MINNESOTA · REVENUE

Governor's Tax Bill

March 23, 2006

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 3603 (Krinkie)/ S.F. 3326 (Belanger)

	Fund Impact			
	F.Y. 2006	**F.Y. 2007**	**F.Y. 2008**	**F.Y. 2009**
		(000's)		
Federal Update				
Standard Deduction for Married Filers (Tax years 2006 - 2008)	$0	($28,700)	($14,800)	($6,500)
The Energy Tax Incentives Act of 2005*				
Individual Income Tax	($560)	($60)	$0	$40
Corporate Franchise Tax	($40)	($1,900)	($3,000)	($3,740)
Total	($600)	($1,960)	($3,000)	($3,700)
The Katrina Emergency Tax Relief Act of 2005*				
Individual Income Tax	($3,885)	$90	$65	$0
Corporate Franchise Tax	($320)	($120)	($10)	$0
Total	($4,205)	($30)	$55	$0
The Gulf Opportunity Zone Act of 2005*				
Individual Income Tax	($85)	($140)	($50)	$10
Corporate Franchise Tax	($300)	($410)	($200)	($20)
Total	($385)	($550)	($250)	($10)
Individual Income Tax				
Military Pension Subtraction, Phased In Over Four Years (1/1/06)	$0	($4,100)	($8,600)	($13,600)
Citizenship Tax Credit (1/1/06)	$0	($1,100)	($1,200)	($1,300)
Dairy Investment Credit** (1/1/06)	$0	($4,700)	($5,200)	($5,700)
Corporate Franchise Tax				
Accelerate Phase In to Single Sales Factor (1/1/07)	$0	($1,700)	($7,700)	($13,400)
General Sales and Use Tax				
Exemption for Improvements to Resorts, Limited to $10,000 Per Resort (7/1/06)	$0	($880)	($990)	($1,020)
General Fund Total	($5,190)	($43,720)	($41,685)	($45,230)

* Details for each federal bill are available separately.
** Also applies to the corporate franchise tax. Estimates include impact for both taxes.

EXPLANATION OF THE BI LL

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

REVENUE ANALYSIS DETAIL

Standard Deduction for Married Filers

- Simulation results are obtained using the House Income Tax Simulation (HITS 5.4) model. The simulations assume the same economic conditions used by the Minnesota Department of Finance for the forecast published in February 2006. The model uses a stratified sample of 2003 individual income tax returns compiled by the Minnesota Department of Revenue.
- Tax year 2006 was allocated to FY 2007. Tax years 2007 and 2008 were allocated 50/50 to fiscal years.
- An estimated 419,300 returns in tax year 2006 would experience a tax decrease.

Federal Update: The Energy Tax Incentives Act of 2005, The Katrina Emergency Tax Relief Act of 2005, The Gulf Opportunity Zone Act of 2005

- The estimates are based on the estimates for the federal legislation prepared by the Joint Committee on Taxation.
- If both the individual income and corporate franchise taxes would be affected, the federal estimates were divided between the two taxes.
- The federal estimates were apportioned to Minnesota based on a measure appropriate to the provision. For the Katrina Emergency Tax Relief and the Gulf Opportunity Zone Acts, the estimates were further adjusted to reflect the extent to which Minnesota taxpayers would likely be affected by the provision. No adjustment was made for provisions not limited to the hurricane disaster areas: suspending the limitations for qualified charitable contributions by individuals and extending the enhanced deduction for the contributions of food inventory and book inventory.
- Federal and state marginal rates were applied, and the estimates were converted from federal fiscal years to state fiscal years.

Military Pension Subtraction, Phased In Over Four Years

- According to information from the Department of Defense Statistical Report on the Military Retirement System for federal fiscal year 2004, the number of people receiving military retirement pay in Minnesota was 17,093 for a total amount of $248.4 million.
- Based on national data, it is assumed that 40% of retirees are officers with an average annual pension of $22,778, and 60% are enlisted personnel with an average annual pension of $11,429. The average pension for 2,523 survivors was $6,459.
- The average marginal rate was assumed to be 6%.
- Annual growth was estimated at 5%.
- Tax year impact was allocated to the following fiscal year.
- Approximately 17,000 to 18,000 taxpayers would be affected.

