Governor's Tax Bill
Original and Supplemental Proposals

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

April 17, 2003

Department of Revenue
Analysis of H.F. 751 (Abrams) / S.F. 748 (Belanger), 1st Engrossment

	Revenue Gain or (Loss)			
	F.Y. 2004	**F.Y. 2005**	**F.Y. 2006**	**F.Y. 2007**
	(000's)			
City Aid Reduction	$140,729	$294,000	$270,000	$290,000
County Aid Reduction	$65,011	$124,382	$34,200	$38,500
Eliminate Attached Machinery Aid to School Districts	$810	$810	$810	$810
Town, Special District Aid Reduction	$5,300	$7,300	$0	$0
June Accelerated Payments				
Reinstate for Sales Tax at 75%	$154,720	$9,930	$8,880	$7,660
Increase to 85%	$20,600	$1,300	$1,200	$1,000
Extend to Excise Taxes at 85%	$17,100	$200	$300	$300
Cigarette Tax – Change Disposition	($24,247)	($24,126)	($24,005)	($23,885)
Lottery In-Lieu Tax – Change Disposition	$3,338	$3,338	$3,338	$3,338
Correction to State Property Tax Levy	$5,400	$6,700	$3,600	$3,600
Accelerated Remittance of June Mortgage and Deed Taxes from the Counties	$14,700	$1,400	$1,100	$1,100
Eliminate Dedication of Sales Tax on State Fair Admissions	$800	$800	$900	$900
Change Political Contribution Refund	$2,666	$3,200	$3,333	$3,200
Change Campaign Checkoff	$700	$1,700	$700	$1,700
Delay Interest Accrual on Sales Tax Refunds	$2,500	$2,700	$3,200	$3,700
Fee of $5 for Practitioners Filing Paper Returns	$1,200	$800	$800	$800
MCE Collection of Non-Tax Debt	$1,300	$1,300	$2,100	$2,100
Repeal Used Motor Oil/Filter Refund	$50	$50	$50	$50
Transfer Endowments to the General Fund	$1,029,071	$0	$0	$0
General Fund Total	$1,441,748	$435,784	$310,506	$334,873

Change Disposition of Cigarette Tax				
Minnesota Future Resources fund	($6,928)	($6,893)	($6,859)	($6,824)
Academic Health Center Spec. Rev. Fund	$22,515	$22,403	$22,291	$22,179
Medical Educ./Research Spec. Rev. Fund	$8,660	$8,616	$8,573	$8,530
Subtotal	$24,247	$24,126	$24,005	$23,885
Change Disposition of Lottery In-Lieu Tax				
Game and Fish Fund	($1,669)	($1,669)	($1,669)	($1,669)
Natural Resources Fund	($1,669)	($1,669)	($1,669)	($1,669)
Subtotal	($3,338)	($3,338)	($3,338)	($3,338)
MCE Collection of Non-Tax Debt	$1,700	$1,700	$900	$900
Other Funds Total	$22,609	$22,488	$21,567	$21,447

EXPLANATION OF THE BILL

The original bill was amended to delete Article 1, Job Opportunity Building Zones. Attached is a section-by-section summary of the 1st engrossment, plus a summary of the supplemental proposals.

REVENUE ANALYSIS DETAIL

June Accelerated Payments for Sales Tax
- The estimates are based on the amount of the accelerated payment in June 2002 and projected based on the February 2003 forecast.

June Accelerated Payments for the Excise Taxes
- The estimates are based on the amount of the accelerated payments in June 2001, the last year for which there was an accelerated payment under current law. The estimates were projected based on the February 2003 forecast.

Disposition of the Cigarette Tax
- The estimates are based on the February 2003 forecast.
- The allocation for each fund was determined based on forecasted gross revenues. All refunds would continue to be paid from the general fund.

Disposition of the Lottery In-Lieu Tax
- The estimates are based on the February 2003 forecast.

Correction to State Property Tax Levy

- The underlevy of $6.7 million for 2002 was due to the incorrect inclusion of personal property for airports in Minneapolis and St. Paul in the tax base ($3.1 million) and abatements, errors, and omissions state wide ($3.6 million). An underlevy of $3.6 million is assumed to continue annually due to abatements, errors, and omissions.
- The adjustment for calendar year 2004 would total $10.3 million, of which $6.7 million would be for 2002 and $3.6 million for 2003. Of the 2004 adjustment, $5.4 million was allocated to fiscal year 2004 and $4.9 million to fiscal year 2005.
- Starting with 2005, the annual adjustment of $3.6 million was allocated 50/50 to fiscal years.

Accelerated Remittance of June Mortgage and Deed Taxes from the Counties

- The estimates are based on the February 2003 forecast.
- It was assumed that the amount remitted for June was equal to the average of the twelve months of the fiscal year.

Eliminate Dedication of the Sales Tax on State Fair Admissions

- The estimate was based on 2002 state fair attendance and admission prices according to data published by the Minnesota State Agricultural Society, the entity which sponsors the fair.
- Annual growth was based on projected attendance estimates.

