxable Services. Amends Minn. Stat. § 297A.61, subd. 16, to provide when services are not subject to the sales tax. This section imposes the sales tax on telecommunications services and provides when those services are taxable in Minnesota. This section imposes the sales tax on a number of business and personal services including intrastate transportation services.

Section 13. Telecommunications Services. Adds a new subdivision to Minn. Stat. § 297A.61 which provides a definition of telecommunications services and sets forth a list of services that are not included within the definition of the telecommunications services subject to the sales tax.

Section 14. Cable Television Service. Adds a new subdivision to Minn. Stat. § 297A.61, which provides a definition of cable television services.

Section 15. Private Communications Services. Adds a new subdivision to Minn. Stat. § 297A.61, which provides a definition of private communications services.

Section 16. Direct Satellite Service. Adds a new subdivision to Minn. Stat. § 297A.61 which provides a definition for direct satellite services.

Section 17. Sales Tax Rate. Amends Minn. Stat. § 297A.62, subd. 1, to provide that the sales tax rate is reduced from 6 ½ percent to 6 % percent.

Section 18. Situs of Sales or Use of a Service. Adds a new section to chapter 297A which provides when the sale or use of a service would be taxable in Minnesota. This section picks up the situsing provisions from the streamlined sales and use tax agreement. This section sources the sale to the state where the goods or services are billed or shipped to if those goods or services are not received in Minnesota. This section also covers the situation where goods or services are put to use in multiple locations.

Section 19. School Meals. Amends Minn. Stat. § 297A.67, subd. 5, to provide that foods or drinks furnished, prepared, or served by public and private schools and universities are exempt from the sales tax. Previously all meals and lunches served at schools and universities were exempt from the sales tax.

Section 20. Prescription Drugs and Glasses; Prosthetic Devices. Amends Minn. Stat. § 297A.67, subd 7 to provide that all nonprescription medicines and drugs, including analgesics, are subject to the sales tax. Repeals the exemption for therapeutic devices, diabetic supplies, hospital beds and fever thermometers. Retains the exemption for prescription drugs and medicines, insulin and prosthetic devices.

Section 21. Industrial Production. Amends Minn. Stat. § 297A.68, subd. 2 to provide that taxable services used or consumed directly in the industrial production process are exempt from the sales tax. This section specifies service activities that are not part of the industrial production process.

Section 22. Exemption for Service Inputs. Amends Minn. Stat. § 297A.68, subd. 3, to provide that certain materials and supplies and services directly used or consumed in providing taxable services are exempt from the sales tax. Expands the exemption to all taxable services and specifies activities that would not qualify as being directly used in providing the taxable service.

Section 23. Capital Equipment. Amends Minn. Stat. § 297A.68, subd. 5, to provide that machinery and equipment primarily used to provide taxable services could qualify as capital equipment. Provides that machinery and equipment used for pollution control and for raw materials storage and handling could qualify as capital equipment.

Section 24. Ships Used in Foreign or Interstate Commerce. Amends Minn. Stat. § 297.68, subd. 17, to provide that repair and replacement parts and lubricants used on interstate ships or vessels would be subject to the sales tax but retains the exemption for the vessels used in interstate or foreign commerce.

Section 25. Petroleum Products. Amends Minn. Stat. § 297A.68, subd. 19, to remove language relating to purchases of petroleum products by political subdivisions of the state which becomes obsolete when the sales tax exemption for political subdivisions of the state is restored.

Section 26. Interstate Motor Vehicles. Adds a new subdivision to Minn. Stat. § 297A.68, which provides an exemption for interstate motor vehicles that were previously taxed on a pro-rated basis under the motor carrier direct pay (MCDP) program. Under MCDP program these vehicles were taxed based upon a percentage of the carrier's Minnesota road mileage to total road mileage. Under the MCDP program, purchases of parts and accessories attached to the vehicle were also taxed under a prorated basis but they will be taxed in full under this section.

Section 27. Railroad Rolling Stock. Adds a new subdivision to Minn. Stat. § 297A.68, which provides an exemption for railroad rolling stock. This section defines “rolling stock” to include all equipment and machinery that move on the tracks including all types of rail cars. The exemption would not apply to lubricants, fuels or parts and accessories to be attached to the cars.

