# MINNESOTA · REVENUE

**Governor's Supplemental Tax Bill**

March 25, 2013

See Separate Analysis for Property Tax,
Local Aids, and Property Tax Refund Provisions

| | Yes | No |
|---|---|---|
| **DOR Administrative Costs/Savings** | X | |

Department of Revenue
Analysis of H.F. 677 (Lenczewski) / S.F. 552 (Skoe), As Amended by A13-0294

| | **Fund Impact** | | | |
|---|---|---|---|---|
| | **F.Y. 2014** | **F.Y. 2015** | **F.Y. 2016** | **F.Y. 2017** |
| | | (000's) | | |
| **Individual Income Tax** | | | | |
| Add Fourth Bracket at 9.85% | $592,500 | $526,400 | $554,300 | $590,300 |
| Part-Year Residents Maintaining an Abode in Minnesota | $15,000 | $15,000 | $15,000 | $15,000 |
| Subtotal: Individual Income Tax | $607,500 | $541,400 | $569,300 | $605,300 |
| **Corporate Franchise Tax** | | | | |
| Repeal Foreign Royalty Subtraction | $111,600 | $77,600 | $77,300 | $78,400 |
| Repeal FOC Provisions | $25,800 | $18,200 | $18,200 | $18,500 |
| Interaction | $2,000 | $2,000 | $2,000 | $2,000 |
| Subtotal: FOC and Foreign Royalty | $139,400 | $97,800 | $97,500 | $98,900 |
| Definition of Minnesota Sales | $26,000 | $20,000 | $20,000 | $20,000 |
| Foreign Partnership Income | $6,000 | $6,000 | $6,000 | $6,000 |
| Economic Substance Test | $100 | $300 | $750 | $1,000 |
| Eliminate Dividend Received Deduction for REIT Dividends | $1,000 | $1,000 | $1,000 | $1,000 |
| Index Minimum Fee for Inflation | $9,300 | $9,400 | $9,600 | $9,800 |
| Subtotal: Corporate Franchise Tax | $181,800 | $134,500 | $134,850 | $136,700 |
| **Federal Tax Conformity*** | | | | |
| Individual Tax | ($19,670) | ($8,725) | ($18,180) | ($23,105) |
| Corporate Tax | ($855) | $13,655 | ($1,175) | ($8,580) |
| Subtotal: Federal Tax Conformity | ($20,525) | $4,930 | ($19,355) | ($31,685) |
| **Sales and Use Tax** | | | | |
| Affiliate Nexus | $4,300 | $5,400 | $5,940 | $6,520 |
| Motor Vehicle Rental Tax Rate Increase from 6.2% to 9.2% | $7,300 | $7,700 | $8,100 | $8,400 |
| Subtotal: Sales Tax | $11,600 | $13,100 | $14,040 | $14,920 |

*See pages 7 and 8 for details by tax provision.

| | Fund Impact | | | |
|---|---|---|---|---|
| | **F.Y. 2014** | **F.Y. 2015** | **F.Y. 2016** | **F.Y. 2017** |
| | (000's) | | | |
| **Cigarette and Tobacco Taxes** | | | | |
| Cigarette Excise Tax Rate Increase from 48¢ to $1.42 per pack | $153,000 | $165,800 | $165,400 | $164,200 |
| Sales Tax on Cigarettes | $1,100 | $1,200 | $1,200 | $1,300 |
| Cigarette Floor Stocks Tax | $17,900 | $0 | $0 | $0 |
| Tobacco Excise Tax Rate Increase from 35% to 55% of Wholesale Price | $11,800 | $13,400 | $13,900 | $14,500 |
| Sales Tax on Tobacco Products | $400 | $400 | $400 | $500 |
| Subtotal: Cigarette and Tobacco Taxes | $184,200 | $180,800 | $180,900 | $180,500 |
| **General Fund Total** | $964,575 | $874,730 | $879,735 | $905,735 |
| ***OTHER FUNDS*** | | | | |
| **Natural Resources and Arts Funds** | | | | |
| Affiliate Nexus | $260 | $309 | $339 | $379 |
| Sales Tax on Tobacco Products | $21 | $21 | $21 | $30 |
| **Natural Resources and Arts Funds Total** | $281 | $330 | $360 | $409 |
| **Health Impact Fund** | | | | |
| Cigarette Fee | ($21,700) | ($23,000) | ($23,100) | ($22,400) |
| Tobacco Fee | ($1,600) | ($1,800) | ($1,900) | ($2,000) |
| **Health Impact Fund Total** | ($23,300) | ($24,800) | ($25,000) | ($24,400) |
| **Total – All Funds** | $941,556 | $850,260 | $855,095 | $881,744 |

## EXPLANATION OF THE BILL

A summary prepared by the Appeals and Legal Services Division of the Department of Revenue is attached.

## REVENUE ANALYSIS DETAIL

***Add Fourth Individual Income Tax Bracket at 9.85%***

- The House Income Tax Simulation (HITS 6.1) Model was used to estimate the tax year revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2013. The model uses a stratified sample of 2010 individual income tax returns compiled by the Minnesota Department of Revenue.
- All of tax year 2013 revenue is allocated to fiscal year 2014. In allocating other tax years to fiscal years, a standard formula was applied.
- For tax year 2013 an estimated 69,000 returns (2.6% of all returns) would have an average increase in tax of $6,315 per return. For Minnesota full-year residents, an estimated 54,400 returns (2.1% of all full-year resident returns) would have an average increase in tax of $7,168 per return.

***Part-Year Residents Maintaining an Abode in Minnesota***

- Owners of Minnesota residential property with addresses in another state were identified from county property tax records. Apartments were excluded, as was any owner who filed as a Minnesota resident in 2009.
- To estimate potential tax liability, owners were matched to the last five years of Minnesota income tax records.
- Total potential tax liability was calculated for those who matched and had an address in a state with no income tax. (Florida and Texas accounted for 91% of the total.)
- Half of those owners were assumed to spend at least 60 days in Minnesota. Those who reached the 60-day threshold were assumed to spend an average of 120 days in Minnesota.
- An identified owner from a no-income-tax state who did *not* match income tax records was assumed to yield only 40% as much revenue as one who did match (because such owners likely have less connection to the state).
- The estimate was adjusted for owners from states with an income tax. These owners would on average pay less tax to Minnesota because they are assumed to claim a credit for taxes paid to their home state.
- The estimate was increased by 14% to include counties with missing or incomplete data.
- The estimate was reduced by 20% to remove those whose identified property was rental property or whose property is for sale.