REVENUE ANALYSIS DETAIL (Continued)

Citizenship Tax Credit

- Based on naturalization by occupation information from the U.S. Citizenship and Immigration Services office, it is assumed that 45% of persons in the naturalization process would have household incomes less than $30,000.
- It is assumed 25% of immigrants granted permanent residency will begin taking English as a second language (ESL) classes each year, at an average cost of $200 per class. It is assumed all individuals will take one ESL class each year for three years. The cost to the state for reimbursing ESL class fees will total $0.9 million in FY 2007.
- The N-400 application fee for naturalization is $330, plus a $70 biometrics fingerprint fee, for a total of $400 per application.
- According to the U.S. Citizenship and Immigration Services office, 7,713 immigrants in Minnesota became naturalized U.S. citizens in 2004. This represents a 10% average annual increase since 1998, which is assumed to continue. It is assumed two-thirds of these naturalized immigrants are members of a family and will claim the maximum $300 credit per family. The other one-third will also each claim a credit of $300.
- The cost to the state for reimbursing citizenship application fees will total $0.7 million in FY 2007. This estimate does not include immigrants applying for citizenship more than one time.
- The total estimate of $1.6 million is reduced 30% to account for the effect of the $300 cap on the overlap of immigrants taking ESL classes and applying for citizenship in the same year.
- Tax year impact was allocated to the following fiscal year.
- An estimated 7,500 individuals would be affected in TY 2006.

Dairy Investment Credit

- A similar credit was enacted in Wisconsin, effective for tax years 2004 through 2009. For 2004 returns filed in 2005, the total credit that offset tax was $12.22 million on 6,464 returns, for an average credit of $1,890 per return.
- The participation rate for dairy enterprises for the Wisconsin program was 40% in the first year. It was assumed that Minnesota would have a similar experience in the first year.
- It was assumed that the first-year cost for Minnesota would be 38.5% of the first-year cost in Wisconsin, which is the percentage of the number of dairy cows in Minnesota compared to the number in Wisconsin.
- Growth in the cost of the program is estimated at 10% annually, which would include price increases, increased participation, and any carryover of unused credit from a prior year.
- Tax year impact was allocated to the following fiscal year.
- The credit would be claimed for an estimated 2,200 farms for tax year 2006.

REVENUE ANALYSIS DETAIL (Continued)

Accelerate Phase In to Single Sales Factor

- The revenue estimate is based on data from returns filed in calendar year 2003.
- A program was run against corporate data to calculate the revenue impact from changing the weighting under current law to the proposed weighting for each tax year.
- Growth in overall corporate tax collections as projected by the Department of Finance in the February 2006 forecast is used to project future revenue losses.
- This law change also affects the apportionment of income generated by entities other than C corporations, mainly S corporations. The estimate was adjusted to include these businesses.
- Tax year impact was allocated 30/70 to fiscal years.
- About 9,000 corporations would be affected, including both tax increases and decreases.

Sales Tax Exemption for Improvements to Resorts, Limited to $10,000 of Tax Per Resort

- The estimate was based on information from Explore Minnesota Tourism (EMT; formerly Minnesota Office of Tourism) and resort industry representatives.
- It was estimated that there are 7,411 cabins at class 1c and 4c resorts that are likely to incur $10,000 or less in annual sales/use tax liability for capital projects. This figure was arrived at by excluding from the EMT total cabins at Indian casino resorts and cabins at large resorts.
- A cabin has an average life of 40 years. It was therefore estimated that 185 existing cabins will be replaced annually at an average cost of $75,000 per cabin.
- It was assumed that 75 new (expansion) cabins will be built per year at an average cost of $75,000. It was further assumed that 150 existing cabins will be upgraded per year at an average cost of $7,500.
- It was estimated that there are approximately 2,817 existing rooms at resorts subject to the $10,000 tax cap. The number of rooms was arrived at by excluding from the EMT total rooms at Indian casino hotels.
- It was assumed that 20% of the units will undergo capital improvements each year at an average per-unit cost of $2,000. It was further assumed that 70 new rooms will be constructed per year at an average cost of $35,000.
- All expenditures were multiplied by 60% to arrive at an estimate of the taxable materials and supplies portion (to exclude labor costs) and multiplied by the 6.5% sales and use tax rate.
- Annual growth was estimated at 3%.
- The estimates were converted to fiscal years. FY 2007 was adjusted for the effective date.
- There are approximately 900 Minnesota resorts that could qualify for the exemption.