Section 28. Sales to Political Subdivisions. Amends Minn. Stat. § 297A.70, subd. 1, to remove language that becomes obsolete when the sales tax exemption is restored to the State of Minnesota and its political subdivisions.

Section 29. Sales to Government. Amends Minn. Stat. § 297A.70, subd. 2, to restore the sales tax exemption for purchases made by the State of Minnesota and its political subdivisions. This section also allows contractors to purchase building materials and supplies exempt from the sales tax if the materials and supplies are purchased under a contract with a unit of government and are used to make an improvement to realty that will be principally used by an exempt government entity.

Section 30. Sales to Nonprofit Groups. Amends Minn. Stat. § 297A.70, subd. 4, to provide that any organization that qualifies for exempt status under Internal Revenue Code Section 501(c)(3) and who registers with the commissioner to collect sales and use taxes, is exempt from the sales tax on their purchases. The exemption would apply to meals and lodging, vehicle rentals and purchases of construction materials. This section allows contractors to purchase building materials and supplies exempt from the sales tax if the materials and supplies are purchased under a contract with the nonprofit organization and are used to make an improvement to realty that will be principally used by the nonprofit organization.

Section 31. Nonprofit Sales. Amends Minn. Stat. § 297A.70, subd. 14, to provide that the first $25,000.00 of taxable sales in a calendar year by nonprofit organizations are exempt from the sales tax. Previously there was an exemption if sales made by senior citizens and youth groups did not exceed $10,000 in a calendar year and all fundraising sales made by nonprofit group, provided the fundraising events did not exceed 24 days per year, were exempt from the sales tax. This section provides that every school group or organization gets a separate exemption unless the sales proceeds are required by statute to be deposited with the school district treasurer.

Section 32. Expiration of Construction Material Exemptions. Adds a new subdivision to Minn. Stat. § 297A.71, to provide that exemption for construction materials for the projects listed in section 297A.71 is only effective for purchases occurring prior to January 1, 2003, with the exception of the Earl Brown Heritage Center which currently has an expiration date of July 1, 2003. This exemption will no longer be needed by political subdivisions since they will be allowed to pass their exempt status through to contractors making improvements to realty for the political subdivision for contracts entered into after December 31, 2001.

Section 33. Exemption Certificates. Amends Minn. Stat. § 297A.71, subd. 1, to provide that a retailer is relieved from collecting and remitting the sales tax if the retailer receives an exemption certificate from the purchaser and it repeals the language requiring that the certificate be accepted in good faith.

Section 34. Tax Collected at Time of Sale. Amends Minn. Stat. § 297A.75, subd. 1, to remove language that required the sales tax on capital equipment be imposed and collected at the time of sale since this bill is proposing an upfront exemption for purchases of qualifying capital equipment.

Section 35. Refund of Sales Taxes. Amends Minn. Stat. § 297A.75, subd. 2, to remove language that provided that the purchasers of capital equipment could apply for a refund on the sales tax paid on qualifying capital equipment since this bill is proposing an upfront exemption for purchases of qualifying capital equipment.

Section 36. Refund Applications. Amends Minn. Stat. § 297A.75, subd. 3, to remove language that provided that only two capital equipment claims could be filed in a calendar year since this bill is proposing an upfront exemption for purchases of qualifying capital equipment.

Section 37. Interest on Refunds. Amends Minn. Stat. § 297A.75, subd. 4, to remove language relating to the date from which interest would be computed on capital equipment refunds since this bill is proposing an upfront exemption for purchases of qualifying capital equipment.

Section 38. Credit for Taxes Paid to Other States and Their Political Subdivisions. Amends Minn. Stat. § 297A.80, to provide that if an item subject to the Minnesota sales and use tax has already been subjected to tax in another state or political subdivision of a state, Minnesota will give a credit against its tax for the taxes paid in the other state. Currently, Minnesota gives a credit for taxes paid to another state but only gives credit for taxes paid to political subdivisions of states that have entered into the Multistate Tax Compact. This section also provided the order in which the taxes will be applied against the Minnesota state sales tax and local sales taxes.