**REVENUE ANALYSIS DETAIL (Cont.)**

***Repeal Foreign Royalty Subtraction and Foreign Operating Corporation Provisions***

- The estimates are based on corporate income tax data for returns received in calendar year 2012. This is the latest available data.
- The revenue estimate is adjusted downward to reflect the effect of the phase-in to 100% sales weighting in tax year 2014.
- The revenue gain is assumed to match the growth of corporate franchise tax collections in the February 2013 revenue forecast.
- The estimates include the interaction that reflects the combined effect of repealing the foreign royalty subtraction and the FOC provisions.
- All of tax year 2013 was allocated to fiscal year 2014. Other tax years were allocated 30/70 to fiscal years.

***Definition of Minnesota Sales***

- Estimates are based on analysis of data from returns filed in 2007 and in 2010. The tax was recomputed on unitary groups likely to be affected by the proposal.
- All of tax year 2013 was allocated to fiscal year 2014. Other tax years were allocated 30/70 to fiscal years.

***Foreign Partnership Income***

- The revenue impact from the proposal is difficult to predict. If the foreign entities in question have large amounts of income, the law change could generate a revenue gain. However, if the foreign entities have large amounts of losses, the law change could generate a revenue loss. It is assumed that the foreign entities in question are very profitable.
- The revenue gain estimate is based on estimates made in response to the Manpower case and increased to reflect all foreign partnership income.

***Economic Substance Test***

- Revenue estimates made by the Joint Committee on Taxation were used to measure activities affected by the proposal.
- The estimate assumes most of the revenue gain will be delayed until corporate taxpayers are audited in fiscal years 2016 and 2017.

**REVENUE ANALYSIS DETAIL (Cont.)**

***Eliminate Dividend Received Deduction for REIT Dividends***

- The revenue impact from the proposal is based on an analysis of statistics from the IRS on the amount of dividends earned by corporations. REIT dividends are reported as other dividends on Form 1120, Schedule C. The difference between total dividend income and the sum of dividends reported by various categories represents an estimate of the other dividend income.
- It is assumed that most of the other dividend income is dividends from REITs and Regulated Investment Companies (RICs). IRS statistics indicate that about 25% of the combined income from RICs and REITs is earned by REITs. As such, it is assumed that 25% of the estimated other dividends income is earned by REITs.
- The nationwide total of REIT dividends received by corporations was apportioned to Minnesota.
- The dividend received deduction is 80% of the total dividends received by corporations.
- The revenue gain from the proposal was reduced by 10% to reflect that corporations with an overall loss do not fully benefit from the dividend received deduction.

***Index Minimum Fee and Bracket Amounts***

- Tax year 2013 fee and the factor brackets would be changed to reflect the effects of inflation since the minimum fee was first imposed in tax year 1990. The 2013 fee and factor brackets were computed using the same method used to index the tax brackets for the individual income tax.
- Starting with tax year 2014, the proposal requires the fee and brackets to be indexed to reflect the effects of inflation based on the Consumer Price Index, with tax year 2013 as the base year. The indexing method used to compute the fee and factor brackets is the same method used to index tax brackets for the individual income tax.
- Currently about 85,000 entities pay the minimum fee. Under the proposal, about 43,000 entities would have an increase in the fee, and about 42,000 would have a decrease in the fee, including about 17,000 business entities whose minimum fee would be reduced to zero.
- Revenue gain estimate is based on tax year 2009 data, projected to tax year 2013.
- Growth is estimated at 80% of inflation, as projected in the February 2013 forecast.
- Tax year impact was allocated to the following fiscal year.

***Federal Conformity***

- The House Income Tax Simulation Model was used for the working family credit.
- For other provisions, the estimates are based on the estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation, dated January 1, 2013.
- Where applicable, the estimates were divided between the individual income tax and corporate franchise tax. The estimates for each provision were apportioned to Minnesota based on information relevant to that provision. The estimates were adjusted for the difference between federal and state tax rates and federal and state fiscal years.

**REVENUE ANALYSIS DETAIL (Cont.)**

***Affiliate Nexus, Sales and Use Tax***

- The revenue estimate was based on first-quarter tax collections from Illinois, which has a law similar to this bill. The Illinois law became effective July 1, 2011.
- The first-quarter collections were increased by 50% to account for an early lag in return filing and conforming to the new provision. The estimate was adjusted for the difference in sales tax rates in the two states and for the difference in the Illinois and Minnesota shares of U.S. personal income.
- Census Bureau data show that from 2002 to 2007 the annual growth of electronic retail sales was about 23%. After leveling off in 2008, growth has been about 15% from the fourth quarter of 2009 to the fourth quarter of 2012. A 15% annual growth rate was assumed through fiscal year 2015, and 10% growth was used for fiscal years 2016 and 2017.
- The FY 2014 estimate was adjusted for the effective date of July 1, 2013.
- In Illinois and New York State (which also has a similar law), all of the prominent national "e-tailers" have dropped their solicitor arrangements. The estimates assume that a similar business response would also occur in Minnesota.

***Motor Vehicle Rental Tax Rate Increase from 6.2% to 9.2%***

- The February 2013 forecast for the 6.2% motor vehicle rental tax is the base for the estimates.
- The 6.2% car rental tax generated $14.2 million in fiscal year 2012.
- Given the effective date (June 1, 2013), fiscal year 2014 includes 12 months of collections.

***Cigarette and Tobacco Excise Tax Rate Increases***

- February 2013 forecast amounts for cigarette and tobacco tax and fee collections are used.
- An average retail price per pack of $6.12 is estimated for fiscal year 2014, based on survey data from the Department of Revenue Special Taxes Division. The price is estimated to increase by 2% per year.
- For fiscal year 2014, sales of 224,150,000 packs of cigarettes are estimated under current law. For the 94¢ per pack tax increase, an elasticity factor of -0.785 is applied, reducing the number of packs sold to 193,050,000. This is a reduction of 31,100,000 packs.
- The decline in sales of cigarette and tobacco products reduces revenue collected from the Health Impact Fees.
- The cigarette floor stocks tax is based on 19 million packs.
- For the tax increase to 90% (from 70%) on the wholesale price of tobacco products, an elasticity factor of -0.60 is applied to the initial total wholesale amount of $81,710,000.
- Fiscal year 2014 estimates are adjusted for eleven months of collections.
- There are approximately 175 wholesalers of other tobacco products and 50 wholesalers of cigarettes in Minnesota. Also, there are about 9,000 retailers of tobacco products.