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

MINNESOTA·REVENUE
Appeals and Legal Services Division
600 North Robert Street
Saint Paul, Minnesota 55146-2220

Bill Date: March 13, 2006
Summary Date: March 16, 2006

Property Tax Levy Limit Overview

The bill provides property tax levy limitations for taxes payable in calendar year 2007 for counties and for cities of over 2,500 populations. In general, the limits are equal to the local unit's property tax levy for taxes payable in 2006 plus an inflationary increase and an increase for the growth in the number of households within the local unit. The limits are also adjusted up if the local unit will receive less in certain state paid aids in 2007 as compared to 2006, and are adjusted downward if the local unit will be receiving more of those state aids in 2007.

Section 1. Levy Year. Amends Minn. Stat. § 275.70 to add the new subd. 2a, to define "levy year" or "taxes levied in" as the year in which the taxes voted by the local governmental unit are to be certified to the county auditor under Minn. Stat. § 275.07, subd. 1(a). Effective the day following final enactment.

Section 2. Special Levies. Amends Minn. Stat. § 275.70, subd. 5, to change the special levies that are allowed for taxes payable in 2007. Special levies are those amounts that may be levied outside of, or in addition to, the unit's levy limitation. Special levies for payments to the state armory commission, for matching funds under certain federal or state grant programs, for abatements under Minn. Stat. § 469.1815, for certain employer contribution payments, for operations of a lake improvement district, to repay certain transportation related state or federal loans, for certain transitional amounts related to the state takeover of court administration costs, for certain police and firefighter relief associations, for storm sewer improvement district costs, and to fund the prevention of cruelty to animals are stricken. Special levies will be allowed to pay debt service, property taxes levied against referendum market value, the unreimbursed costs of natural disasters, errors in the prior year's levy, and the operation and maintenance of qualified county jails. Effective the day following final enactment.

Section 3. Levy Limit Base. Amends Minn. Stat. § 275.71, subd. 2, to define the levy limit base as the sum of the local unit's total property tax levy for taxes payable in 2006 plus the aid amounts the local unit was certified to receive in 2006 under Minn. Stat. §§ 298.28, 298.282 and 477A.011 to 477A.03, less the amounts that would have qualified for special levies under the new laws. Effective the day following final enactment.

Section 4. Adjusted Levy Limit Base. Amends Minn. Stat. § 275.71, subd. 4, to define the adjusted levy limit base as the unit's levy limit base plus a percentage increase for annual inflation computed from the most recent implicit price deflator for government expenditures and investment, and a percentage increase for the growth, if any, in the number of households within the local unit. Effective the day following final enactment.

Section 5. Property Tax Levy Limit. Amends Minn. Stat. § 275.71, subd. 5, to define the levy limitation for taxes payable in 2007 for the applicable local units of government. Except for allowable adjustments for annexations and service delivery changes, the levy limit is equal to the adjusted levy limit base minus the amounts the local unit will receive in state aid in 2007 under Minn. Stat. §§ 298.28, 298.282, and 477A.011 to 477A.014, and minus the estimated amount of

wind energy production tax revenues the local unit will receive in 2007. Effective the day following final enactment.

Section 6. Authorization to Use Special Levy for Costs of Natural Disaster. Amends Minn. Stat. § 275.74, subd. 2, to update a cross reference to the new clause-number for the special levy allowed in the case of unreimbursed costs for natural disasters. Effective the day following final enactment.

Federal Update Overview

Minnesota income and franchise tax is based on "federal taxable income" (FTI) for regular Minnesota tax purposes; "federal alternative minimum taxable income" (AMTI) for Minnesota alternative minimum taxable income; "federal adjusted gross income" (AGI) for household income used for the Minnesota dependent care credit, education credit, and property tax refund; and "earned income" for the Working Family Credit. Present Minnesota law references these federal concepts through April 15, 2005.

Since April 15, 2005, the federal government has enacted three laws that modified the definitions of FTI, AMTI, AGI, and earned income.

The Energy Tax Incentives Act of 2005, Public Law 109-58, enacted August 8, 2005, generally provided for the acceleration of the deduction of capital expenditures for companies providing energy and energy services to U. S. consumers and was generally effective for expenses incurred under contracts entered into after April 11, 2005.

The Katrina Emergency Tax Relief Act of 2005, Public Law 109-73, enacted September 23, 2005, provided additional tax incentives for individuals and corporations to give to charity for contributions after August 25, 2005, and before January 1, 2006, and additional tax relief to victims of the hurricane. Generally effective between August 25, 2005 and January 1, 2007.

