VARIOUS TAXES
Taxpayers Bill of Rights

April 30, 2004

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

Department of Revenue
Analysis of S.F. 1073 (Bachmann) / H.F. 3135 (Krinkie)

	Revenue Gain or (Loss)			
	F.Y. 2004	F.Y. 2005	F.Y. 2006	F.Y. 2007
	(000's)			
All Funds	$0	$0	$0	($242,200)

Effective July 1, 2005, upon adoption of a constitutional amendment.

EXPLANATION OF THE BILL

This bill proposes an amendment to the Minnesota Constitution which would provide for limitations on state and local spending, conditions for future tax increases, and require annual refunds when revenues exceed expenditures. The proposed amendment applies to the state, cities, counties, and school districts. If the amendment is passed, a new article XV would be added to the state's Constitution.

The proposed amendment and question which would be submitted to voters at the 2004 general election is as follows:

> "Effective July 1, 2005, shall the Minnesota Constitution be amended to limit increases in government spending and taxes, unless approved by the voters, as follows:
> (1) for state spending, to a percentage no greater than the percentage increases in inflation and population;
> (2) for local government spending, to a percentage increase no greater than the percentage increase in inflation and growth in property value or, for school districts, student enrollment; and
> (3) for state and local governments, to limit tax increases and prohibit new taxes?
> Yes ……..
> No ……..”

Adjustments to state and local spending limitations are authorized, but only if revenue changes are approved by voters. With the exception of voter-approved increases, any revenue raised that exceeds spending limitations would be refunded in the next fiscal year. Approval of local bonded debt would increase local spending and property tax revenue by the annual debt amount funded. Retirements or refinancing of bonded debt would decrease local spending and property tax amounts.

EXPLANATION OF THE BILL (continued)

The bill also includes election procedures for state and local ballot measures that are proposed to increase taxes or debt. A notice of election along with required information and dollar estimates for the referred measure would be sent to all registered voters. Voter approval is required in advance for any new tax, tax rate increase, extension of a tax, or any tax policy change resulting in a net revenue gain. Provisions are also included in the event of emergency revenue needs and ratification of such funding.

REVENUE ANALYSIS DETAIL

- This bill proposes a limit on expenditures and does not change the state current tax system or tax revenues. This analysis is for state revenues and expenditures only.
- If passed, the constitutional amendment would take effect on July 1, 2005. Therefore, FY 2006 would be the first spending year under the new expenditure limitations.
- The assumed expenditure limit is based on total state revenues plus sales tax rebates paid less federal grants from the February 2004 Price of Government. Expenditures are assumed to equal revenues.
- To calculate the FY 2006 spending limit, the FY 2005 revenue base would be increased by the rate of US inflation (CPI-U) for FY 2005 from the Department of Finance, plus the annual population growth rate based on July 1, 2005, estimated Minnesota population from the State Demographer.
- Because the amendment specifies that the automatic refund be delivered the year following a surplus, the first year that a refund could happen under this amendment is FY 2007.
- Based on the current forecast, it is estimated that a refund of $242.2 million would be paid in FY 2007.

Number of Taxpayers: All individuals and businesses paying taxes in Minnesota.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

sf1073(hf3135)-1.doc/nrg