Source: Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx

| | Fund Impact | | | |
|---|---|---|---|---|
| | **F.Y. 2014** | **F.Y. 2015** | **F.Y. 2016** | **F.Y. 2017** |
| | (000's) | | | |
| ***Federal Conformity Provisions*** | | | | |
| For the Working Family Credit, Increase the Phaseout Range for Married-Joint Filers by $5,000, Indexed (tax years 2013 - 2017) | ($17,100) | ($17,300) | ($17,600) | ($17,900) |
| Parity for Exclusion of Employer-Provided Mass Transit and Parking Benefits (tax year 2013) | (Negl.) | $0 | $0 | $0 |
| Special Rule for Contributions of Qualified Conservation Property (tax year 2013) | ($320) | ($30) | ($20) | ($10) |
| Tax-Free IRA Distributions, up to $100,000, to Certain Public Charities for Individuals Age 70 ½ and Older (tax year 2013) | ($2,520) | ($120) | ($120) | ($120) |
| 15-Year Straight-Line Depreciation for Qualified Leasehold, Restaurant, and Retail Improvements (tax year 2013) | | | | |
| Individual Income Tax | ($400) | ($300) | ($300) | ($300) |
| Corporate Franchise Tax | ($650) | ($500) | ($500) | ($500) |
| 7-Year Recovery Period for Certain Motorsports Racing Track Facilities (tax year 2013) | | | | |
| Corporate Franchise Tax | ($60) | ($10) | ($5) | ($5) |
| Accelerated Depreciation for Business Property on Indian Reservations (tax year 2013) | | | | |
| Individual Income Tax | ($500) | ($100) | $50 | $120 |
| Corporate Franchise Tax | ($435) | ($80) | $45 | $100 |
| Increased Section 179 Expensing, with 80% Addback and 5-Year Recovery (tax year 2013) | | | | |
| Individual Income Tax | $1,200 | $3,700 | $100 | ($1,700) |
| Corporate Franchise Tax | $450 | $1,600 | $50 | ($700) |

| | Fund Impact | | | |
|---|---|---|---|---|
| | F.Y. 2014 | F.Y. 2015 | F.Y. 2016 | F.Y. 2017 |
| | (000's) | | | |
| ***Federal Conformity Provisions (Cont.)*** | | | | |
| Election to Expense Mine Safety Equipment (tax year 2013) | | | | |
| Corporate Franchise Tax | ($20) | Negl. | Negl. | Negl. |
| Special Expensing Rules for Certain Film and Television Productions (tax year 2013) | | | | |
| Individual Income Tax | ($450) | $55 | $40 | $35 |
| Corporate Franchise Tax | ($340) | $45 | $35 | $25 |
| Exception under Subpart F for Active Financing Income (tax year 2013) | | | | |
| Corporate Franchise Tax | ($1,700) | $0 | $0 | $0 |
| Increase from 50% to 100% the Exclusion of Gain on Certain Small Business Stock (acquired 1/1/13 – 12/31/13)* | $0 | $0 | $0 | $0 |
| Basis Adjustment to S Corporation Stock for Charitable Contributions of Property (tax year 2013) | ($380) | ($30) | ($30) | ($30) |
| 50% Bonus Depreciation, with 80% Addback and 5-Year Recovery (tax year 2013) | | | | |
| Individual Income Tax | $800 | $5,400 | ($300) | ($3,200) |
| Corporate Franchise Tax | $1,900 | $12,600 | ($800) | ($7,500) |
| **Individual Income Tax** | ($19,670) | ($8,725) | ($18,180) | ($23,105) |
| **Corporate Franchise Tax** | ($855) | $13,655 | ($1,175) | ($8,580) |
| **Subtotal** | ($20,525) | $4,930 | ($19,355) | ($31,685) |

* Revenue loss occurs after FY 2017.

# 2013 GOVERNOR'S TAX BILL DELETE ALL AMENDMENT

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

## ARTICLE 1: INCOME AND FRANCHISE TAX

**Sections 1, 3, 4, 5, 9, 13 and 20. Foreign operating corporation deduction.** Amends Minn. Stat. §§ 289A.08, subd. 3; 290.01, subd. 19b; 290.01, subd. 19c; 290.01, subd. 19d; 290.0921, subd. 3; and 290.17, subd. 4; and repeals Minn. Stat. §§ 290.01, subd. 6b and 290.0921, subd. 7. This bill eliminates the foreign operating corporation (FOC) provisions of the corporate franchise tax. Under current law, 80% of FOC income can be claimed as a dividend received deduction. This bill results in FOC income being taxed on the same basis as other income of corporations. Effective for taxable years beginning after December 31, 2012.

**Section 2. Definition of Minnesota resident.** Amends Minn. Stat. § 290.01, subd. 7, to create a new class of individual taxpayer called a "part year resident" which are individuals who are domiciled outside of Minnesota and are not physically present in Minnesota for over 182 days but are physically present in Minnesota for more than 60 days while they were domiciled outside Minnesota and maintain an abode in Minnesota for over one-half the year. Like the current 183 day provision, the new 60 day resident provision does not apply to individuals in the military, workers in the interstate transportation industries whose wages are federally preempted from state tax other than their state of domicile or individuals domiciled in states with which Minnesota has income tax reciprocity. For purposes of this change, days spent in Minnesota for medical treatment of the taxpayer, the taxpayer's spouse, children, or parents are not counted as days spent in Minnesota. Effective for taxable years beginning after December 31, 2012, except days spent in Minnesota prior to the date of enactment are not counted.

**Sections 5, 9, 11, 13, 14 and 19. Foreign royalty subtraction.** Amends Minn. Stat. §§ 290.01, subd. 19d; 290.0921, subd. 3; 290.095, subd. 2; 290.17, subd. 4; 290.191, subd. 5; and 298.01, subd. 3b. This bill eliminates the subtraction for foreign royalty income. Under current law, the subtraction is 80% of royalties received from foreign corporations. This bill results in foreign-royalty income being taxed on the same basis as other income of corporations. Effective for taxable years beginning after December 31, 2012.

**Section 6. Individual income tax rate increase.** Amends Minn. Stat. § 290.06, subd. 2c, to add a new top individual income tax rate of 9.85% for married couples filing a joint return with taxable income over $250,000; for single taxpayers with income over $150,000; and for heads of household with income over $200,000. The 9.85% rate also applies to married taxpayers filing separate returns and fiduciary income tax returns of trusts and estates with income over $125,000. The new top rate will also apply to the composite income tax returns, withholding from pari-mutuel winnings and backup withholding under Minn. Stat. §§ 289A.08, subd. 7 and 290.92, subds. 26 and 27, respectively. Also makes non-substantive changes to the 5.35%, 7.05% and 7.85% brackets so that those bracket amounts reflect the actual inflation adjusted dollar amounts applicable for 2013. Effective for taxable years beginning after December 31, 2012.