Section 39. Aircraft Registration. Amends Minn. Stat. § 297A.82, to remove a reference to an exemption for occasional sales of property used in a trade or business, which is being repealed in this bill. This section will continue to provide that the isolated and occasional sales exemption does not apply to the sale or purchase of aircraft.

Section 40. Payment of Sales and Use Tax on Aircraft. Amends Minn. Stat. § 297A.82, subd. 3, to remove language that the sales tax on aircraft must be paid to the commissioner of revenue. This bill is proposing that the sales tax on aircraft may be paid at the time of registration to the department of transportation as agent of the commissioner of revenue.

Section 41. Airflight Property Exemption. Amends Minn. Stat. § 297A.82, subd. 4, to provide that the exemption for airflight property includes airplanes. communications and navigational equipment, flight crew equipment and hydraulics equipment but does not include flight simulators, repair parts, lubricants, or fuels.

Section 42. Agreement between Departments of Revenue and Transportation. Adds a new subdivision to Minn. Stat. § 297A.82, to provide that the commissioners of revenue and transportation may enter into a agreement allowing the department of transportation, as agent for revenue, to collect the sales tax on aircraft at the time of registration or licensing in this state. Currently, the aircraft registrant must pay the tax to revenue and secure a certificate to be presented to transportation before the aircraft can be licensed or registered in Minnesota. Effective the day following final enactment.

Section 43. Flea Market Occasional Sales. Amends Minn. Stat. § 297A.87, subd. 3, to remove a reference to an exemption for occasional sales of property used in a trade or business, which is being repealed in this bill. This section will continue to provide that the isolated and occasional sales exemption does not apply to sellers at a flea market, craft show or other sales event in which the organizer leases space to the sellers.

Section 44. Deposit of Revenues. Amends Minn. Stat. § 297A. 94, to correct statutory references to sales of memberships and amusement, entertainment and recreation services on which the sales tax is credit to a special tax bond debt service account. No specified effective date.

Section 45. Purchase Price for Motor Vehicles. Amends Minn. Stat. § 297B.01, subd. 8, to provide that the purchase price for motor vehicles would include the value of all modifications made to the vehicle, including modifications to make the vehicle handicapped accessible. This section also provides that the purchase price would not include the value of a ready mix unit mounted to a chassis at the time of registration. Effective for vehicles sold, purchased or acquired after December 31, 2001.

Section 46. Motor Vehicles Exemptions. Amends Minn. Stat. § 297B.03, to provide that motor vehicles purchased by 501 (c)(3) nonprofit organizations and the state of Minnesota and its political subdivisions are exempt from the sales tax on motor vehicles. This section also exempts motor vehicles used by persons who engage in the interstate for-hire transportation of tangible personal property or passengers. Currently these vehicles are taxed on a percentage based upon the carrier’s mileage road mileage as compared to the total road mileage. This section also repeals a number of exemptions that are no longer needed when exemption it restored to the state and its political subdivisions. This section also repeals the exemption for ready mix concrete trucks as the chassis will be subject to the sales tax on motor vehicles but the additions and modifications to convert the vehicle into a ready mix concrete vehicle are excluded from the purchase price upon which the tax is computed. Effective for vehicles sold, purchased or acquired after December 31, 2001.

Section 47. Transition Provisions. This section provides transition rules that will apply when the sale of goods or services are ordered or contracted for prior to the effective date of the base expansion or rate reduction and the sale is completed after the effective date of these provisions. No specified effective date.

Section 48. Appropriation. This section provides an appropriation to the department of revenue to carry out the provisions of this bill. Effective July 1, 2001.

Section 49. Repealer. This section repeals a number of the current sales tax exemptions.

Minn. Stat. §§ 297A.67, subds.
4 (exempt meals at residential facilities,
6 (other exempt meals),
9 (baby products),
10 (caskets, vaults),
11 (automobiles, disabled veterans),
12 (parts and accessories used to make a motor vehicle handicapped accessible),
16 (residential water services),
17 (feminine hygiene products),
18 (used motor oils),
19 (cross-country ski passes), and
25 (maintenance of cemetery grounds).