Political Contribution Refund

- The estimates were based on the February 2003 forecast.
- The estimated refunds were reduced by 50% to reflect the proposed change in the program and by an additional one-third to reflect reduced participation.
- For fiscal year 2004, it was assumed that 20% of the current forecast amounts reflect contributions made before the effective date of the proposal and would not be affected.

Campaign Checkoff

- The estimates are equal to the February 2003 forecast of state-funded campaign financing through taxpayer checkoffs.

Delay Start of Interest Accrual on Capital Equipment Sales Tax Refunds 90 Days

- It was assumed that additional interest would accrue for an average of 90 days per claim.
- The annual amount for which the state would incur additional interest is about $200 million.
- The interest rate on refunds is 5% for calendar year 2003. Based on the February 2003 forecast by DRI, the interest rate is estimated to be 5% in 2004, 6%, in 2005, 7% in 2006, and 8% in 2007.

Fee of $5 for Practitioners Filing Paper Returns
- The estimates were based on Department of Revenue projections.

Expand MCE Collection Powers for Non-Tax Debt
- The estimates were provided by the Minnesota Collection Enterprise.

Repeal Used Motor Oil/Filter Refund
- The estimates are from the February 2003 forecast. The forecast assumes that the maximum allowed under current law of 200 certificates for $250 each would continue to be utilized.

Transfer of Endowments to the General Fund
- Information was provided by the Department of Finance.

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

hf0751(sf0748)-2 /cc

2003 1st ENGROSSMENT TO GOVERNOR'S BILL SUMMARY

MINNESOTA · REVENUE

Appeals & Legal Services Division
600 North Robert Street, Mail Station 2220
St. Paul, MN 55146-2220

HF 751 // SF 748

Article 1 2003/2004 City and County Aid Reductions

Uncodified sections in this article implement state aid reductions for cities, counties, special taxing districts and towns in 2003 and 2004.

Section 1. Definitions. Paragraph (b) defines the 2003 "levy plus aid revenue base" for a city as the sum of the city's proposed property tax levy for taxes payable in 2003, plus the sum of the amounts the city was certified to receive in 2003 as: (i) city aid under section 477A.013 (commonly referred to as "local government aid"); (ii) existing low-income housing aid under section 477A.06; (iii) new construction low-income housing aid under section 477A.065; (iv) taconite aids under sections 298.28 and 298.282 including any aid which was required to be placed in a special fund for expenditure in the next succeeding year; and, (v) transit property tax replacement aid under section 174.242.

Paragraph (c) defines the 2003 and 2004 "levy plus aid revenue base" for a county as the sum of the county's proposed property tax levy for taxes payable in 2003, plus the sum of the amounts the county was certified to receive in the designated year as: (i) homestead and agricultural credit aid under sections 273.1398, subdivision 2, and 273.166; (ii) criminal justice aid under section 477A.0121; (iii) family preservation aid under section 477A.0122; (iv) taconite aids under sections 298.28 and 298.282 including any aid which was required to be placed in a special fund for expenditure in the next succeeding year; (v) transit property tax replacement aid under section 174.242; and, (vi) county program aid under section 477A.0124.

Paragraph (d) defines "total revenues" for a city or a county for a particular year as the total revenues amount for that city or county, as reported by the state auditor for the year, or for the most recent year for which the state auditor has reported, excluding grants between political sudivisions and amounts borrowed by the city or county but including net transfers from an enterprise fund. Effective the day following final enactment.

Section 2. 2003 City Aid Reductions. Provides aid reductions for cities in 2003 equal to 9.3 percent of the city's levy plus aid revenue base for 2003, limited to 3.5 percent of the city's total revenues for 2003 if the city has a population under 1,000 or if the city has a three-year levy plus aid revenue base increase average of less than 2 percent. For all other cities, the reduction is limited to 5 percent of the city's total revenues for 2003. The reduction is further limited to the sum of the city's payable 2003 "local government aid" distribution and the city's payable 2003 market value credits reimbursement. The reduction is applied first to "local government aid" distributions, then if necessary to market value credit reimbursements. The reduced distribution or reimbursement amounts are paid in equal installments on the payment dates provided in law. Effective the day following final enactment.

Section 3. 2003 County Aid Reductions. Provides aid reductions for counties in 2003 equal to 3.2 percent of the county's levy plus aid revenue base for 2003, limited to 1.5 percent of the county's total revenues for 2003 if a county has a three-year levy plus aid revenue base increase average of less than 2 percent. For all other counties, the reduction amount is limited to 2 percent of the county's total revenues for 2003. The reduction is further limited to the sum of the county's payable 2003 distributions for attached machinery aid, HACA, criminal justice aid, family preservation aid, and market value credit reimbursements. These aids are reduced as necessary in the order listed. The reduced aid, distribution or reimbursement amounts are paid in equal installments on the payment dates provided in law. Effective the day following final enactment.

Section 4. 2003 Township Aid Reductions. Aid reductions for townships for 2003 are 2 percent of the town's certified levy for taxes payable in 2003, limited to the amount of the town's payable 2003 market value credit reimbursements. The reduced reimbursements are paid in equal installments on the dates provided in law. Effective the day following final enactment.