The Gulf Opportunity Zone Act of 2005, Public Law 109-135, enacted December 21, 2005, provides similar tax provisions available under the Hurricane Katrina bill to Hurricane Rita and Wilma victims and charitable givers. Further, this new law allows additional section 179 expensing or 50 percent bonus depreciation on business property placed in service in the areas damaged by Hurricane Katrina (between August 28, 2005 and December 31, 2007, for equipment and December 31, 2008, for structures).

Section 7. Federal Update of Minnesota Administrative Provisions. Amends Minn. Stat. § 289A.02, subd. 7, to incorporate certain federal administrative provisions as defined in the Internal Revenue Code as amended through December 31, 2005. Because none of the three federal acts enacted since the last Minnesota update affect Minnesota administrative provisions, this change has no substantive effect.

Section 8. Federal Update to Minnesota Taxable Income. Amends Minn. Stat. § 290.01, subd. 19, to adopt all of the federal changes to federal taxable income made by the above three mentioned federal acts. The main federal changes in this area were:

- Electricity transmission and distribution assets depreciation recovery period is reduced from 20 years to 15 years for assets acquired under a contract entered into after April 11, 2005.

- The ability to amortize over 60 months rather than 15 years certain certified pollution control facility expenses used to control water and air pollution in plants in operation before 1976 was expanded to allow amortization over 84 months of air pollution control facility expense for facilities and equipment placed in service after April 11, 2005, even if the coal fired electric generating plant was first used after 1976.

- The old cap on currently deducting amounts placed in a segregated nuclear decommissioning fund is removed for tax years beginning after December 31, 2005.

- For property placed in service after August 8, 2005 and before January 1, 2012, as a new oil refinery or which increases output of an existing refinery, the taxpayer can deduct in the current year, 50 percent of the cost of the property instead of depreciating the cost over the ten year life of the refinery under the old law.

- Under old law, cooperatives could flow through in the form of dividends net income but not losses to the co-op members. Under the new law retroactively effective to tax years beginning after December 31, 2002 a co-op can elect to flow through to co-op members the expenses paid by the co-op to comply with highway diesel fuel sulfur control requirements.

- The depreciation recovery period for natural gas distribution pipelines was shortened from 20 years to 15 years for pipeline placed in service after April 11, 2005, and before January 1, 2011.

- The depreciation recovery period for natural gas gathering lines was shortened from 15 years to seven years for gathering lines placed in service after April 11, 2005.

- For commercial buildings placed in service after December 31, 2005, and before January 1, 2008, that meet certain energy efficiency requirements, or existing buildings that are remodeled in this period to reach those requirements, the building owner is allowed a deduction of up to $1.80 per building square foot (this deduction reduces the depreciable basis of the building). A unique feature of this provision is that in the case of a government-owned building, the deduction can be claimed by the designer of the building (this part of the change would be a permanent revenue loss).

- The yearly limits on charitable contribution deductions of ten percent of income for corporations and 50 percent of income for individuals was removed for cash charitable contributions made after August 27, 2005, but before January 1, 2006. For corporate contributions, the removal of the limit only applies to contributions to organizations providing relief from Hurricanes Katrina, Rita, and Wilma.

- The replacement period for requiring property destroyed by Hurricane Katrina without reporting gain on the destroyed property was increased to five years (old law was four years for residence destroyed in disaster and two years for everything else). Effective for property converted after August 24, 2005.

- Cancellation of nonbusiness debt occurring after August 24, 2005, and before January 1, 2007, for an individual harmed by Hurricane Katrina is excluded from income even if the taxpayer is not insolvent. Excluded income reduces tax attributes.

- For business assets placed in service in the Hurricane Katrina Gulf Opportunity Zone (extreme southern parts of Louisiana, southern two-thirds of Mississippi and extreme western, southern two-thirds of Alabama) after August 27, 2005 and before January 1, 2008, for equipment and before January 1, 2009, for structures, a number of accelerated deductions were made available. The limit on 179 expensing of personal property was increased by $100,000, 50 percent bonus depreciation is allowed for tangible personal property, structures, and computer software, current deductions of up to $20,000 of reforestation expenses are allowed, and deductions for 50 percent of demolition and debris removal expenses are allowed. (The revenue effect of the 179 expensing would be lessened by the current Minnesota add-back of federal 179 expense in excess of $25,000).

- Expenses for oil and gas geological or geophysical purposes are required to be deducted ratably over two years. Old law allowed deduction when the project was abandoned or the wells were drilled. Effective for expenses incurred in tax years beginning after August 8, 2005.