Minn. Stat. §§ 297A.68, subds.
4 (taconite production materials),
6 (special tooling),
7 (air cooling equipment),
8 (pollution control equipment),
9 (super bowl admissions),
10 (publications; publication materials),
11 (advertising materials),
12 (wind energy conversion systems),
16 (packing materials),
18 (custom computer software),
21 (snowmaking),
22 (copies of court reporter documents),
23 (automatic fire-safety sprinkler systems),
24 (waste processing equipment),
25 (occasional sales),
26 (interstate WATS lines),
28 (medical supplies),
29 (prizes),
30 (television commercials),
31 (waste management containers and compactors),
33 (patent, trademark, and copyright drawings and documents) and
34 (machinery and equipment for ski areas.

Minn. Stat. §§ 297A.69, subds.
33 (farm machinery repair parts),
5 (used farm tires),
6 (horses, related materials), and
7 (feed for poultry raised for human consumption).

Minn. Stat. §§ 297A.70, subds. 3 (sales of certain goods and services to government),
5 (veterans groups),
6 (ambulances),
7 (hospitals and outpatient surgical centers),
8 (regionwide public safety radio communication system; products and services),
9 (sacramental wine),
10 (nonprofit tickets and admissions),
11 (school tickets or admissions),
12 (YMCA, YWCA and JCC memberships),
13 (fundraising sales by or for nonprofit groups),
15 (statewide amateur athletic games), and
16 (camp fees).

Article 6 Special Taxes Reform

Section 1. Change Mortgage Registry Tax to a Percentage. Amends Minn. Stat. § 287.035 which currently provides for a mortgage registry tax of 23 cents for each $100 or fraction of the debt secured, to a rate of .0023. Effective for documents executed, recorded, or registered after June 30, 2001.

Section 2. Change Deed Tax to a Percentage. Amends Minn. Stat. § 287.21, subd. 1 which currently provides for a deed tax of $1.65 for each $500 or fraction of the net consideration, to a rate of .0033 of the net consideration. Effective for documents executed, recorded, or registered after June 30, 2001.

Section 3. Lawful Gambling - Net Tax. Amends Minn. Stat. § 297E.02, subd. 1 to exclude gross receipts from raffles and paddlewheel games from the net tax and reduces the net tax rate on bingo from 8.5 percent to 5 percent. Effective for tax periods beginning on or after July 1, 2001.

Section 4. Lawful Gambling - Combined Receipts Tax. Amends Minn. Stat. § 297E.02, subd. 6 to subject the gross receipts from raffles and paddlewheel games to the combined receipts tax and to raise each of the brackets by $200,000. Effective for tax periods beginning on or after July 1, 2001.

Section 5. Insurance Premiums Tax Payment Date. Amends Minn. Stat. § 297I.40 which sets forth estimated tax payment requirements to provide for quarterly payments which would be due on the same dates as other business taxes payable on a quarterly basis. Current payments are made three times per year. Effective for payments required to be made after December 31, 2001.

Section 6. Amount of Required Installment - Insurance Premiums Tax. Amends Minn. Stat. § 297I.40, subd. 2 to require that estimated installment payments be one-fourth rather than one-third of tax liability. Effective for payments required to be made after December 31, 2001.

Section 7. March Estimated Payment – Insurance Premiums Tax. Amends Minn. Stat. § 297I.40, subd. 7 to reflect that an overpayment on an annual return can be applied to the first installment payment of the following year which will be March 15 rather than April 1. Effective for payments required to be made after December 31, 2001.

Section 8. Repealer. (a) Eliminates bottle tax by repealing Minn. Stat. §§ 297G.03, subd. 4, and 297G.07, subd. 3. Effective for tax periods beginning on or after July 1, 2001; (b) Repeals automobile self-insurance tax by repealing Minn. Stat. §§ 297I.05, subd. 8, and 297I.30, subd. 3. Effective for calendar years beginning after December 31, 1999.