Section 5. 2003 Special Taxing District Aid Reductions. Aid reductions for special taxing districts for 2003 are 1.5 percent of the district's certified levy for taxes payable in 2003, limited to the amount of the district's payable 2003 market value credit reimbursements. The reduced reimbursement amounts are paid in equal installments on the payment dates provided in law. Effective the day following final enactment.

Section 6. 2004 City Aid Reductions. City aid reductions for 2004 are determined in this subdivision. An initial aid reduction amount for each city is determined. This is the amount that the city's "local government aid" has decreased from 2003 to 2004. (The "local government aid" provisions are contained in Article 3.) A maximum aid reduction amount is also determined for each city equal to 9.5 percent of the city's total revenues, except that if the city has either a population under 1,000 or a three-year levy plus aid revenue base increase average of less than 2 percent, the maximum aid reduction is 8 percent of the city's total revenues. If the initial aid reduction amount for the city exceeds the city's maximum aid reduction amount, the city receives additional temporary aid under this section so that the actual reduction does not exceed the maximum. If the initial aid reduction amount is less than the maximum aid reduction amount for the city, the city's 2004 market value credit reimbursements are reduced until either the reimbursements are exhausted or the maximum reduction amount is obtained. Any reduced market value credit reimbursement amounts are paid in equal installments on the payment dates provided in law. Effective the day following final enactment.

Section 7. 2004 County Aid Reductions. The 2004 aid reduction amount for each county is equal to 6.0 percent of the county's levy plus aid revenue base for 2004, limited to 2.5 percent of the county's total revenues if a county has a three-year levy plus aid revenue base increase average of less than 2 percent. For all other counties, the reduction amount is limited to 3 percent of the county's total revenues. The reduction is further limited to the sum of the payable 2004 county program aid amount for the county under the new section 477A.0124 (see Article 4) and the county's market value credit reimbursements. The aid reduction is applied first to the county's distributions pursuant to section 477A.0124, and then if necessary to reduce the county's reimbursements pursuant to section 273.1384. Reduced distribution or reimbursement amounts are paid in equal installments on the payment dates provided in law. Effective the day following final enactment.

Section 8. 2004 Township Aid Reductions. Aid reductions for townships for 2004 equal 3 percent of the town's certified levy for taxes payable in 2003, limited to the amount of the town's 2004 market value credit reimbursements. Reduced reimbursement amounts are paid in equal installments on the payment dates provided in law. Effective the day following final enactment.

Section 9. 2004 Special Taxing District Aid Reductions. Aid reductions for each special taxing districts for 2004 equal 2 percent of the district's certified levy for taxes payable in 2003, limited to the amount of the district's 2004 market value credit reimbursements. Reduced reimbursements are paid in equal installments on the payment dates provided in law. Effective the day following final enactment.

Article 2 2004 City Aid

Section 1. "Local Government Aid" for Cities. Amends Minn. Stat. § 477A.013, subd. 9 to define payable 2004 "local government aid" distribution for a city as its formula aid. The separate aid caps for first class and other cities in this subdivision are retained. (The aid minimums provided in § 477A.011, subdivision 36; the definition of "base reduction percentage;" and, the additional appropriation of $450,000 in § 477A.03, subdivision 4; are each repealed in Article 6.) The aid distribution formula for 2005 is not specified. Effective for aid payable in 2004 and thereafter.

Section 2. Aid Appropriations. Amends Minn. Stat. § 477A.03, subd. 2 to appropriate $250 million for "local government aid" payable in 2004. This amount is increased to $352 million for aids payable in 2005 and thereafter if a new aid distribution formula is enacted by the legislature in 2003 containing principles accepted by the governor.

Appropriations for county criminal justice aid and county family preservation aid under this section are eliminated because these aid amounts are folded into the new county program aid beginning with the 2004 distributions. (County program aid for 2004 and thereafter is provided in Article 4.) Effective for aid payable in 2004 and thereafter.

Article 3 2004 County Aid

Section 1. District Court Costs Aid. Amends Minn. Stat. § 273.1398, subd. 4a to provide a state-paid aid in calendar years 2004, 2005 and 2006 for counties that have not yet had their costs of court administration transferred to the state. The provisions in current law, reducing this aid when the state does assume the court costs for the county's judicial district, are retained. The reductions are 75% for the calendar year in which the state assumes the costs, and 25% in the following year. Effective for aid payable in 2004, 2005 and 2006.

Section 2. Temporary Aid; Court Administration Costs. Amends Minn. Stat. § 273.1398, subd. 4c to re-characterize this aid, which is related to county "maintenance of effort" budget requirements for court administration costs, as "Temporary Court Administration

Cost Aid" instead of as "additional" HACA. The aid will continue to be paid in calendar years 2004 and 2005, as provided in current law. Effective for aid payable in 2004 and 2005.

Section 3. County HACA Becomes County Program Aid. Amends Minn. Stat. § 273.1398, subd.6 to eliminate HACA payments for counties under this section beginning with calendar year 2004. (Beginning in 2004, the new County Program Aid for counties created in section 5 below will incorporate the HACA amounts for each county at the 2003 levels, plus a 2004 fiscal disparities adjustment and minus the district court costs aid payable in 2004 and the temporary court administration cost aid payable in 2004.) Effective for aid payable in 2004 and thereafter.