**Section 7. Indexing of income tax brackets for inflation.** Amends Minn. Stat. § 290.06, subd. 2d, to provide that the new 9.85% bracket, as well as the other brackets (which are updated for inflation in the changes to section 290.06, subd. 2c), are adjusted for inflation beginning in 2014. Effective for taxable years beginning after December 31, 2013.

**Section 8. Credit for taxes paid to another state for new part year residents.** Amends Minn. Stat. § 290.06, subd. 22, to allow the new class of "part year residents" the credit for taxes paid another state as if they were a 183 day resident. Effective for taxable years beginning after December 31, 2012.

**Section 10. Minimum fee.** Amends Minn. Stat. § 290.0922, subd. 1, to increase the minimum fee amounts and thresholds for corporations, partnerships, and S corporations by adjusting for inflation as measured by the consumer price index, from the year in which the original fee amounts were set. The lowest fee under present law of $100 increases to $190. The highest fee under present law of $5,000 increases to $9,340. The threshold at which these fees apply increase from $500,000 (for the lowest fee) to $930,000 and from $20 million (for the highest fee) to $37.36 million. Paragraph "(c)" is also added, directing the commissioner to annually adjust the minimum fee amounts and thresholds for inflation. Effective for taxable years beginning after December 31, 2012.

**Section 12. Allocation of income to Minnesota by new part year residents.** Amends Minn. Stat. § 290.17, subd. 1, to provide that "part year residents" allocate their income to Minnesota as nonresident except that a pro rata share of the income not allocated to Minnesota as a nonresident, and recognized while they maintained an abode in Minnesota, is allocated to Minnesota. The pro rata share is the ratio of the days the part year resident was physically present in Minnesota while domiciled elsewhere over the days the individual maintained an abode in Minnesota. Effective for taxable years beginning after December 31, 2012.

**Section 13. Apportionable income, foreign entities.** Amends Minn. Stat. § 290.17, subd. 4, to require that taxpayers with distributive share income from foreign pass-through entities and foreign disregarded entities include that distributive share income in Minnesota "net income." This treatment conforms to federal law and resolves the conflict between the holding in *Manpower, Inc. v. Commissioner of Revenue*, 724 N.W.2d 526 (Minn. 2006), and Minn. Stat. §§ 290.01, subd. 19, and 290.17, subd. 4. Effective for taxable years beginning after December 31, 2012.

**Section 13. Unitary business attribution.** Amends Minn. Stat. § 290.17, subd. 4, providing that all sales of a unitary business made within Minnesota must be included in the sales factor of a corporation that is both a member of the unitary group and subject to the corporate franchise tax. Effective for taxable years beginning after December 31, 2012.

**Section 15. REIT dividend received deduction.** Amends Minn. Stat. § 290.21, subd. 4. Under federal law, a corporation that receives dividends from a real estate investment trust (REIT) cannot take the federal dividend received deduction. Unlike federal law, current Minnesota law contains no similar prohibition. This bill conforms the Minnesota dividend received deduction to federal treatment of REIT dividends. Effective for taxable years beginning after December 31, 2012.

**Section 16. Increased exemptions for renters.** Amends Minn. Stat. § 290A.03, subd. 3 to increase the subtractions allowed for persons who claim rent refunds. The subtractions, which are based on a multiple of the federal income tax exemption amount for a dependent, are increased by one tenth of the exemption amount for each dependent, to

1.5 times the exemption amount for the first dependent,
1.4 times the exemption amount for the second dependent,

1.3 times the exemption amount for the third dependent
1.2 times the exemption amount for the fourth dependent
1.1 times the exemption amount for the fifth dependent.

The subtraction for renters who are over age 65 or disabled is increased from the exemption amount to 1.5 times the exemption amount. Finally, married renters living in the same homestead who are both over age 65 and/or disabled will get an additional subtraction equal to the exemption amount. Effective for refunds based on rent paid after December 31, 2012.

**Section 17. Increase rent refund by lowering copays and increasing maximum refunds.** Amends Minn. Stat. § 290A.04, subd. 2a to lower by five percentage points the copay amounts that most renters must pay in calculating their rent refund. Also makes nonsubstantive changes to the rent refund income brackets and the maximum refunds available at all income brackets to account for the annual inflation adjustments that have been made since the rent refund schedules were last amended in 2001, and then increases the maximum refunds available at all income brackets by 10%. Effective beginning with refunds based on rent constituting property taxes paid after December 31, 2013.

**Section 18. Inflation adjustments for rent refunds.** Amends Minn. Stat. § 290A.04, subd. 4 to provide that the income brackets and maximum refunds in the rent refund schedule will be annually adjusted for inflation beginning with refunds based on rent paid in 2014. This is a nonsubstantive change that is necessitated by the changes to the rent refund schedules discussed above.

## ARTICLE 2: PROPERTY TAX

### CITY LOCAL GOVERNMENT AID

**Section 1. City Revenue Need.** Amends Minn. Stat. § 477A.011, subd. 34, to change the definition of a city's per capita "city revenue need" factor to equal the sum of the three new factors: (1) the city's public safety and streets need factor, (2) the city's pre-1970 housing need factor, and (3) the city's exempt parcels need factor. Effective for aid payable in 2014 and thereafter.

**Section 2. City Aid Base.** Amends Minn. Stat. § 477A.011, subd. 36 – i.e., city aid bases – to eliminate the aid minimums for non-metro regional centers (i.e., cities with 10,000 or more population), and obsolete provisions. Effective for aid payable in 2014 and thereafter.

**Section 3. Public Safety and Streets Need Factor.** Amends Minn. Stat. § 477A.011, by adding the new subd. 44, defining each city's per capita "public safety and streets need factor" as a dollar amount, rounded to the nearest cent, equal to the sum of: (1) $200; plus (2) 15 cents per person for the first 1,000 of the city's population; plus (3) 0.08 cents per person for the next 99,000 of the city's population; plus (4) 0.025 cents per person for the city's population over 100,000. Effective for aid payable in 2014 and thereafter.

**Section 4. Pre-1970 Housing Need Factor.** Amends Minn. Stat. § 477A.011, by adding the new subd. 45, defining each city's per capita "pre-1970 housing need factor" as a dollar amount, rounded to the nearest cent, equal to the product of: (1) $1.30; times (2) the percentage of housing units in the city built before 1970. The housing counts used are from the 2010 federal census. Effective for aid payable in 2014 and thereafter.

