MINNESOTA · REVENUE

Department Technical Bill

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

March 28, 2003

Department of Revenue
Analysis of H.F. 759 (Abrams)/ S.F. 1007 (Moua)

	Revenue Gain or (Loss)			
	F.Y. 2004	F.Y. 2005	F.Y. 2006	F.Y. 2007
	(000's)			
All State Funds	$0	$0	$0	$0

Various effective dates.

EXPLANATION OF THE BILL

A section-by-section summary of the bill is attached.

REVENUE ANALYSIS DETAIL

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

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

hf0759(sf1007)-2 / cc

2003 TECHNICAL BILL SUMMARY

MINNESOTA·REVENUE

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

Article 1 Income, Franchise, and Estate Taxes

Section 1. Obsolete Subtractions Removed. Amends Minn. Stat. § 290.01, subd. 19b to delete two subtractions which will be obsolete after 2003. The first deleted subtraction is a subtraction designed to give self-employed taxpayers a Minnesota tax benefit for 100 percent of their purchase of health insurance. Starting in 2003 federal law will give self-employed taxpayers a 100 percent tax benefit at the federal level which makes the Minnesota subtraction irrelevant. The second deleted subtraction allowed low and middle income taxpayers who purchased homes in certain areas of Minnesota from 1995 to 1998, an income subtraction for a maximum of five years. The five year maximum will run in 2003 and the subtraction will not be available after 2003. Effective for tax years beginning after December 31, 2003.

Section 2. Modifications of Nonresident Ratio. Amends Minn. Stat. § 290.06, subd. 2c to clarify that when non-residents and part-year residents compute the ratio of Minnesota assignable federal adjusted gross income to federal adjusted gross income, the expenses attributable to U.S. interest income or other income Minnesota does not tax, are deducted in computing the numerator and denominator of the ratio. Effective for tax years beginning after December 31, 2002.

Section 3. Change in Inflation Indexing of Working Family Credit. Amends Minn. Stat. § 290.0671 to change how the Working Family Credit earned income levels are indexed for inflation. In 2001 the federal earned income tax credit upon which the Minnesota Working Family Credit is based, was increased for taxpayers with qualifying children by increasing the earned income base amounts after the base amounts were indexed for inflation which means the 2001 federal increase is further increased for future inflation. In the 2001 Minnesota legislation which was to mirror the federal change, the legislation increased the base amount and then the total was adjusted for inflation which was not the intent of the legislation. The change in this section clarifies that the base amount is adjusted for inflation and then the increased amount is added. This section also provides that the increase is adjusted for inflation starting in 2009 in order to parallel the federal change made in the 2001 federal law. Effective for tax years beginning after December 31, 2002.

Section 4. Delete Obsolete Floor of Earned Income for Marriage Penalty Credit. Amends Minn. Stat. § 290.0675, subd. 2 to delete the income level floor on who can claim the credit to relieve the marriage penalty in the Minnesota income tax brackets which is currently understated because of the increase in the income tax bracket for inflation. Effective for tax years beginning after December 31, 2002.

Section 5. Clarification of Marriage Penalty Credit Calculation. Amends Minn. Stat. § 290.0675, subd. 3 which in conjunction with the repeal of Minn. Stat. § 290.0675, subd. 5 in section 7 of this article, clarifies that the computation of the marriage credit is based on the income tax brackets as adjusted for inflation. Effective for tax years beginning after December 31, 2002.

Section 6. Delete Obsolete Language in Elderly or Disabled Subtraction. Amends Minn. Stat. § 290.0802, subd. 1 to remove from the elderly or disabled subtraction the reference to the now obsolete subtraction for early 1980's IRA and KEOGH subtractions, and a definition only necessary for an enhanced obsolete subtraction last available in 1996. Effective for tax years beginning after December 31, 2002.

Section 7. Repeal of Unneeded or Obsolete Provisions. (a) Repeals Minn. Stat. § 290.0671, subd. 3 which required that the Minnesota Working Family Credit be reduced by the amount of a taxpayer's Minnesota alternative minimum tax in excess of the Minnesota regular tax computed before the Working Family Credit. This limitation was enacted to mirror a similar federal limitation on the federal earned income tax credit. The federal limitation and Minnesota limitation rarely applied and the federal limitation was repealed federally in 2001 and was missed in the 2001 Minnesota federal update. The second repealed provision is the indexing of the marriage credit for inflation, Minn. Stat. § 290.0675, subd. 5, which is no longer needed because of the changes in section 5. Both repeals are effective for tax years beginning after December 31, 2002.