Section 4. Court Administration Aid and Maintenance of Effort Aid Appropriations. Amends Minn. Stat. § 273.1398, subd.8 to provide specific dollar-amount appropriations for the aid for district court costs and the temporary court administration cost aid payments to replace the open-ended appropriation language for the equivalent payments under current law. The appropriations for aid for district court costs are $15.7 million for fiscal year 2005 and $3.3 million for fiscal year 2006. The appropriations for temporary maintenance of effort aid are $2.8 million for fiscal year 2005 and $3.2 million for fiscal year 2006. Effective for aid payable in 2004 and thereafter.

Section 5. County Program Aid. Amends Minn. Stat. ch. 477A by adding a new section 477A.0124, which provides for county program aid beginning in calendar year 2004. In 2004, each county will receive county program aid equal to the sum of the following calendar year 2003 amounts prior to any aid reductions enacted in 2003: (1) attached machinery aid under section 273.138; (2) HACA under section 273.1398, subd. 2, plus a 2004 fiscal disparities adjustment and minus the 2004 district court costs aid and temporary court administration cost aid for the county; (3) manufactured home HACA under section 273.166; (4) criminal justice aid under section 477A.0121; and, (5) family preservation aid under section 477A.0122. In 2005 and thereafter, county program aid for each county will equal the county's program aid amount for the prior year as a percentage of the total appropriation of the prior year times the amount appropriated for the current year. The payments will be made in equal installments each year on July 20 and December 26 as provided in Minn. Stat. § 477A.015. An appropriation of $100 million is provided for fiscal year 2006, with an additional $105 million appropriated for that year if the legislature enacts a new formula for distributing the aid according to principles accepted by the governor. Each year $500,000 is deducted from the appropriated amount and retained by the commissioner of finance to defray the additional costs associated with court-ordered counsel under section 611.27. Any portion of the retained amount not used in a year is added to the amount available for distribution in the following year. Effective the day following final enactment.

Article 4 Levy Limits

Sections 1 and 2. Reverse Referendum. Amends Minn. Stat. § 275.065 by adding the new subdivision 9, and amends § 275.07, subd. 1, to provide a reverse referendum procedure applicable to counties and to cities of over 2,500 population. If a petition signed by 5% or more of the voters in the last general election is submitted within 21 days after the city or county holds its public hearing and adopts its levy, any levy increase is not effective unless a majority of the voters at a special election approve the increase. The election must be held on the fourth Tuesday in January. If the increase is not approved, levies for the payment of bonded debt or judgments are extended in full, and other levy amounts are reduced as necessary so that the total does not exceed the preceding year's levy. Effective for taxes payable in 2005 and thereafter.

Section 3. Definition; Local Governmental Unit. Amends Minn. Stat. § 275.70, subd. 3 to change the definition of local governmental unit to include all cities. This has the effect of making all counties and all cities subject to the overall levy limits in sections 275.70 to 275.74 for taxes payable in 2004. Effective for taxes payable in 2004 and thereafter.

Section 4. Definitions; Special Levies. Amends Minn. Stat. § 275.70, subd. 5 to specify the special levies allowed for taxes payable in 2004. "Special levies" are not subject to the overall levy limits in sections 275.70 to 275.74. New or amended special levies for taxes payable in 2004 are:

- to pay the costs of the principal and interest on existing bonded indebtedness; for this purpose "existing bonded indebtedness" means:
  - (i) debt for which this special levy was made for taxes payable in 2003 in the case of a county or a city that was subject to levy limits for that year;
  - (ii) debt for which this special levy could have been made for taxes payable in 2003 in the case of a city that was not subject to levy limits for that year;
  - (iii) debt for which the city or county has, prior to May 1, 2003, entered into a binding contract or agreement that requires expenditure of some or all of the borrowed funds; and,
  - (iv) voter-approved debt approved before May 1, 2003.
- to provide for the bonded indebtedness portion of payments made to another political subdivision of the state of Minnesota if the amount would have qualified as a special levy for taxes payable in 2003 or the bonds were issued before May 1, 2003;
- to pay an abatement under section 469.1815 for which the granting resolution was adopted prior to May 1, 2003;
- to pay the operating or maintenance costs of a county jail. The amount of this special levy is limited to 110 percent of the amount levied by the county for these purposes in the prior year;
- to pay for operation of a lake improvement district. The amount of this special levy is limited to 110 percent of the amount levied by the county for these purposes in the prior year;
- to pay for court administration costs as required under section 273.1398, subdivision 4b. The amount of this special levy is reduced by the amount of district court cost aid, and temporary court administration aid under section 273.1398, subds. 4a and 4c; and, remains limited to one-third of the aid reduction under section 273.1398, subdivision 4a in the year in which the court financing is transferred to the state.
- the special levy for re-districting costs is eliminated.