**Section 5. Exempt Parcels Need Factor.** Amends Minn. Stat. § 477A.011, by adding the new subd. 46, defining each city's per capita "exempt parcels need factor" as a dollar amount, rounded to the nearest cent, equal to the product of: (1) $65; times (2) the percentage of exempt parcels in the city. The factor is capped at $130, which corresponds to a maximum percentage of 2%. The parcel counts used are from statewide data on the 2010 assessment. And, for this purpose, "exempt parcels" do not include: (1) certain city-owned parcels – i.e., public service enterprise parcels used for municipal light and water plants, telephone systems, municipal liquor stores, airport leaseholds, fee-based parking lots and structures, city-owned non-enterprise parcels used for airport, library, fire department, seasonal leases, unfinished sale or rental projects, skyways, parking lots and structures, recreational, railway, or other purposes that were included in category 0850 or 0860 of the 2010 abstract of assessment of exempt real property; and, (2) parcels of bare land (i.e., less than $5,000 of building value). Effective for aid payable in 2014 and thereafter.

**Section 6. City Formula Aid.** Amends Minn. Stat. § 477A.013, subd. 8, to change the definition of "city formula aid" to equal the city's unmet need amount times that year's funding ratio. Unmet need is defined in the existing § 477A.011, subd. 43, as the difference between (1) the city's per capita "city revenue need" factor times its population, minus (2) the statewide average city tax rate times the city's equalized tax base. Additional language clarifies that the existing directive, that the data used to calculate aid under this section is limited to that available on January 1 of the year the aid is calculated, applies even though other relevant dates appear in statutory provisions related to the definitions of population, net tax capacity, and tax effort rate. Effective for aid payable in 2014 and thereafter.

**Section 7. City Aid Distributions.** Amends Minn. Stat. § 477A.013, subd. 9, which defines the annual city local government aid distribution amounts for each city. The significant changes are that, for 2014, any city that got aid in 2013 will receive at least a $30 per capita aid increase, and aid changes for 2015 and thereafter are capped at $10 per capita. City aid decreases continue to be capped at $300,000 if the appropriation in § 477A.03, subd. 2a for the year is equal to or larger than the appropriation for the prior year. Obsolete provisions are eliminated. Effective for aid payable in 2014 and thereafter.

**Section 8. Annual Appropriation Aid to Cities.** Amends Minn. Stat. § 477A.03, subd. 2a, to increase the amount of the annual appropriation for local government aid to cities under Minn. Stat. § 477A.013 by $80 million. Effective for aid payable in 2014 and thereafter.

## OTHER

**Section 9. County Program Aid.** Amends Minn. Stat. § 477A.03, subd. 2b(a), to increase the amount of the annual appropriation for county need aid under Minn. Stat. § 477A.0124, subd. 3, by $20 million. Amends Minn. Stat. § 477A.03, subd. 2b(b), to increase the amount of the annual appropriation for county equalization aid under Minn. Stat. § 477A.0124, subd. 4, by $20 million. Effective for aid payable in 2014 and thereafter.

**Section 10. Repealers.**
The following city and county aid-related provisions will be obsolete, and are repealed:

- Minn. Stat. § 477A.011, subds.
  - 2a ("Special tax district")
  - 27 ("Revenue Base")
  - 29 ("Adjusted Revenue Base")

  - 31 (“Population decline percentage”)
  - 32 (“Commercial industrial percentage”)
  - 33 (“Transformed population”)
  - 39 (“Road accidents factor”)
  - 40 (“Metropolitan area factor”)
  - 41 (“Small city aid base”)
  - 42 (“City jobs base”)
- Minn. Stat. § 477A.0124, subd. 1 (CY 2004 County Program Aid)
- Minn. Stat. § 477A.013, subds.
  - 11 (“Aid payments in 2011 and 2012”)
  - 12 (“Aid payments in 2013”)
- Minn. Stat. § 477A.0133 (“2009 and 2010 Aid Reductions”)
- Minn. Stat. § 477A.0134 (“Additional 2010 Aid and Credit Reductions”).

Effective for aid payable in 2014 and thereafter.

## ARTICLE 3: 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” (FAGI) for household income used for the Minnesota dependent care credit, education credit, and property tax refund; and “earned income” for the working family credit.

As a result of 2013 Laws of Minnesota chapter 3, which adopted changes to the Internal Revenue Code that applied to tax year 2012 only, current Minnesota law references these federal concepts as amended through January 3, 2013 for tax years beginning before January 1, 2013, and through April 14, 2012 for tax years beginning after December 31, 2012.

The bill proposes to change all of the reference dates to March 15, 2013 for tax years beginning after December 31, 2012.

All of the substantive changes made to the Code and adopted in this bill were made in the American Taxpayer Relief Act of 2012 (Public law 112-240) which was signed into law by President Obama on January 3, 2013.

While all references to the Internal Revenue Code are being updated though March 15, 2013, many of the federal changes will not be incorporated into Minnesota law as a result of Minnesota specific modifications. These modifications will affect the computation of taxable income, and the computation of the Minnesota child and dependent care credit, education credit and property tax refund as well as unrelated business income tax payers and s-corporations with built in capital gains.

**Section 1. Federal update to Minnesota administrative provisions.** Amends Minn. Stat. §289A.02, subd. 7 to incorporate the federal administrative provisions as defined in the Internal Revenue Code through March 15, 2013. While effective the day following final enactment, this does not have any substantive effect.

**Section 2. Minnesota net income.** Amends Minn. Stat. § 290.01, subd. 19 to adopt a number of temporary changes made to federal taxable income since April 14, 2012. Most of these changes relate to the timing of deductions or depreciation expensing. Most other changes made to federal taxable income since April 14, 2012 are not being incorporated into Minnesota law.

The changes being adopted include:
The ability of taxpayers age 70½ or older to exclude from gross income up to $100,000 of their distributions from an Individual Retirement Account that are made directly to charitable organizations, which was extended through 2013. The amount excluded is not allowed as a charitable deduction.

The ability of U.S. shareholders with a 10% or greater interest in a controlled banking or financing corporation to defer recognition of active income earned by the corporation but not distributed to the shareholder was extended to tax years beginning before January 1, 2014.

The ability to expense the first $15 million of production costs of films and television shows was extended to 2013.

The ability to depreciate leasehold improvements, qualified restaurant property and improvements to retail property over 15 years (rather than 39 years) was extended to property placed in service in 2013.

The ability to use accelerated depreciation of qualified Indian reservation property was extended to property placed in service in 2013.