Article 7 Petroleum Tax Reform

Section 1. Petroleum Inspection Fee. Amends Minn. Stat. § 239.101, subd. 3. Currently, the inspection fee is imposed on the petroleum product held in storage and sold or withdrawn from that storage. This proposal would impose the fee on the first licensed distributor receiving the product in Minnesota. (This is the same point of imposition as for gasoline and special fuel taxes). This would include all petroleum products, including those coming into Minnesota from other states. The petroleum inspection fee is collected by the Revenue Department along with any taxes due under Chapter 296A. The fee is deposited in the general fund and an appropriation is then made to the Public Service Department to pay for the petroleum related inspections of the weights and measures program. The Department of Public Service, Weights and Measures Division, supports this proposal. Effective for petroleum products received on or after July 1, 2001.

Section 2. Shrinkage Allowance. Amends Minn. Stat. § 296A.15. The current shrinkage allowance is based on a 3-percent allowance. The actual shrinkage is much less, and the allowance used by most other states is also less. This change would adjust the allowance accordingly to 2.5 percent. One-third of this percentage will continue to be passed on to the dealers, as is currently the case. Effective for reports due on or after July 1, 2001.

Section 3. Credit or Refund of Gasoline Tax Paid. Amends Minn. Stat. § 296A.16, subd. 1. Repeals the exemption from tax for gasoline sold for storage in an on-farm bulk storage tank, if the tax was not collected on the sale. No other group of citizens is allowed such an up-front exemption, and farmers would still be able to apply for a refund for off-road gasoline usage, just like other businesses that submit claims for refunds. Effective for gasoline purchased or refunds claimed on or after July 1, 2001.

Section 4. Appropriation. There is a one-time appropriation of $140,000 for fiscal year 2002 from the highway user tax distribution fund to the commissioner of revenue for systems modifications associated with petroleum tax reform.

Article 8 Minerals Tax Reform

Sections 1 and 3. Changes Rate of Occupation Tax to 2.45%. Amends Minn. Stat. § 298.01, subds. 3 and 4, to change the occupation tax rate on ore, iron ore, and taconite concentrates to 2.45% of a person's taxable income. Effective for taxes payable May 1, 2002, and thereafter.

Sections 2 and 4. Occupation Tax; Transfers Deemed to be Sales Within State. Amends Minn. Stat. § 298.01, subd. 3a, paragraph (b), and subd. 4a, paragraph (c), to provide that all transfers of ore, iron ore, and taconite concentrates are deemed to be sales within the state for purposes of applying Minn. Stat. § 290.191, subdivision 5. Effective for taxes payable May 1, 2002, and thereafter.

Section 5. Occupation Tax; Deletes Depreciation Deduction. Amends Minn. Stat. § 298.01, subd. 4c, 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.

Section 6. Taconite Production Tax; Decreases Rate. Amends Minn. Stat. § 298.24, subd. 1 to decrease the taconite production tax rate from $2.173 to $1.956 per gross ton of merchantable iron ore concentrate, beginning with concentrates produced in 2001. Effective the day following final enactment.

Sections 7, 8 and 12. Distributes Money to Certain School Districts from General Fund Rather than from the Taconite Production Tax. Amends Minn. Stat. § 298.28, subds. 1, 4, 11, so that the amount necessary for distributions to school districts under subd. 4, paragraphs (c) and (e), and subd. 11, paragraph (d), will be appropriated from the general fund to the commissioner of children, families & learning for distribution on or before February 25, starting with the 2002 distribution. Effective the day following final enactment.

Section 9. Taconite Production Tax; Rate of Distribution to Counties. Amends Minn. Stat. § 298.28, subd. 5, to explicitly state the actual rate of distribution to counties for the taconite production tax, rather than leaving the old rate and having to refer to a formula determined in 1987. Currently, the escalator language in subd. 10 refers to subd. 5, paragraphs (b) and (d), and is frozen for 1988 and subsequent years at the 1987 rate. The rates as frozen are stated in paragraphs (b) and (d), and (a) is simply the sum of (b) and (d). Effective the day following final enactment.