Special levy provisions not changed for taxes payable in 2004 are:

- to reimburse the amount of liquor store revenues used to pay the principal and interest due on municipal liquor store bonds in the preceding year;
- to pay the costs of principal and interest on certificates of indebtedness issued for any corporate purpose except for the following:
  - (i) tax anticipation or aid anticipation certificates of indebtedness;
  - (ii) certificates of indebtedness issued under sections 298.28 and 298.282;
  - (iii) certificates of indebtedness used to fund current expenses or to pay the costs of extraordinary expenditures that result from a public emergency; or
  - (iv) certificates of indebtedness used to fund an insufficiency in tax receipts or an insufficiency in other revenue sources;
- to fund payments made to the Minnesota state armory building commission to retire the principal and interest on armory construction bonds;
- property taxes approved by voters which are levied against the referendum market value;
- to fund matching requirements needed to qualify for federal or state grants to the extent the matching requirement exceeds the matching requirement in calendar year 2001, or it is a new matching requirement that did not exist prior to 2002;
- to pay the expenses reasonably and necessarily incurred in preparing for or repairing the effects of natural disaster;
- pay amounts required to correct an error in the levy certified to the county auditor by a city or county in a levy year, but only to the extent that when added to the preceding year's levy it is not in excess of an applicable statutory, special law or charter limitation, or the limitation imposed on the governmental subdivision by sections 275.70 to 275.74 in the preceding levy year;
- to pay any costs attributable to increases in the employer contribution rates under chapter 353 that are effective after June 30, 2001;
- to repay a state or federal loan used to fund the direct or indirect required spending by the local government due to a state or federal transportation project or other state or federal capital project. This authority may only be used if the project is not a local government initiative;
- to fund a police or firefighters relief association as required under section 69.77 to the extent that the required amount exceeds the amount levied for this purpose in 2001.

Effective for taxes payable in 2004 and thereafter.

Section 5. Levy Limit Base. Amends Minn. Stat. § 275.71, subd. 2 to define the levy limit base for taxes payable in 2004 for a city or county as:

(1) the amount levied for taxes payable in 2003; plus,

(2) the amount of the following aids certified for payment in 2003 before any reductions under a 2003 law: (i) HACA, (ii) manufactured home HACA, (iii) taconite aids, (iv) “local government aid,” (iv) criminal justice aid, (v) family preservation aid, (vi) existing and new-construction low-income housing aid, and (vi) rental housing tax base replacement aid; less,

(3) the amounts levied for taxes payable in 2003 that qualified as special levies for taxes payable in 2003 for local units subject to the overall levy limits for that year, and the

amounts levied for taxes payable in 2003 that would have qualified as special levies for that year for local units not subject to the overall limits for that year.

The levy limit base is subject to adjustments for annexations and consolidations under Minn. Stat. § 275.72. Effective for taxes payable in 2004 and thereafter.

Section 6. Adjusted Levy Limit Base. Amends Minn. Stat. § 275.71, subd. 4 to define the adjusted levy limit base for taxes payable in 2004 for a city or county as:

(1) the levy limit base; minus,
(2) the 2004 aid reductions enacted in 2003; multiplied by,
(3) the percentage growth in the (i) implicit price deflator, (ii) number of households, and (iii) 50% of the growth in the taxable market value of locally-assessed commercial and industrial property.

The adjusted levy limit base is subject to reduction in the case of counties that decided to separately certify levies for watershed plans and projects as provided in Minn. Stat. § 275.07, subd. 1, paragraph (b). Effective for taxes payable in 2004 and thereafter.

Section 7. Property Tax Levy Limit. Amends Minn. Stat. § 275.71, subd. 5 to define the property tax levy limit for taxes payable in 2004 for a city or county as:

(1) the adjusted levy limit base; plus,
(2) additional net tax capacity levies approved by voters under Minn. Stat. § 275.73; minus,
(3) the payable 2004 amount of local government aid, county program aid, and taconite aids.

Effective for taxes payable in 2004 and thereafter.

Section 8. Levies in Excess of Limit. Amends Minn. Stat. § 275.71, subd. 6 to eliminate obsolete language. Under this statute, a county auditor may only extend the amount permitted by the limit if a city or county certifies an amount in excess of the limit (after including any additional levy authorized under § 275.73). All debt levies are included in the limited amount, and other levy amounts are reduced as necessary to stay within the limit. Effective for taxes payable in 2004 and thereafter.

Section 9. Levies in Excess of Limit. Amends Minn. Stat. § 275.73, subd. 2 to change the deadline for the election at which the voters may approve a levy in excess of the limit. The current law deadline is August 31. The new deadline is the first Tuesday in November of the levy year. Effective for taxes payable in 2004 and thereafter.

Section 10. Authorization for "Natural Disaster" Special Levy. Amends Minn. Stat. § 275.74, subd. 2 to update a cross-reference. Under this statute, a local unit wishing to make a special levy for money to prepare for, or repair, the effects of a natural disaster must apply to the commissioner of revenue by September 30 of the levy year. Effective for taxes payable in 2004 and thereafter.

Section 11. Information Necessary to Calculate Levy Limit Base. Amends Minn. Stat. § 275.74, subd. 3 to change the outcome if a local unit fails to provide the information needed to compute their levy limit to the commissioner of revenue by July 20 of the levy year. The current-law outcome is related only to limits for taxes payable in 2002, and provides that the local unit losses the effect of a year's worth of inflation, household and C/I market value growth. The new outcome is that the total certified levy for the local unit will be set at the amount of its certified levy for the prior year, minus its 2004 aid reductions. Effective for taxes payable in 2004 and thereafter.