- The deduction for the purchase of clean fuel vehicles and fueling equipment sunsets after 2005 instead of after 2006.

- The phase out of the deduction of itemized deductions for individuals with federal adjusted gross income of over $72,975 ($145,950 for married, filing joint) does not apply to cash charitable contributions made after August 27, 2005, and before January 1, 2006.

- An individual who lets an individual displaced by Hurricane Katrina live with them free of charge for at least 60 days in the tax year is allowed a deduction of $500 per individual housed for tax years 2005 and 2006. The $500 deduction is limited to $2,000 total and the same displaced person cannot be claimed by the same taxpayer for more than one tax year.

- The deductible mileage rate for the charitable use of a vehicle used by a volunteer providing charitable relief to Hurricane Katrina victims after August 24, 2005, and before January 1, 2007, is increased from 14 cents per mile to 70 percent of the business mileage rate (charitable rate will vary between 29 cents and 34 cents depending on the time. Also, reimbursement by charities to volunteers up to the above amounts will allow the exclusion of the reimbursement in Katrina volunteer's income.

- The ability to donate a business's food inventory to a charity and deduct the cost basis plus one-half the normal price mark-up as a business expense was expanded from just C corporations to any type of entity (sole proprietorship, partnership, or S corporation) in the food business for contributions made after August 27, 2005 and before January 1, 2006.

- The ability of a C corporation to donate book inventory to a 501(c)(3) charity and deduct the cost basis plus one-half the normal mark-up was expanded to include books donated to public schools effective for book donations made after August 27, 2005 in a tax year ending after August 28, 2005 and before January 1, 2006.

- The greater of ten percent of federal adjusted gross income or $100 floor on deducting personal casualty losses was removed for casualty losses caused by Hurricane Katrina, Rita, or Wilma.

Effective for losses arising after August 24, 2005, for Katrina losses, after September 22, 2005, for Rita losses, and after October 22, 2005, for Wilma losses.

Section 11. Federal Update of Credits and Individual Alternative Minimum Tax. Amends Minn. Stat. § 290.01, subd. 31, to incorporate the federal changes from the three federal acts which impact Minnesota income and franchise tax provisions that are not part of the computation of the regular tax. For the Minnesota alternative minimum tax on individuals, trusts, estates and C corporations, the new changes to federal adjusted gross income listed in section 8 will apply to the computation of Minnesota alternative minimum taxable income. Similarly, the definition of "household income" used in computing the Minnesota Dependent Care Credit and Education Credit will adopt the same federal changes. The federal earned income, credit which Minnesota uses in part in computing the Working Family Credit, was changed for the 2005 tax year to allow an individual who lived in the Hurricane Katrina, Rita, or Wilma disaster areas to elect to use their 2004 earned income rather than 2005 earned income in calculating their 2005 credit. Finally, the federal definition of "qualified research expenses" which Minnesota uses to compute the Minnesota C corporation Research and Development Credit was changed, effective for amounts paid or incurred after August 8, 2005, to allow 100 percent of amounts paid to small businesses, universities and federal labs for qualified energy research as a qualifying research expense (old law allowed only 65 percent of amount paid). All of these federal changes would be effective for Minnesota at the same time they became effective federally.

Section 18. Federal Update of Property Tax Refund. Amends Minn. Stat. § 290A.03, subd. 15, to incorporate the new federal changes to federal adjusted gross income into the definition of "household income" used to determine the Minnesota Property Tax refund available to homeowners and renters. The Minnesota changes to household income would be effective at the same time the federal changes were effective.

Section 19. Federal Update of Estate Tax. Amends Minn. Stat. § 291.005, subd. 1, to move the date through which Minnesota incorporates the federal estate tax to December 31, 2005. Since there has not been a federal change in the estate tax since the last update, this change does not have any substantive effect.

Section 24. Hurricane Katrina Relief. Adopts the Internal Revenue Services' position that employee leave donations to charities providing Hurricane Katrina relief do not generate adjusted gross income to the employee donating the leave. Effective for the 2005 and 2006 tax years.

Other Individual and Corporate Franchise Tax Changes

Section 9. Standard Deduction Increase for Married Taxpayers. Amends Minn. Stat. § 290.01, subd. 19a, to allow the same standard deduction the federal government currently allows for married taxpayers. Further the standard deduction used for computing the addition for state income taxes deducted federally is increased to the current federal standard deduction level. Effective for tax years beginning after December 31, 2005.