(b) **Repeal of Obsolete or Duplicative Rules.** Repeals obsolete or duplicative corporate franchise tax and withholding tax rules. Effective the day following final enactment.

Article 2 Property Taxes

Section 1. Notification to Taxpayer. Amends Minn. Stat. § 270.10, subd. 1a, to delete obsolete mandatory notices which state that taxpayers must appear before local and county boards of equalization before they can appeal a property tax notice, assessment, or order in the small claims division of tax court. Effective the day following final enactment.

Section 2. Cross Reference to Exemption for Comprehensive Health Association. Amends Minn. Stat. § 272.02 to add a new subdivision 56, cross-referencing Minn. Stat. § 62E.10, subd. 1, which exempts the property of Comprehensive Health Associations from the property tax. Effective the day following final enactment.

Section 3. Cross Reference to Exemption for Private Cemeteries. Amends Minn. Stat. § 272.02 to add a new subdivision 57 cross-referencing Minn. Stat. § 307.09, which exempts the property of some private cemeteries from property tax. Effective the day following final enactment.

Section 4. Cross Reference to Exemption for the Western Lake Superior Sanitary Board. Amends Minn. Stat. § 272.02 to add a new subdivision 58 cross-referencing Minn. Stat. § 458D.23, which exempts the property owned or used by the Western Lake Superior Sanitary Board from property tax. Effective the day following final enactment.

Section 5. Cross Reference to Exemption for Unfinished Sale or Rental Projects.

Amends Minn. Stat. § 272.02 to add a new subdivision 59 cross-referencing Minn. Stat. § 469.155, subd. 17, which exempts some unfinished sale or rental projects from property tax. Effective the day following final enactment.

Section 6. Cross Reference to Exemption for Skyways and Other Structures. Amends Minn. Stat. § 272.02 to add a new subdivision 60 cross-referencing Minn. Stat. § 469.127, which exempts skyways, underground tunnels, the people mover system and publicly owned parking structures from property tax. Effective the day following final enactment.

Section 7. Cross Reference to Exemption for Municipal Recreation Facilities. Amends Minn. Stat. § 272.02 to add a new subdivision 61 cross-referencing Minn. Stat. § 471.191, subd. 4, which exempts property acquired and used by a city for municipal recreation facilities from property tax. Effective the day following final enactment.

Section 8. Cross Reference to Exemption for Water and Wastewater Treatment Facilities. Amends Minn. Stat. § 272.02 to add a new subdivision 62 cross-referencing Minn. Stat. § 471A.05, which exempts from property tax the related facilities owned by water and wastewater treatment providers who have contracted with a municipality to provide capital intensive public services to the municipality. Effective the day following final enactment.

Sections 9 and 27. Taxes Paid Before Recording. Amends Minn. Stat. §§ 272.12 and 515B.1-116(f) to change the current provision which allows an instrument amending or reinstating a common interest community (CIC) plan to be recorded without paying all delinquent and current year property taxes. CICs will be allowed to record documents amending their plans without paying tax only if the unit or common area boundaries are not being changed. Effective for deeds or instruments accepted for recording or registration on or after July 1, 2003.

Sections 10, 11, 12, 16, 18 and 19. Correct References to Seasonal Residential Recreational Property. Incorrect and inconsistent wording is changed in several places in Minnesota Statutes where this type of property is mentioned. The correct description for this type of property is "seasonal residential recreational." In section 20 an incorrect cross-reference to this class is also corrected. Effective the day following final enactment.

Section 13. Aid Offset; Out-of-Home Placement Costs. Amends Minn. Stat. § 273.1398, subd. 4d, to change the date that the Department of Human Services (DHS) must certify the previous three years' average nonfederal costs for out of home placements to the commissioner of revenue from July 15, 2004 to July 15, 2003. Effective for aids payable in 2004 and thereafter.

Section 14. Utility and Railroad Valuation Appeals. Amends Minn. Stat. § 273.372 to clarify that utilities and railroads whose taxability, classification, and valuation are determined by the commissioner, and whose property is typically located in multiple counties, may appeal their property tax by bringing a single action against the commissioner instead of having to sue in each affected county. Effective the day following final enactment.