Article 5 Local Government Aids and Levies Repealers

Section 1. Criminal Justice Aid and Family Preservation Aid Spending Requirements. Repeals Minn. Stat. § 477A.0121, subd. 1 and § 477A.0122, subd. 1. These are the spending restrictions for county criminal justice aid and county family preservation aid. They are repealed to increase county options in responding to the 2003 aid reductions. Effective for aid payable in 2003 and thereafter.

Section 2. Aid Repealers. The following provisions are repealed:

(i) Minn. Stat. § 273.138. This is county and school district attached machinery aid.
(ii) Minn. Stat. § 273.1398, subd. 2. This is regular county HACA.
(iii) Minn. Stat. § 273.166. This is manufactured home county HACA.
(iv) Minn. Stat. § 477A.011, subd. 36. This subdivision provides a general definition for city "local government aid" base amounts, and provides numerous increased aid bases for described cities.
(v) Minn. Stat. § 477A.011, subd. 37. This subdivision defines the city "local government aid" base reduction percentage.
(vi) Minn. Stat. § 477A.0121, subds. 2, 3, 4, 5, and 6. These are the remaining provisions of county criminal justice aid following the repeal of subd. 1 in section 1 above.
(vii) Minn. Stat. § 477A.0122, subds. 2, 3, 4, 5, and 6. These are the remaining provisions of county family preservation aid following the repeal of subd. 1 in section 1 above.
(viii) Minn. Stat. § 477A.0123. This is county out-of-home placement aid enacted in 2001 and scheduled for implementation for aid payable in 2004 under current law.
(ix) Minn. Stat. § 477A.03, subd. 3. This provides the inflation adjustment used for numerous aid appropriations including city "local government aid," county criminal justice aid and county family preservation aid.
(x) Minn. Stat. § 477A.03, subd. 4. This subdivision provides an additional appropriation for city "local government aid" of $450,000 for 1999 through 2008.
(xi) Minn. Stat. § 477A.06. This section contains the provisions for existing low-income housing aid.
(xii) Minn. Stat. § 477A.065. This section contains the provisions for new construction low-income housing aid.
(xiii) Minn. Stat. § 477A.07. This section contains the provisions for rental housing tax base replacement aid.

Effective for aid payable in 2004 and thereafter.

Section 3. Levy Limits. Repeals Minn. Stat. § 275.71. subd. 5. This subdivision contains the definition of the overall property tax levy limit for governmental units subject to those limits. Effective for taxes payable in 2005 and thereafter.

Article 6 Funds and Accounts

Section 1. Budget Reserves and Cash Flow Accounts. Amends Minn. Stat. § 16A.152, to add a new subdivision 2 which clarifies language for rebuilding budget reserves and cash flow accounts. Specifies transfer dates and amounts and priorities based on forecast. Effective June 30, 2003.

Section 2. Local Government Aid Payments. Amends Minn. Stat. § 16A.152, subd. 7 to allow the Commissioner of Finance the authority to delay up to 15 percent of payments for 60 days to city and counties for cash flow purposes. Effective the day following final enactment.

Section 3. Medical Education Endowment Fund Sunset Date. Amends Minn. Stat. § 62J.694, subd. 4 to change the sunset date of the medical education endowment fund from June 30, 2015 to July 1, 2003. The balance of the fund is transferred to the general fund. Effective June 30, 2003.

Section 4. Tobacco Use Prevention and Local Public Health Endowment Fund Sunset Date. Amends Minn. Stat. § 144.395, subd. 3 to change the sunset date of the tobacco use prevention and local public health endowment from June 30, 2015 to July 1, 2003. The balance of the fund is transferred to the general fund. Effective June 30, 2003.

Section 5. Repeal of Education Reserve Account. Minn. Stat. § 275.025, subd. 1 is repealed. Repeals the education reserve account in the general fund. The proceeds of the growth of the statewide business levy are currently reserved in this account. Effective June 30, 2003.

Section 6. Elimination of Obsolete Appropriation Language. Amends Minn. Laws 2002, ch. 377, art. 12, sec. 17 to eliminate the unnecessary portion of past appropriation language that is now obsolete. Effective the day following final enactment.

Article 7 Miscellaneous

Section 1. June Accelerated Payment. Amends Minn. Stat. § 289A.20, subd 4 to remove the sunset for the June accelerated sales tax payment. Under current law, the June accelerated sales tax payments were scheduled to sunset for liabilities due after fiscal year 2003. Effective the day following final enactment.

Section 2. In-Lieu Lottery Proceeds. Amends Minn. Stat. § 297A.94 by providing that in fiscal year 2004 and thereafter the revenues from the in-lieu sales tax on lottery tickets that go to the general fund will increase from 12.9% to 26% of the revenues. Effective the day following final enactment.

Section 3. Tax and Use Tax on Cigarettes. Amends Minn. Stat. § 297F.10, subd. 1 to repeal the provision which requires revenue to be credited to the Minnesota future resources fund;

creates a fund called the academic health center special revenue fund for funding at the University of Minnesota and credits 6.5 cents of the tax per pack of 20 cigarettes to that fund; and creates a fund called the medical education and research costs special revenue fund for funding at the department of health and credits 2.5 cents of the tax per pack of 20 cigarettes to that fund. Effective for all revenues received after June 30, 2003.