The basis adjustment to S corporation stock when the S corporation donates appreciated property, which is equal to the tax basis of the property rather than the fair market value, was extended to contributions made in taxable years beginning in 2013.

The special rules to encourage charitable contributions of real property for conservation purposes are extended for an additional two years for contributions made in tax years beginning in 2013.

The ability to depreciate certain motorsports entertainment complex property over 7 years rather than 15 or 39 years was extended to property placed in service in 2013.

The ability to expense 50% of the cost of advanced mine safety equipment was extended to equipment placed in service 2013.

For benefits paid in 2013, employers can provide the same amount of tax free fringe benefit to their employees for qualified transportation fringe benefits that the employer provides through transit passes and vanpooling as the employer provides to employees as a tax free parking benefit. The maximum excludable benefit is around $245 per month

The percentage exclusion for gain from the sale of qualified small business stock sold by an individual is increased from 50% to 100% for qualified original issue C corporation stock acquired in 2013. The exclusion applies to certain stock purchased in businesses with less than $50 million of assets that is held for at least five years

Some of the changes not being adopted were enacted as permanent changes to the Internal Revenue Code while others were adopted only through the end of 2013.

The federal changes not being adopted which were enacted as permanent changes to the Internal Revenue Code include:

Increased standard deduction for married filers.
Increased thresholds for phase outs of itemized deductions and personal exemptions.
Increased income phase out for the student loan interest deduction.
Increased contribution limit for education savings accounts and allowing use of education savings accounts for elementary and secondary school expenses.
Exclusion of up to $5,250 of employer-provided educational assistance.
Exclusion of awards under the National Health Service Corps scholarship program and related awards for health-care professionals.
Exclusion for employer provided adoption assistance.

The federal changes not being adopted which were enacted as temporary changes to the Internal Revenue Code through the end of 2013 include:

Mortgage insurance premiums deduction.
Discharge of indebtedness income on principal residence.
Enhanced deductibility of contributions of food.
Higher education tuition deduction.
Educator classroom expense deduction.

Minnesota will not fully conform to the extension of two changes to the Code that Minnesota has not conformed to in the past. They are:

Increase 179 expensing for property placed in service in 2013. For federal purposes, the maximum section 179 expensing amount and phase-out threshold for property placed in service in tax year 2013 was increased to $500,000 (from $25,000) and $2 million (from $200,000). However, Minnesota will continue to treat all of the enhanced 179 expensing as it has treated other recent federal expansions of federal 179 expensing. This means taxpayers will be required to include 80% of the additional expensing in Minnesota taxable income, with a subtraction equal to 20% of the addition amount in each of the next five years. The additions and subtractions dealing with this type of 179 expensing are already part of permanent Minnesota law and therefore are not being amended in this bill.

50% bonus depreciation for property placed in service in 2013 or in 2014 for certain airline property or other long term production property. Minnesota will continue to treat all of the bonus depreciation as it has treated other recent federal bonus depreciation. This means taxpayers will be required to include 80% of the bonus in Minnesota taxable income, with a subtraction equal to 20% of the addition amount allowed in each of the next five years. The additions and subtractions dealing with this type of bonus depreciation are already part of permanent Minnesota law and therefore are not being amended in this bill.

Also removes obsolete language related to tax year 2012 that were added by 2013 Laws of Minnesota chapter 3. This language is obsolete because this bill will adopt all of the changes to tax year 2012 that were made in that Law.

All of the provisions are effective for Minnesota purposes at the same time as they are effective for federal purposes.

**Section 3. Minnesota individual income tax additions.** Amends Minn. Stat. §290.01, subd. 19a to make numerous changes to the additions to federal taxable income required in the computation of Minnesota tax. They are as follows:

The changes to clause (2) relate to the addback of certain itemized deductions allowed in the computation of federal taxable income. Under current law, taxpayers are required to add to income the amount of their federally deducted state income tax or sales tax in excess of the standard deduction for their filing status (minus a modification for an existing standard deduction addition for married filers). Under the change, taxpayers will also be required to addback to their standard deduction the amount of itemized deductions claimed as mortgage insurance premiums and the amount of an enhanced charitable deduction for food that allows businesses, other than C-corporations, to take a deduction for contributions to a charity equal to the cost basis plus one-half the normal price mark-up of food inventory (rather than just the basis).

The bill clarifies that the new additions for mortgage insurance premiums and charitable contributions are also among the last itemized deductions lost under the existing addition for the phase out of itemized deductions. The bill also removes obsolete language related to additional standard deductions for taxes on new cars and adds language clarifying that the Minnesota sales tax is imposed under chapter 297A.

The change to clause (12) requires taxpayers to include in income beginning in 2013 the amount of tuition expenses deducted in the computation of federal adjusted gross income. The maximum deduction is $4,000 for taxpayers with adjusted gross income up to $65,000 ($130,000 for married joint filers), and $2,000 for taxpayers with adjusted gross income over $65,000 but less than $80,000 ($130,000 to $160,000 for married joint filers).

The change to clause (13) requires taxpayers to include in income beginning in 2013 the amount of K-12 educator expenses deducted in the computation of federal adjusted gross income. The maximum federal deduction is $250 per educator.

The changes to clause (19) are non-substantive and relate to obsolete references to the Internal Revenue Code concerning additional standard deduction amounts. Clause (19) is the existing Minnesota addition for the phase out of itemized deductions for higher income taxpayers. The addition is not being substantively changed even though the thresholds for the phase out were increased for federal purposes. To leave the Minnesota treatment of the phase out of itemized deductions unchanged, a subtraction for the new federal phase out is included in Minn. Stat. § 290.01, subd. 19b.

The changes to clause (21) make permanent the addition equal to the difference between 200% of the federal single standard deduction and 167% of the federal single standard deduction (with a corresponding increase in the standard deduction for married separate filers to equal the amount allowed for single filers). For 2013, the difference will be about $2,035 for married joint filers.

Clause (22) creates a new addition equal to the amount of discharge of indebtedness income on a principal residence.

Clause (23) creates a new addition equal to the amount of grants and other awards paid under the National Health Service Corps scholarship program and related awards for health-care professionals.

Clause (24) creates a new addition equal to the amount of employer provide educational assistance paid. The maximum federal exclusion is $5,200 per year. This addition does not apply to working condition fringe benefits, which are benefits which, if paid by the taxpayer could be deducted as an employee business expense.