Section 10. Taconite Production Tax; Rate of Distribution for Property Tax Relief. Amends Minn. Stat. § 298.28, subd. 6 as follows: The formula of paragraph (d) is incorporated into the rate in paragraph (a), and the reference to paragraph (d) in paragraph (a) is therefore stricken. Paragraph (c) as amended explicitly states the actual rate of distribution of the taconite production tax for property tax relief rather than leaving the old rate and having to refer to a formula in subd. 10 for distributions in 2000 and subsequent years. Effective the day following final enactment.

Section 11. Taconite Production Tax; Deletes Formula Regarding Frozen Rates. Amends Minn. Stat. § 298.28, subd. 10, to delete the second paragraph since the rate formula is incorporated into the subdivisions referenced by using the actual rates in those subdivisions per Sections 9 and 10 of this Article. Effective the day following final enactment.

Article 9 Healthcare Reform

Section 1. Creates a reserve fund in the health care access fund to protect access to basic health care services that are publicly funded. (Replaces federal contingency reserve fund.)

Sections 2, 6, 7 and 9. Repeal of the Tax on Wholesale Drug Distributors. Amends Minn. Stat. §§ 295.50, 295.53, and 295.582 to eliminate the tax on wholesale drug distributors. Instead, the tax would be imposed on health care providers, surgical centers, and hospitals. Under current law, drug wholesalers pay the tax on the revenues received from the sale of legend drugs. Hospitals and providers who currently pay the tax on their gross revenues, are allowed to exclude the cost of the drugs (i.e., they pay the tax on the drug mark-up). Effective for payments received on or after January 2002.

Sections 3, 4 and 5. Imposition of Permanent Rate. Amends Minn. Stat. § 295.52 to set the tax rate permanently at 1.5%. Under current law, the tax rate has been lowered to 1.5% for four years and is intended to be reinstated at 2% in 2002. Effective for payments received on or after January 1, 2002.

Sections 8 and 11. Repeal of the 1% Premium Tax. Amends Minn. Stat. § 297I.15 to eliminate the 1% premium tax on health maintenance organizations and nonprofit health service corporations. This tax went into effect in 1996 but has been suspended since 1997. The proposal repeals the tax permanently rather than extend the suspensions periodically. The repeal may help reduce the growth in health care premiums. Effective the day following final enactment.

Section 10. Deposit of Proceeds. Amends Minn. Stat. § 297F.10, subd. 1 to provide that 85 percent of the taxes collected on cigarettes will be credited to the health care access fund. Effective July 1, 2003.

Section 12. Repealer. Repeals sections related to the tax on wholesale drug distributors, the 1% premium tax and the temporary rate of the provider tax. Effective for gross revenue received on or after January 1, 2002. Also repeals the section creating the federal contingency reserve in the health care access fund. Effective on July 1, 2001.

Article 10 Motor Vehicle Registration Tax Reform

Section 1. Amends Minn. Stat. § 168.013, subd. 1a by lowering the motor vehicle registration tax. Beginning with new vehicles first subject to registration tax in Minnesota on or after January 1, 2002, a maximum tax is established at $189. Beginning with the renewal of the registration of vehicles bearing tabs with the designation "January 2002" the maximum tax is reduced to $89.

The maximum tax is further reduced to $75 for all vehicles beginning with new vehicles first subject to registration in Minnesota on or after January 1, 2004 and with renewals beginning with the tabs bearing the designation "January 2004."

Section 2. Amends Minn. Stat. § 297B.09, subd. 1 to change the percentage of the sales tax on motor vehicles that is dedicated to the highway user tax distribution fund. The percentage of the tax collected and received in FY 2002 is 39%, in FY 2003 is 50%, in FY 2004 is 55% and in FY 2005 and beyond is 61%.

Section 3. Repeals that portion of Laws of Minnesota 2000, chapter 490, article 7, section 3, that appropriates $161,723,000 to the highway user tax distribution fund for FY 2002.