Sections 15 and 16. State General Levy Base Amount. Amends Minn. Stat. § 275.025, subds. 1 and 3 to clarify that the state general levy amount recited in the statute is increased each year by the inflation adjustment factor. The current statute refers to the prior year's levy amount being increased for inflation each year, and that would produce slightly different results. There are also reference changes from "seasonal recreational property" to "seasonal residential recreational" property. Effective for taxes payable in 2004 and thereafter, except that the reference changes involving seasonal recreational property are effective the day following final enactment.

Section 17. Personal Property Tax Liens. Amends Minn. Stat. § 277.20, subd. 2 to change the place for filing lien notices that are related to the collection of personal property taxes. These liens will attach to the personal property of the delinquent taxpayer if they are filed in the office of the secretary of state. This is consistent with new commercial practices. Effective for liens filed on or after the day following final enactment.

Section 20. Definition of "Claimant" for Purposes of the Sustainable Forest Incentives Act. Amends Minn. Stat. § 290C.02. subd. 3 to clarify that for purposes of the early termination penalties of the Sustainable Forest Incentives Act, "claimant" also includes persons bound by the covenant. This subdivision is also amended to clarify that "one claimant per parcel" means there may be only one claimant for each parcel that has been assigned a unique identification number by the county. Effective the day following final enactment.

Sections 21, 22, 23, 24, and 25. The Term "Property" is Changed to "Land" in Several Places Throughout the Sustainable Forest Incentives Act (Minnesota Statutes Chapter 290C). This is being done to make the statute more precise, consistent and easier to read. Effective the day following final enactment.

Section 26. Sustainable Forest Incentives Act; Early Termination Penalties. Amends Minn. Stat. § 290C.11 by adding a new paragraph (c) to clarify that if land is removed from the program under Minn. Stat. § 290C.11 the claimant is not entitled to any further payments, the land is disqualified from the program for three years and the covenant continues in effect. Effective the day following final enactment.

Section 28. Out-of-Home Placement Cost Aid. Amends Minn. Laws 2002, ch. 377, art. 6, sec. 4 to clarify that the 2002 amendments that delayed payment of this aid until 2004 were effective upon enactment. Effective retroactively to May 16, 2002 and thereafter.

Section 29. Repealer. (a) Repeals Minn. Stat. § 477A.065, to eliminate new construction low-income housing aid. The aid is based on the value class 4d properties constructed after 1998. However, class 4d no longer has separate class rate or qualification requirements as of taxes payable in 2004. Effective for aid payable in 2004 and thereafter.

(b) **Repeal of Obsolete or Duplicative Rules.** Repeals obsolete and duplicative railroad valuation rules. Effective the day following final enactment.

Article 3 Sales and Use Taxes

Section 1. Purchaser Refunds. Amends Minn. Stat. § 289A.50, subd. 2a to relax the requirements for taxpayers to file a sales tax purchaser refund claim. Currently, only taxpayers that are currently registered may file a purchaser claim but this provision also allows taxpayers that were registered during the period of the overpayment to file a purchaser refund claim. Currently the taxpayer must have a claim in excess of $500 in order to file a purchaser claim but this language would allow the purchaser to aggregate the amounts of a purchaser claim and a capital equipment refund claim in order to satisfy the $500 requirement. Effective for claims filed on or after the day following final enactment.

Section 2. Underpayment of June Accelerated Payment. Amends Minn. Stat. § 289A.60, subd. 15 to clarify that for the June sales tax accelerated payment, the taxpayer must pay 75 percent of the preceding May's liability or 75 percent of the average liability for the previous calendar year in order to avoid the penalty for underpayment. Effective for payments due after December 31, 2002.

Section 3. Food Sold in Vending Machines. Amends Minn. Stat. § 297A.61, subd. 34 to provide that food sold through vending devices would include food sold through honor boxes. Effective for sales and purchases made on or after the day following final enactment.

Section 4. Exemption Certificates. Amends Minn. Stat. § 297A.665 to provide that a seller is relieved from collecting sales tax if the seller receives a fully completed exemption certificate from the purchaser at the time of the sale. This section also provides that exemption certificates not accepted at the time of the sale but that are provided to the commissioner during an audit are subject to verification by commissioner as to their validity. This section provides that when the seller does not provide the certificates, within 60 days after the commissioner requests them, the sale will be considered to be taxable. Effective for exemption certificates received for sales occurring after June 30, 2003.