Section 4. June Accelerated Underpayment Penalty. Amends 2001 Minn. Laws, 1st Spec. Sess., ch. 5, art. 12, sec. 95 as amended by 2002 Minn. Laws, ch. 377, art. 3, sec. 24, to reinstate the penalty for underpayment of the June accelerated sales tax liability that was scheduled to be repealed for liabilities due after January 1, 2004.

Section 5. Repealer. Minn. Stat. § 325E.112, subd. 2a is repealed. It requires the commissioner of revenue to pay $250 per year to as many as 200 operators of facilities that accept used motor oil and oil filters from the public. Effective July 1, 2003.

Dated: April 14, 2003

2003 AMENDMENT TO GOVERNOR'S BILL SUMMARY

MINNESOTA · REVENUE

Appeals & Legal Services Division
600 North Robert Street, Mail Station 2220
St. Paul, MN 55146-2220

___**Page 37, lines 13 and 30. Definitions.** Amends Article 2, section 1, paragraphs (b) and (c) so that the "levy plus aid revenue base" of a city or county for purposes of the 2003 and 2004 aid reductions includes the local unit's certified levy amount rather than it's proposed property tax levy amount.

Page 65, after line 35. Levy Amount. Amends Article 7, section 7 to direct the commissioner of revenue to increase or decrease the state general tax rate to account for errors and tax base changes that affected the rate in either of the two prior years. Adjustments are limited to the extent that necessary information is available at the time the rates must be certified. Adjustments may only be made for: (i) an erroneous report by a local official; (ii) an erroneous calculation by the commissioner; and, (iii) increases or decreases in taxable value for commercial-industrial or seasonal residential recreational property determined by comparing the information reported on the abstracts of assessment with the information reported on the abstracts of tax lists for the same year. The abstracts of tax lists can vary from the abstracts of the assessment for the same year if any of the following occur after July 1 of the assessment year: the extension of homestead benefits, forfeitures and the sale of forfeited property, abatements, court-ordered or stipulated valuation or classification changes, and loss of Green Acres treatment upon sale. The commissioner may, but need not, make adjustments if the total difference in the tax levied for the year would be less than $100,000. The amended section of the bill is effective June 30, 2003 and thereafter.

Section 1. Designation for Political Checkoff. Amends Minn. Stat. § 10A.31, subd. 1 to change the state elections campaign fund checkoff. Under the change, the amount designated to the state elections campaign fund will no longer be paid from the general fund, but instead will be added to the tax or subtracted from the refund otherwise payable by or to the taxpayer. The taxpayer may contribute $1 to $25, or $1 to $50 if filing jointly, on their original individual income tax return and on their original property tax refund return. The amount designated is not considered a refundable contribution for purposes of the political contribution refund. Effective for designations made on income tax returns filed for tax years beginning after December 31, 2002, and property tax refund returns based on property taxes payable in 2004 or rent constituting property taxes paid in 2003.

Section 2. Political Checkoff Instructions. Amends Minn. Stat. § 10A.31, subd. 3 so that the income tax and property tax refund instructions published by the commissioner of revenue are consistent with the changes made to Minn. Stat. § 10A.31, subd. 1 above. Repeals the requirement that the space for designations must be on the front page of the forms. Effective for designations made on income tax returns filed for tax years beginning after December 31, 2002, and property tax refund returns based on property taxes payable in 2004 or rent constituting property taxes paid in 2003.

Section 3. Appropriation for Political Checkoff. Amends Minn. Stat. § 10A.31, subd. 4 so that the appropriation to fund the checkoff portion of the state elections campaign fund is consistent with changes made to Minn. Stat. § 10A.31, subd. 1, above. Effective for designations made on income tax returns filed for tax years beginning after December 31, 2002, and property tax refund returns based on property taxes payable in 2004 or rent constituting property taxes paid in 2003.

Section 4. Commissioner's Collection Powers for Non-Tax Debts. Amends Minn. Stat. § 16D.08, subd. 2 to allow the commissioner of revenue to use listed tax collection remedies in the collection of non-tax debts. The requirement of proceeding to judgment at the debtor's request is eliminated and replaced by a thirty day notice and demand for payment with notice of the debt, debt source, available collection remedies, and remedies available to the debtor. Available appeal rights are noted with references to the taxpayer rights advocate and to tax court being changed to the case reviewer and district court. Effective the day following final enactment for all debts referred, whether referred prior to or on or after the day following final enactment.

Section 5. June Accelerated Mortgage Registry Tax. Amends Minn. Stat. § 287.12 to require counties to remit the state's portion of the tax collected by June 25th and the estimated amounts to be collected during the remainder of the month to the commissioner of revenue two business days before June 30th. Effective January 1, 2004.

Section 6. June Accelerated Deed Tax. Amends Minn. Stat. § 287.29, subd. 1 to require counties to remit the state's portion of the tax collected by June 25th and the estimated amounts to be collected during the remainder of the month to the commissioner of revenue two business days before June 30th. Effective January 1, 2004.