Article 11 Tax Policy Provisions

Section 1. Proof of Sales Tax Payment. Adds a section (11) to Minn. Stat. § 84.922, to provide that prior to the initial registration of an all-terrain vehicle in Minnesota, the person applying for the registration must file a certificate with the Department of Natural Resources indicating that sales tax was paid or that the purchase was exempt from the sales tax under Chapter 297A. Effective for registrations occurring on or after July 1, 2001.

Section 2. Authority to Enter into Fee Agreements with Federally Recognized Indian Reservations in Minnesota. Amends Minn. Stat. § 270.60 to give the Commissioner of Revenue the authority to enter into agreements with the governing body of any federally recognized Indian reservation in Minnesota concerning fees administered by the commissioner. The agreement is not valid unless signed by the head of the agency, board, or governmental entity that administers the program funded by each fee covered in the agreement. Effective the day following final enactment.

Section 3. Publication of Delinquent Taxpayer List. Amends Minn. Stat. Chapter 270 by adding a section, Minn. Stat. § 270.691, to provide for the publication of names of delinquent taxpayers. The proposed amendment includes requirements that $5,000.00 is the minimum liability published and that all published liabilities are listed on previously filed liens. In addition to these requirements, the proposed amendment includes various procedural guidelines. This provision would be effective the day following final enactment for all liabilities owing as of that date for which the statute of limitations for collection has not expired, and all liabilities arising after that date.

Section 4. Levy and Sale by Sheriff. Amends Minn. Stat. § 270.70, subd. 13 to make the time limit for the issuance of a warrant by the commissioner to the county sheriff consistent with the time limit in subdivision one for collection of delinquent taxes. The time limit for issuance of a warrant is changed to be whenever a filed lien remains enforceable. This provision is effective the day following final enactment for all taxes for which issuance of a warrant under this subdivision has not been barred as of that date.

Section 5. Liquor Posting. Amends Minn. Stat. § 270.73, subd. 1 to add certain Chapter 290 taxes and fees to those for which liquor posting is a permitted collection action. The additions are the minimum fee for corporations and partnerships, and the taxes on electing S-corporations on built-in gains, capital gains, and passive investment income. This provision is effective for lists submitted to the commissioner of public safety on or after the day following final enactment.

Section 6. Mortgage Registry Tax - Statute of Limitations for Refund Claims. Amends Minn. Stat. § 287.08 (b) that deals with the mortgage registry tax provisions related to refund claims. Currently, a taxpayer has 60 days from the time of overpayment to either seek a refund from the county or bring an action in tax court to obtain a refund of taxes erroneously paid. The proposal would allow the taxpayer 3-1/2 years from the date the taxes were erroneously paid to go to the county for a refund and then an additional 60 days to go to tax court if the county denies the request. If the county does not make a determination within six months, the taxpayer may go directly to the court for relief. Effective for overpayments made on or after July 1, 2001.

Section 7. Deed Tax - Statute of Limitations for Refund Claims. Amends Minn. Stat. § 287.28 that deals with the deed tax provisions related to refund claims. Currently, a taxpayer has 60 days from the time of overpayment to either seek a refund from the county or bring an action in tax court to obtain a refund of taxes erroneously paid. The proposal would allow the taxpayer 3-1/2 years from the date the taxes were erroneously paid to go to the county for a refund and then an additional 60 days to go to tax court if the county denies the request. If the county does not make a determination within six months, the taxpayer may go directly to the court for relief. Effective for overpayments made on or after July 1, 2001.

Section 8. Political Contribution Refund. Amends Minn. Stat. § 290.06, subd. 23 to allow the commissioner to use the number of the official receipt issued by the party or candidate. as documentation that a contribution was made if the refund claim is filed through the Internet or other electronic means. Effective for refunds based on contributions made after December 31, 2001.

Section 9. Wage Levy Extension Notices. Amends Minn. Stat. § 290.92, subd. 23(1) to expand the effective period from 180 days to one year for notices of intent to levy wages pursuant to said section. Effective for notices of intent to levy wages mailed on or after day following final enactment.

