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and Fiscal Analysis**

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**Senate**

State of Minnesota

TO: Members of the Senate Tax Committee

FROM: Jo Anne Zoff Sellner, Senate Counsel (651/296-3803) 

DATE: April 6, 2005

RE: Bills to be Heard April 7, 2005

**S.F. No. 2001 (Day)**

This bill imposes a transfer tax on sales of major sports franchises. A tax is imposed on the sale or disposition of a major league sports team that plays or has played its home games at a sports stadium constructed with bonds issued under Minnesota Statutes, section 473.581, which is the provision that authorized bonds for the construction of the Metrodome. The tax is imposed at a rate of 7 percent on the gain realized on the sale as determined for federal income tax purposes. The tax is then apportioned according to the proportion of the period of time when the franchise was held by the taxpayer during which the team played its home games in this state, to the period of time when the franchise was held by the taxpayer. This tax is subject to a credit equal to the amount of taxes imposed on the taxpayer under Minnesota Statutes, chapter 290, that is, the individual income tax and corporate franchise tax. The person who realizes the gain on the sale or other disposition is liable for the payment of the tax, which must be paid within 120 days after the close of the taxpayer's taxable year for federal income tax purposes in which the sale occurred. The proceeds of the tax are deposited in the general fund.

**S.F. No. 397 (Kelley)**

This bill provides a deduction for educator classroom expenses. The exemption is limited to \$250 for an eligible educator or \$500 for married individuals if both are eligible educators and they file a joint return. The deduction is available to the extent the amount expended is not deducted in determining federal taxable income. For tax years 2004 and 2005, federal law allows the deduction of up to \$250 for classroom expenses paid by an eligible educator. Eligible educators are elementary or secondary teachers, instructors, counselors, principals, or aides, and expenses include books, supplies, computer equipment, and other equipment and materials that are used by the teacher in the classroom.

**S.F. No. 1312 (Rosen)**

This bill provides a new definition of "city revenue need" in the local government aid formula that would apply to cities that have a population of 2,500 or more, but of which the population in one of the most recent available five years was less than 2,500. Current law provides different definitions of city revenue need for cities with a population of 2,500 or more, and for cities with a population less than 2,500. This bill provides that the city revenue need for the cities that have recently reached a population of 2,500 would be the sum of the city revenue need for cities with populations of 2,500 or more, multiplied by a transition factor, plus the city revenue need calculated for the under 2,500 cities multiplied by the difference between one and its transition factor. The transition factor is equal to 0.2 multiplied by the number of years that the city's population estimate has been 2,500 or more. The provision applies to aids payable in calendar years 2006 to 2008 only to cities with a 2002 population of less than 2,500. It would apply to any city the populations of which reached 2,500 in the past five years for aids payable in 2009 and thereafter.

JZS:dv

Agenda #1

Senator Pogemiller introduced--

S.F. No. 1675: Referred to the Committee on Taxes.

1 A bill for an act

2 relating to taxation; recodifying and clarifying the

3 powers of the commissioner of revenue; recodifying a

4 criminal penalty; appropriating money; amending

5 Minnesota Statutes 2004, sections 16D.08, subdivision

6 2; 115B.49, subdivision 4; 239.785, subdivision 4;

7 256.9657, subdivision 7; 256.9792, subdivision 8;

8 273.11, subdivision 5; 287.37; 289A.35; 289A.42,

9 subdivision 1; 289A.60, subdivision 13; 295.57,

10 subdivision 1; 295.60, subdivision 7; 297A.64,

11 subdivision 3; 297B.11; 297H.10, subdivision 1;

12 297I.10, by adding a subdivision; proposing coding for

13 new law as Minnesota Statutes, chapter 270C; repealing

14 Minnesota Statutes 2004, sections 270.01; 270.02;

15 270.021; 270.022; 270.04; 270.05; 270.052; 270.058;

16 270.059; 270.06; 270.0601; 270.0602; 270.0603;

17 270.0604; 270.0605; 270.061; 270.062; 270.063;

18 270.064; 270.065; 270.066; 270.0665; 270.067; 270.068;

19 270.0681; 270.0682; 270.069; 270.07; 270.084; 270.09;

20 270.10; 270.101; 270.102; 270.11, subdivisions 2, 3,

21 4, 5, 6, 7; 270.13; 270.14; 270.15; 270.16; 270.17;

22 270.18; 270.19; 270.20; 270.21; 270.22; 270.23;

23 270.24; 270.25; 270.26; 270.27; 270.271; 270.272;

24 270.273; 270.274; 270.275; 270.276; 270.277; 270.278;

25 270.30; 270.485; 270.494; 270.60; 270.65; 270.652;

26 270.66; 270.67; 270.68; 270.69; 270.691; 270.70;

27 270.7001; 270.7002; 270.701; 270.702; 270.703;

28 270.704; 270.705; 270.706; 270.707; 270.708; 270.709;

29 270.71; 270.72; 270.721; 270.73; 270.74; 270.75;

30 270.76; 270.771; 270.78; 270.79; 287.39; 289A.07;