Sections 10 and 16. Military Pension Subtraction. Minn. Stat. §§ 290.01, subd. 19b and 290.091, subd. 2, are amended to allow a subtraction from income for the Minnesota individual regular and alternative minimum tax, respectively, for pension or retirement income that are received for service in the armed forces of the United States. For 2006, the maximum subtraction is limited to 25 percent of up to $30,000 of military retirement income. For 2007, 50 percent is allowed; for 2008, 75

percent is allowed; and for 2009 and thereafter, 100 percent of all the military retirement income is allowed as a subtraction. Effective for tax years beginning after December 31, 2005.

Section 12. Nonresident Ratio for Computing Tax. Amends Minn. Stat. § 290.06, subd. 2c, to remove the new military pension subtraction from both the numerator and denominator of the ratio used to calculate a part year or nonresident individual's Minnesota income tax. This section also clarifies that numerous Minnesota nonrefundable credits are either prorated by the nonresident ratio or allowed in full in the case of credits generated by only Minnesota activity. Effective for the tax years beginning after December 31, 2005.

Section 13. Dairy Investment Credit. Minn. Stat. § 290.06 is amended to add a subdivision allowing a new nonrefundable credit against the taxes imposed by Minn. Stat. ch. 290. The credit equals 10 percent of the first $500,000 of qualifying expenditures for improvement of buildings or facilities or acquisition of equipment used for dairy cattle in Minnesota. Qualifying expenditures include: barns; fences; watering facilities; feed storage and handling equipment; scales; milking; robotic, and milk storage equipment; and manure management facilities including digesters and energy production equipment.

The credit is nonrefundable and may only be used to offset liability. Unused credit amounts may be carried forward for up to 15 tax years.

A taxpayer may claim the credit for expenditures made between December 31, 2005 and January 1, 2012. The maximum credit is $50,000; this maximum applies to entities such as partnerships and S corporations as well as to individual taxpayers. Effective for tax years beginning after December 31, 2005.

Section 14. Marriage Credit Standard Deduction Conformity. Amends Minn. Stat. § 290.0675, subd. 1, to increase the standard deduction used to compute the marriage credit increase to the current level of federal standard deduction for married taxpayers. Effective for tax years beginning after December 31, 2005.

Section 15. Citizenship Credit. Minn. Stat. ch. 290 is amended to allow a new refundable credit for non-citizens of the United States whose "household income" as used for the Minnesota dependent care and education credits is $30,000 or less (husband and wife's income are combined even if separate returns are filed). The credit which is limited to $300 per year is available for "qualified expenses" paid between the time the taxpayer starts the citizenship process by filing the federal Application to Register Permanent Residence to the time the taxpayer becomes a citizen of the United States. "Qualified expenses" are fees paid for enrolling the taxpayer, spouse, or any dependent of the taxpayer over age 18 in an English language class and the fees paid (to the federal government) for the application and finger printing required when submitting the federal N-400 naturalization application. For non-residents and part-year residents of Minnesota, the $300 maximum is prorated using a ratio of Minnesota income to federal adjusted gross income. Effective for tax years beginning after December 31, 2005.

Section 17. Apportionment of Income; Single Factor. Amends Minn. Stat. § 290.191, subd. 2, to accelerate the phase-in period for the apportionment of income by a single factor, sales. Amendments to subd. 2 provide for a generally applicable single factor apportionment phased in over five years. Effective for tax years beginning after December 31, 2006.

Taxable Year beginning during calendar year	Current Sales Percent Factor	Proposed Sales Percent Factor
2007	78	80
2008	81	85
2009	84	90
2010	87	95
2011	90	100
2012	93	100
2013	96	100
2014 and later years	100	100

Sales and Use Tax

Section 20. Resort Construction Materials. Amends Minn. Stat. § 297A.71, by adding a sales and use tax exemption for construction materials and supplies used in physically expanding or making capital improvements to class 1c and 4c resorts, including any portion of a resort classified as class 3 commercial property. The exemption would be administered as a tax refund and is limited to $10,000 of tax per resort per calendar year. The tax must first be paid, after which the owner may file a refund claim with the Department of Revenue. Effective for sales and purchases made after June 30, 2006.

Sections 21, 22, and 23. Refunds for Resorts. Amends Minn. Stat. § 297A.75, subds. 1, 2, and 3, to provide a mechanism for resorts to file sales tax refund claims and to provide that the refund claims must be filed by the resort owners. Effective for sales and purchases made after June 30, 2006.