Section 7. Penalty for Underpayments of Accelerated Payment of June Tax Receipts. Amends Minn. Stat. § 287.31 to provide for a 10 percent penalty on counties for failing to timely remit their June mortgage registry or deed taxes. The penalty will not be imposed if the amount remitted in June equals either: (1) 90 percent of the state's portion of the preceding May's receipts; or 90 percent of the average monthly amount of the state's portion for the previous calendar year. Effective January 1, 2004.

Section 8. Paper Filing Fee Imposed Upon Tax Return Preparers Required to File Returns Electronically. **Amendment to Minn. Stat. § 289A.08, subd. 16 by adding language that imposes a paper filing fee of $5 for each return not filed electronically by a preparer who prepared more than 100 tax returns in the prior calendar year. The fee is a reflection of the extra costs involved for processing paper returns instead of electronic returns. The fee is collected from the preparer in the same manner as income tax. Effective for returns filed for tax years beginning after December 31, 2002.**

Page 67, lines 21 and 32. June Accelerated Payment. Amends Article 8, section 1 to provide that the amount of the June accelerated sales tax payment is raised from 75 to 85 percent of the estimated June liability. Effective for payments made after December 31, 2003.

Section 10. State Fair Ticket Sales. Amends Minn. Stat. § 289A.31, subd. 7 to remove language allowing the state agricultural society to retain the sales tax proceeds collected on sales of tickets to the premises or events sponsored by the society on events conducted on the fairgrounds during the state fair provided that proceeds were matched by the society and used for capital improvements to the state fairgrounds. These sales tax proceeds will now be remitted to the state and used for general fund purposes. Effective for sales taxes collected on s1ales occurring after June 30, 2003.

Sections 11 and 14. Interest on Refunds. Amends Minn. Stat. §§ 289A.56, subd. 4 and 297A.75, subd. 4 to provide that refunds of sales tax on capital equipment, certain building materials and purchaser claims would bear interest from 90 days after the claim was filed with the commissioner. Currently refunds of purchaser claims bear interest from 20 days after the month of purchase, refunds of capital equipment bear interest from the date that the claim is filed with the commissioner and refunds of certain building materials bear interest from 60 days after the claim is filed with the commissioner. Effective for claims filed on or after the day following final enactment.

Section 12. June Accelerated Underpayment Penalty. Amends Minn. Stat. §289A.60, subd. 15 to provide that the penalty for underpayment of the June accelerated sales tax would not be imposed if 85 percent of the preceding May's liability or 85 percent of the average monthly liability for the previous calendar year is remitted. Effective for payments made after December 31, 2003.

Section 13. Political Contribution Refunds. Amends Minn. Stat. § 290.06, subd. 23 to lower the maximum allowable refund from $50 to $25, or from $100 to $50 for a joint refund claim. Also limits the refund to 50% of the contribution. Effective for that portion of any refund claim based on contributions made on or after the day following final enactment.

Section 16. Cigarette Tax June Accelerated Payment. Amends Minn. Stat. § 297F.09, subd. 1 to require a distributor to pay a June accelerated cigarette tax payment of 85 percent of the estimated June liability when they file their May return. Effective January 1, 2004.

Section 17. Tobacco Products Tax June Accelerated Payment. Amends Minn. Stat. § 297F.09, subd. 2, to require a distributor to pay a June accelerated tobacco products tax payment of 85 percent of the estimated June liability when they file their May return. Effective January 1, 2004.

Section 18. June Accelerated Underpayment Penalty. Amends Minn. Stat. § 297F.09 by adding a new subdivision to provide a penalty for underpayment of the June accelerated cigarette or tobacco products tax. The penalty would not be imposed if the amount received in June equals the lessor of: (1) 85 percent of the actual June liability; or (2) 85 percent of the preceding May's liability. Effective for taxpayers having a liability of $120,000 or more during the fiscal year ending June 30, 2003 and each fiscal year thereafter, and for accelerated payments becoming due in the year 2004 and thereafter.

Section 20. Liquor Tax June Accelerated Payment and Underpayment Penalty. Amends Minn. Stat. § 297G.09 by adding a new subdivision to require a liquor tax distributor to pay a June accelerated liquor tax of 85 percent of the estimated June liability when they file their May return and to provide a penalty for underpayment of the June accelerated liquor tax. The penalty would not be imposed if the amount received in June equals the lessor of: (1) 85 percent of the actual June liability; or (2) 85 percent of the preceding May's liability. Effective for taxpayers having a liability of $120,000 or more during the fiscal year ending June 30, 2003 and each fiscal year thereafter, and for accelerated payments becoming due in the year 2004 and thereafter.

Section 22. Repealer. (a) Repeals Minn. Stat. § 37.13, subd. 2 which required that the state fair board use matching funds and the retained sales taxes to make capital improvements to the fairgrounds. Effective for sales occurring after June 30, 2003.

(b) Minn. Stat. § 325E.112, subd. 2a is repealed. It requires the commissioner of revenue to pay $250 per year to as many as 200 operators of facilities that accept used motor oil and oil filters from the public. Effective July 1, 2003.

Dated: March 13, 2003