31 289A.13; 289A.31, subdivisions 3, 4, 6; 289A.36;

32 289A.37, subdivisions 1, 3, 4, 5; 289A.38, subdivision

33 13; 289A.43; 289A.65; 290.48, subdivisions 3, 4;

34 290.92, subdivisions 6b, 22, 23; 290.97; 296A.20;

35 296A.201; 296A.25; 297A.86; 297A.93; 297D.14; 297E.08;

36 297E.09; 297E.12, subdivision 10; 297E.15; 297F.15,

37 subdivisions 1, 2, 3, 4, 5, 6, 7, 8; 297F.16; 297F.22;

38 297G.14, subdivisions 1, 2, 3, 4, 5, 6, 7, 8; 297G.15;

39 297G.21; 297I.45; 297I.50; 297I.55; 297I.95.

40 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

41 ARTICLE 1

42 RECODIFICATION

## 1 COMMISSIONER GENERAL POWERS

2 Section 1. [270C.01] [DEFINITIONS.]

3 Subdivision 1. [APPLICABILITY.] For purposes of this  
4 chapter only, the following words, terms, and phrases have the  
5 meanings given them in this section unless the language or  
6 context clearly indicates that a different meaning is intended.

7 Subd. 2. [COMMISSIONER.] "Commissioner" means the  
8 commissioner of revenue or a person to whom the commissioner has  
9 delegated functions.

10 Subd. 3. [DEPARTMENT.] "Department" means the Department  
11 of Revenue.

12 Subd. 4. [ELECTRONIC MEANS; ELECTRONICALLY.] "Electronic  
13 means" and "electronically" mean a method that is electronic, as  
14 defined in section 325L.02, paragraph (e), and that is  
15 prescribed by the commissioner.

16 Subd. 5. [LAW ADMINISTERED BY THE COMMISSIONER.] "Law  
17 administered by the commissioner" means a law or rule that vests  
18 or imposes a power, duty, responsibility, or authority in the  
19 commissioner, except the following laws: (1) the property tax  
20 laws, and (2) Minnesota Statutes, chapter 16D.

21 Subd. 6. [PERSON.] "Person" means an individual, trust,  
22 estate, fiduciary, partnership, company, corporation, limited  
23 liability company, association, governmental unit or agency,  
24 public or private organization of any kind, or other legal  
25 entity.

26 Subd. 7. [PROPERTY TAX LAWS.] "Property tax laws" means  
27 all laws and rules related to the administration of the tax on  
28 property referred to in section 272.01, subdivision 1, and all  
29 laws related to the administration of the tax on wind energy  
30 production imposed under section 272.029, subdivision 1.

31 Subd. 8. [RETURN.] "Return" means a return, information  
32 return, or report, required by a law administered by the  
33 commissioner.

34 Subd. 9. [STATE REVENUE LAWS.] "State revenue laws" means  
35 all laws administered by the commissioner and the property tax  
36 laws.

1        Subd. 10. [TAX.] "Tax" means a tax or fee imposed by a law  
2 administered by the commissioner.

3        Subd. 11. [TAXPAYER.] "Taxpayer" means a person subject  
4 to, or liable for, a tax or fee imposed by a law administered by  
5 the commissioner; a person required to file a return,  
6 information return, or report, with respect to, or to pay, or  
7 withhold or collect and remit, a tax or fee imposed by a law  
8 administered by the commissioner; a person required to obtain a  
9 license or a permit under a law administered by the  
10 commissioner; or a person required to keep records regarding a  
11 tax or fee imposed by a law administered by the commissioner.

12        [EFFECTIVE DATE.] This section is effective August 1, 2005.

13        Sec. 2. [270C.02] [DEPARTMENT OF REVENUE; COMMISSIONER.]

14        Subdivision 1. [COMMISSIONER; SUPERVISION OF DEPARTMENT  
15 AND APPOINTMENT.] The Department of Revenue is under the  
16 supervision and control of the commissioner. The commissioner  
17 shall be appointed by the governor under the provisions of  
18 section 15.06. The commissioner shall be selected on the basis  
19 of ability and experience in the field of tax administration and  
20 without regard to political affiliations. [270.01; 270.02,  
21 subd. 8]

22        Subd. 2. [POWER TO APPOINT STAFF.] (a) The commissioner  
23 may organize the department as the commissioner deems necessary,  
24 and appoint one deputy commissioner, a department secretary,  
25 directors of divisions, and such other officers, employees, and  
26 agents, as the commissioner deems necessary to carry out the  
27 duties, responsibilities, and authority entrusted to the  
28 commissioner. The commissioner may define the duties of such  
29 officers, employees, and agents, and delegate to them any of the  
30 commissioner's powers or duties, subject to the commissioner's  
31 control and under such conditions as the commissioner may  
32 prescribe. Appointments to exercise delegated power to sign  
33 documents which require the signature of the commissioner or a  
34 delegate by law shall be by written order filed with the  
35 secretary of state. [270.02, subd. 3]