Clause (25) creates a new addition equal to the difference between the amount of student loan interest deducted in the computation of federal adjusted gross income in excess of the amount of student loan interest that could have been deducted under federal law prior to enactment of the American Taxpayer Relief Act of 2012. The main differences are that under the earlier federal law, interest could only be deducted for the first 60 months during which interest was required to be repaid – current federal law has no limitation. Also under earlier federal law, the ability to deduct student loan interest phased out for taxpayers with modified adjusted gross income between $40,000 to $55,000 for taxpayers other than joint filers and $60,000 to $75,000 for married joint filers while under current federal law the deduction phases out for taxpayers with modified adjusted gross income between $60,000 and $75,000 ($125,000 and $155,000 for joint filers).

Clause (26) creates a new addition equal to the difference between the amount of employer provided adoption expenses excluded in the computation of federal adjusted gross income in excess of the amount of employer provided adoption assistance that could have been excluded under federal law prior to enactment of the American Taxpayer Relief Act of 2012. The main differences are that the new law increased the adoption exclusion from $5,000 ($6,000 for special needs adoptions) to $10,000 plus inflation for all adoptions and the income phase out range for eligibility for the exclusion was increased from a range of $75,000 to $115,000, to a range of $150,000 to $190,000.

Clause (27) creates a new addition equal to the amount of income attributable to distributions from a Coverdell educational savings account that is excludable under the Internal Revenue Code under changes made in the American Taxpayer Relief Act of 2012 that would not have been excluded under prior law. The main differences are that under prior law, distributions could not be used for K-12 education expenses, and the contribution limits were increased from $500 to $2,000.

Clause (28) creates a new addition to tax equal to the distributions from a regulated investment company to a foreign investor that are excluded from federal taxable income in 2013 pursuant to a provision in the Taxpayer Relief Act of 2012 that extends an exclusion for such income as long as foreign investors do not own more than 50% of the RIC, or the taxpayer does not own more than 5% of the RIC if it is a publicly traded RIC.

All of the changes are effective for tax years beginning after December 31, 2012.

**Section 4. Individual subtractions from income.** Amends Minn. Stat. §290.01, subd. 19b to create two new subtractions to income.

The new subtraction under clause (18) coupled with the existing addition for the phase out of itemized deductions in Minn. Stat. §290.01, subd. 10a (19) will remove the effect of the increased thresholds that now apply to the phase out of itemized deductions in the computation of federal taxable income. In particular, new federal law increased the adjusted gross income thresholds for the limitation on itemized deductions to $300,000 for married joint filers, $250,000 for single filers, and $275,000 for head of household filers. These thresholds will be adjusted for inflation. The old threshold, which were codified into Minnesota law in 2011, was about $178,000 for 2013 for all taxpayers. This subtraction is equal to the amount of the phase out required in the computation of federal taxable income.

The new subtraction under clause (19) coupled with the existing addition for the phase out of personal exemptions in Minn. Stat. § 290.01, subd. 19a (20), will remove the effect of the increased thresholds that now apply to the phase out of personal exemptions in the computation of federal taxable income. In particular, new federal law increased the adjusted gross income thresholds for the phase out of personal exemptions to $300,000 for married joint filers, $250,000 for single filers, and $275,000 for head of household filers. These thresholds will be adjusted for inflation. The old thresholds which were codified into Minnesota law in 2011 are about $267,000 for married joint filers, $178,000 for single filers and $222,000 for heads of household in 2013. This subtraction is equal to the amount of the phase out required in the computation of federal taxable income.

The changes are effective for tax years beginning after December 31, 2012.

**Section 5. Corporate additions to taxable income.** Amends Minn. Stat. §290.19, subd. 19c to create a new addition to tax equal to the distributions from a regulated investment company to a foreign investor that are excluded from federal taxable income in 2013 pursuant to a provision in the Taxpayer Relief Act of 2012 that extends an exclusion for such income as long as foreign investors do not own more than 50% of the RIC, or the taxpayer does not own more than 5% of the RIC if it is a publicly traded RIC. Effective for taxable years beginning after December 31, 2012.

**Section 6. State itemized deduction.** Amends Minn. Stat. § 290.01 by adding a new subdivision that defines "state itemized deductions". This definition is used to calculate the addition of itemized deductions of income and sales tax, charitable contributions of food, and mortgage insurance premiums required under section 290.01, subd. 19a (2).

**Section 7. Update of individual alternative taxable income and credits.** Amends Minn. Stat. § 290.01, subd. 31 to incorporate federal changes which impact Minnesota tax provisions that are not part of the computation of regular tax. For alternative minimum tax the new changes to federal adjusted gross income incorporated into the definition of net income will apply to the computation of Minnesota alternative taxable income. Similarly, the definition of "income" for purposes of the Minnesota dependent care credit and the education credit will adopt the same federal changes. All of those definitions will contain modifications, which will be discussed more fully below.

**Section 8. Unrelated business taxable income.** Amends Minn. Stat. § 290.05, subd. 3 to require in unrelated business taxable income amounts of certain payments received by a tax exempt entity from a controlled subsidiary. Under current federal law, unrelated business taxable income includes interest, rents, royalties, and annuities if the income is received from a taxable or tax-exempt subsidiary that is 50% controlled by the parent tax-exempt organization, to the extent the payment reduces the net unrelated income (or increases any net unrelated loss) of the controlled entity (determined as if the entity were tax-exempt) unless the payments were made under a binding contract in effect on August 17, 2006 that contains provisions negotiated under principles of an arm's length arrangement. The addition will is equal to the amount federally excluded on these August 17, 2006 contracts. Effective for taxable years beginning after December 31, 2012.

**Section 9. Child and dependent care credit.** Amends Minn. Stat. §290.067 to provide a new section that requires taxpayers to calculate their child and dependent care credit using the federal dependent care credit law in existence prior to the enactment of the American Taxpayer Relief Act of 2012. Under Minnesota law, the Minnesota credit is equal to the federal credit, subject to Minnesota phase outs with a maximum credit of $720 for one dependent and $1,440 for two or more. As part of the American Taxpayer Relief Act of 2012, the calculation of the federal credit was changed.

The biggest differences are that under current federal law, the maximum credit is $1,050 (35% of up to $3,000 of eligible expenses) if there is one qualifying individual, and $2,100 (35% of up to $6,000 of eligible expenses) if there are two or more qualifying individuals, whereas the maximum credit under prior law was $720 (30% of up to $2,400 of eligible expenses) for one qualifying individual, and to $1,440 (30% of up to $4,800 of eligible expenses) for two or more. Additionally under current federal law, the credit begins to phase out by 1% for each $2,000 of income in excess of adjusted gross income of $15,000 whereas under former law, the credit was set to phase out by 1% for each $2,000 of income in excess of adjusted gross income of $10,000. These changes are effective for tax years beginning after December 31, 2012.