Section 5. Food and Food Ingredients. Amends Minn. Stat. § 297A.67, subd. 2 to clarify that candy, soft drinks, food sold in vending machines and prepared food are considered food items but that they are not included within the exemption. Effective the day following final enactment.

Section 6. Repealer. (a) Repeals Minn. Stat. § 297A.72, subd. 1 regarding sales tax exemption certificates, and moves the language to Minn. Stat. § 297A.665. Effective for exemption certificates received for sales occurring after June 30, 2003.

(b) Repeals Minn. Stat. § 297A.97, which provided that non-Minnesota retailers did not have to collect local sales taxes. Effective for sales and purchases made after December 31, 2003.

(c) **Repeal of Obsolete or Duplicative Rules.** Repeals obsolete or duplicative sales and use taxes rules. Effective the day following final enactment.

Article 4 Gross Revenues Taxes

Sections 1 and 2. Patient Services Definition. Amends Minn. Stat. §§ 295.50, subd. 9b and 295.53, subd. 1 to exclude certain services from the definition of patient services. These services are currently included in the exemptions section; taxpayers have to report their gross revenues and then are allowed an exemption. Under the proposed change, community residential mental health facilities, community mental health centers, taxpayers who provide community support programs and family community support programs, assisted living programs, congregate housing programs, and hospice care services will no longer be required to report gross revenues they receive for these services. Effective for gross revenues received after December 31, 2002.

Sections 3 and 4. Revisor's Instruction and Repealer. Repeals Minn. Stat. ch. 294. This chapter deals with the gross earnings tax which is no longer in effect. References to this chapter are obsolete. Effective day following final enactment.

Article 5 Special Taxes

Section 1. Penalties; Enforcement. Amends Minn. Stat. § 115B.24, subd. 8 to clarify that the penalty provisions related to the hazardous waste generator tax are the same as those which apply to the corporate franchise taxes. Effective the day following final enactment.

Section 2. Wholesale Sales Price. Amends Minn. Stat. § 297F.01, subd. 23 which defines "wholesale price" in relation to the tobacco products tax. The definition is clarified to provide that price list means the manufacturer's price at which tobacco products are made available for sale to all distributors. Effective July 1, 2003.

Section 3. Gross Premiums. Amends Minn. Stat. § 297I.01, subd. 9 which contains the definition of gross premiums for insurance premiums tax to include a new workers compensation surcharge created by 2002 Minn. Laws, ch. 262, sec. 7. Effective the day following final enactment.

Section 4. Offsets Against Premium Taxes. Amends Minn. Stat. § 297I.20 to reference the insurance premiums tax offset for joint underwriting assessments set forth in Minn. Stat. § 62I.06, subd. 6. Effective the day following final enactment.

Section 5. Repeal of Obsolete Rules. Repeals obsolete petroleum tax rules regarding the identification of pumps, the ethanol development fund, and the road tax, as these are now administered by other departments, and not the Department of Revenue. Effective the day following final enactment.

Article 6 Collections

Section 1. Lien Attachment to Insurance Proceeds. Amends Minn. Stat. § 270.69 by adding a subdivision to provide that liens imposed under section 270.69 attach to the proceeds of property with the same priority that the lien has with respect to the property itself. "Proceeds of property" is defined to include insurance proceeds arising from the loss or destruction of the property. Effective for all liens whether imposed prior to or on or after the day following final enactment.

Sections 2 and 3. Eliminate the Minnesota Statutes Chapter 290 Limitation in Transferee and Fiduciary Liability. Amends Minn. Stat. § 289A.31, subds. 3 and 4 to clarify that overpaid property tax refunds paid pursuant to Minn. Stat. ch. 290A are personal debts of fiduciaries and are recoverable from transferees and fiduciaries. Effective for taxes imposed and property tax refunds claimed on or after the day following final enactment.

Section 4. Sales Tax Permit Cancellation. Amends Minn. Stat. § 297A.85 to add cancellation for issuance pursuant to Minn. Stat. § 297A.86, subd. 2(a) to the list of possible grounds for cancellation of a taxpayer's sales tax permit. Effective for cancellations of permits done on or after the day following final enactment.

Dated: February 10, 2003