Section 10. Rent Constituting Property Taxes—Property Tax Refund. Amends Minn. Stat. § 290A.03, subd. 12 to change the definition of rent constituting property taxes of residents of nursing homes, intermediate care facilities, and adult foster care facilities. The change will fix the rent for a resident of a nursing home or intermediate care facility at $350 per month, and for an adult foster care resident at $550 per month. The rents will be adjusted annually for inflation. Effective beginning with refunds based on rent paid in 2001.

Section 11. Revenue Offset of Property Tax Refund. Amends Minn. Stat. § 290A.15 to provide that only half of a joint property tax refund of a husband and wife who live together can be applied as a payment of a state tax debt owed by one of the spouses. Under current law the whole refund can be applied to a tax debt of either spouse even if they do not live together. Effective for property tax refunds paid on or after July 1, 2001.

Section 12. Adult Day Care Centers—MnCare Tax. Amends Minn. Stat. § 295.50, subd. 4 to exempt adult day care centers from the definition of a health care provider. Under the current law, adult day care centers that employ a licensed health care provider (generally, a licensed practical nurse who is the center director or an employee who is responsible for medication assistance) are required to register and pay the tax, if applicable. Other similar facilities such as adult foster homes and day training and habilitation services are already exempt. Effective for gross revenues received on or after January 1, 2002.

Section 13. Definition of Storage—Sales Tax. Amends Minn. Stat. § 297A.01, subd. 5, to remove language that conflicts with the language found in Minn. Stat. § 297A.01, subd. 7, which relates to goods in transit that are stored in a public warehouse. This change would clarify that Minnesota no longer has a temporary storage exemption. Effective for sales, purchases, storage, use or consumption occurring after June 30, 1997.

Section 14. New Sales Tax Permits After Revocation. Amends Minn. Stat. § 297A.07, subd. 3 to make clear that the commissioner has the authority to cancel permits when issuance or reinstatement was not in compliance with the statute and associated rules. Minn. Stat. § 297A.07, subd. 3 and associated rules provide limits and conditions on the commissioner's authority to issue or reinstate permits after revocation. The amendment will provide a summary procedure for canceling permits issued not in conformance with the statute and rules. This provision is effective the day following final enactment.

Section 15. Cigarette/Tobacco - Sales Tax Permit Revocation. Amends Minn. Stat. § 297A.86, subd. 1 of the sales tax statutes to allow the commissioner to revoke a retailer's sales tax permit for violation of any requirements of Chapter 297F, which is the cigarette and tobacco products tax statutes. Effective for violations occurring on or after July 1, 2001.

Section 16. Exemptions from Sales Tax on Motor Vehicles. Amends Minn. Stat. § 297B.03 to provide that motor vehicles that are registered in another state or country are exempt from the sales tax on motor vehicles provided the person registering the vehicle in Minnesota was a resident of another state or country for at least 60 days prior to purchasing the vehicle. The amendment also clarifies that the exemption for vehicles purchased by charitable, religious, or educational organizations to transport persons and property does not apply to governmental institutions such as schools, universities or libraries. Effective day following final enactment.

Section 17. Cigarette/Tobacco - Sales Tax Permit Revocation. Adds a new section 297F.185 to the cigarette and tobacco products tax chapter to allow the commissioner to revoke a retailer's sales tax permit under Minn. Stat. § 297A.86 of the sales tax chapter for violation of any requirements of Chapter 297F. Effective for violations occurring on or after July 1, 2001.

Section 18. Imposition of Solid Waste Management Use Tax. *Amends Minn. Stat. Chapter 297H by adding language to impose use tax liability on generators and self-haulers in situations where the waste management service provider has not charged or has not received the solid waste management tax. Gives the Commissioner of Revenue authority to assess generators and self-haulers. Effective for services performed on or after July 1, 2001.*

Section 19. County Licensing Reporting Requirement. Amends Minn. Stat. § 461.12 by adding a subdivision to require a county or other local unit of government to report the true identity of all retail tobacco license holders to the department of revenue. The reports must be made to the Department of Revenue within 30 days of the issuance or renewal or transfer of the license. Effective for licenses issued, renewed, transferred, cancelled, suspended or revoked on or after January 1, 2002.