**Section 10. Income for purposes of the child and dependent care credit.** Amends Minn. Stat. § 290.067, subd, 2a to require the inclusion of income for purposes of calculating the child and dependent care credit all of the new additions created in Minn. Stat. § 290.01, subd. 19a that represent deductions or exclusions from adjusted gross income, which is the starting point for the calculation of income for purposes of this credit. This definition is also used to calculate the education credit under section 290.0674. Effective for tax years beginning after December 31, 2012.

**Section 11. Enhanced working family credit for married taxpayers.** Amends Minn. Stat. §290.0671, subd. 1, by increasing the income level at which the credit begins to phase out for married joint filers by $5,000 in tax years 2013 to 2017, with the $5,000 amount indexed for inflation from 2009, so that the additional phaseout amount for tax year 2013 will be around $5,340. Increases the income level at which the credit begins to phaseout for married joint filers by $3,000 in tax year 2018 and following years, with the $3,000 amount indexed for inflation from 2008. This will match the working family credit phaseout to the federal earned income credit. Effective for taxable years beginning after December 31, 2012.

**Section 12. Individual alternative taxable income.** Amends Minn. Stat. §290.091, subd. 2 to require the inclusion in alternative taxable income all of the new additions created in Minn. stat. § 291.01, subd, 19a that represent deductions or exclusions of items not already included in Minnesota alternative taxable income. Effective for tax years beginning after December 31, 2012.

**Section 13. Recognition period for built in gains of S- corporations.** Amends Minn. Stat. § 290.9727 by creating a new subdivision that provides that the recognition period for the tax on built in gains recognized in 2013 is 10 years. Under current federal law, the recognition period for gains recognized in 2013 is 5 years. Effective for gains recognized in taxable years beginning in 2013.

**Section 14. Household income for the property tax refund.** Amends Minn. Stat. § 290A.03, subd. 3 to require the inclusion in household income for purposes of calculating the property tax refund all of the new additions created in Minn. stat. § 291.01, subd, 19a that represent deductions or exclusions from adjusted gross income, which is the starting point for the calculation of income for purposes of this refund. This definition is also used to calculate the senior citizen property tax deferral under chapter 290B. Effective for refunds based on property taxes payable after December 31, 2013 and rent paid after December 31, 2012.

**Section 15. Federal update of property tax refund.** Amends Minn. Stat. § 290A.03, subd. 15 to adopt the federal changes that affect household income, which uses the definition of federal adjusted gross income as a starting point. Also removes obsolete language related to tax year 2012 that were added by 2013 Laws of Minnesota chapter 3. This language is obsolete because this bill will adopt all of the changes to tax year 2012 that were made in that Law. Effective for refunds based on property taxes payable after December 31, 2013 and rent paid after December 31, 2012.

**Section 16. Federal update of estate tax.** Amends Minn. Stat. § 291.005, subd. 1 to move the date through which Minnesota incorporates the federal estate tax from April 14, 2011 to March 15, 2013. This change does not have any substantive effect.

## ARTICLE 4: MISCELLANEOUS

**Section 1. Health impact fee.** Amends Minn. Stat. § 256.9658, subd. 3, dealing with the health impact fee on tobacco products. Current law refers to the same rate as the tobacco products excise tax in chapter 297F. The goal is to keep the health impact fee at its current rate. References to the excise tax rate are therefore deleted and replaced by language keeping the rate at 35 percent of the wholesale sales price. Effective July 1, 2013.

**Sections 2, 3, 4 and 5. Economic substance.** Amends Minn. Stat. § 270C.03, subd. 1; Minn. Stat. § 270C.33, subd. 6; and adds Minn. Stat. § 270C.331, to conform to the federal economic substance doctrine. This bill requires all transactions must have economic substance. Thus, apart from tax effects, all transactions (1) must change the taxpayer’s economic position in a meaningful way and (2) must have a substantial purpose. If a transaction does not have economic substance, then the commissioner may disregard its tax effects. If a transaction is disallowed by the commissioner, a taxpayer must prove the existence of economic substance by clear and convincing evidence. Also amends Minn. Stat. § 289A.60, by adding subd. 27a to impose a 20% penalty on disclosed economic substance understatements and a 40% penalty on undisclosed economic substance understatements. Effective for taxable years beginning after December 31, 2012.

**Section 6. Rental motor vehicle tax rate.** Amends Minn. Stat. § 297A.64, subd. 1, to increase the tax rate by 3% from 6.2% to 9.2%. Effective for sales and purchases made after May 31, 2013.

**Section 7. Solicitor Nexus.** Amends Minn. Stat. § 297A.66, by adding subd. 4a, creating a rebuttable presumption that a retailer maintains a place of business in the state if they enter into an agreement with a solicitor for the referral of Minnesota customers for a fee and the retailer’s gross receipts over 12-months is at least $10,000. Effective for sales and purchases made after June 30, 2013.

**Section 8. Cigarette tax rate.** Amends Minn. Stat. § 297F.05, subd. 1, to increase the cigarette excise tax from 48 cents per pack of twenty cigarettes to $1.42 per pack. Effective July 1, 2013.

**Section 9. Tobacco products tax.** Amends Minn. Stat. § 297F.05, subd. 3, to increase the tobacco products excise tax from 35 percent of the wholesale sales price to 55 percent of the wholesale sales price. Effective July 1, 2013.

**Section 10. Use tax on tobacco products.** Amends Minn. Stat. § 297F.05, subd. 4, to increase the use tax on tobacco products from 35 percent of the cost to the consumer to 55 percent of the cost to the consumer. Effective July 1, 2013.

**Section 11. Cigarette sales tax.** Amends Minn. Stat. § 297F.25, subd. 1, to provide for an increased sales tax as a result of the changes to section 297F.05, subd. 1. This will relate to purchases made from July 1, 2013 through December 31, 2013 and prospective future changes. Without the change, the sales tax would remain at the rate determined previously for the entire year. Effective July 1, 2013.

**Section 12. Floor stocks tax.** This section creates a floor stocks tax that is imposed on all persons engaged in the business in this state of selling cigarettes as distributors, retailers, subjobbers, vendors, manufacturers, or manufacturer's representatives who have stamped cigarettes and unaffixed stamps in their possession on July 1, 2013. As of July 1, 2013, the tax is $1.42 per pack of 20 cigarettes. For packs of cigarettes with other than 20 cigarettes, the tax shall be adjusted proportionally. Effective July 1, 2013.