36        (b) The commissioner may appoint agents as the commissioner

1 considers necessary to make examinations and determinations.  
2 The agents have the rights and powers conferred on the  
3 commissioner to subpoena, examine, and copy books, records,  
4 papers, or memoranda, subpoena witnesses, administer oaths and  
5 affirmations, and take testimony. [270.06, clause (17)]

6 Subd. 3. [SALARIES.] The commissioner shall appoint and  
7 employ additional employees and other agents, purchase supplies  
8 or materials, or incur other expenditures in the administration  
9 and enforcement of state revenue laws as considered necessary.  
10 The salaries of all agents and employees provided for in this  
11 chapter shall be fixed by the appointing authority, subject to  
12 the approval of the commissioner of employee relations.  
13 [270.06, clause (18)]

14 Subd. 4. [OFFICE AND SUPPLIES FURNISHED; EXPENSES.] The  
15 commissioner shall be provided with suitable and necessary  
16 office furniture, supplies, stationery, books, periodicals,  
17 newspapers, maps, and financial and commercial reports; and all  
18 necessary expenses therefor shall be audited and paid as other  
19 expenses are audited and paid. The actual necessary expenses of  
20 the commissioner, the commissioner's employees and agents, and  
21 such experts and assistants as may be employed by the  
22 commissioner while traveling on the business of the department,  
23 shall be paid by the state. The expenditures must be sworn to  
24 by the party who incurred the expense and approved by the  
25 commissioner. [270.04]

26 Subd. 5. [FILING OFFICERS.] The commissioner is the filing  
27 officer and custodian of the books, files, and records of the  
28 department. The commissioner may certify copies of the books,  
29 files, and records in the custody of the commissioner for all  
30 purposes in the same manner as other custodians of public  
31 records. The commissioner may authorize other employees of the  
32 department to certify books, files, and records in the custody  
33 of the commissioner. The authorization must be made by a  
34 written order stating the documents that may be certified and  
35 must be filed with the secretary of state. [270.022]

36 Subd. 6. [DEPARTMENT SEAL.] The department shall have a

1 seal engraved with the words, "State of Minnesota, Department of  
2 Revenue." Such seal may be used to authenticate the official  
3 acts of the commissioner or any other employees of the  
4 department, but the failure to use the seal shall not invalidate  
5 any such acts. Duplicate seals may be provided for the use of  
6 directors of divisions or other employees of the department.

7 [270.02, subd. 4]

8 [EFFECTIVE DATE.] This section is effective August 1, 2005.

9 Sec. 3. [270C.03] [POWERS AND DUTIES.]

10 Subdivision 1. [POWERS AND DUTIES.] The commissioner shall  
11 have and exercise the following powers and duties:

12 (1) administer and enforce the assessment and collection of  
13 taxes; [270.06, clause (14)]

14 (2) make determinations, corrections, and assessments with  
15 respect to taxes, including interest, additions to taxes, and  
16 assessable penalties; [289A.35, first sentence]

17 (3) use statistical or other sampling techniques consistent  
18 with generally accepted auditing standards in examining returns  
19 or records and making assessments; [289A.35, last sentence]

20 (4) investigate the tax laws of other states and countries,  
21 and formulate and submit to the legislature such legislation as  
22 the commissioner may deem expedient to prevent evasions of state  
23 revenue laws and to secure just and equal taxation and  
24 improvement in the system of state revenue laws; [270.06, clause  
25 (10)]

26 (5) consult and confer with the governor upon the subject  
27 of taxation, the administration of the laws in regard thereto,  
28 and the progress of the work of the department, and furnish the  
29 governor, from time to time, such assistance and information as  
30 the governor may require relating to tax matters; [270.06,  
31 clause (11)]

32 (6) execute and administer any agreement with the secretary  
33 of the treasury of the United States or a representative of  
34 another state regarding the exchange of information and  
35 administration of the state revenue laws; [270.06, clause (19)]

36 (7) require town, city, county, and other public officers

1 to report information as to the collection of taxes received  
2 from licenses and other sources, and such other information as  
3 may be needful in the work of the commissioner, in such form as  
4 the commissioner may prescribe; [270.06, clause (5)]

5 (8) authorize the use of unmarked motor vehicles to conduct  
6 seizures or criminal investigations pursuant to the  
7 commissioner's authority; and [270.06, clause (20)]

8 (9) exercise other powers and authority and perform other  
9 duties required of or imposed upon the commissioner by law.  
10 [270.06, clause (21)]

11 Subd. 2. [MISSION; EFFICIENCY.] It is part of the  
12 department's mission that within the department's resources the  
13 commissioner shall endeavor to:

14 (1) prevent the waste or unnecessary spending of public  
15 money;

16 (2) use innovative fiscal and human resource practices to  
17 manage the state's resources and operate the department as  
18 efficiently as possible;

19 (3) coordinate the department's activities wherever  
20 appropriate with the activities of other governmental agencies;

21 (4) use technology where appropriate to increase agency  
22 productivity, improve customer service, increase public access  
23 to information about government, and increase public  
24 participation in the business of government;

25 (5) utilize constructive and cooperative labor-management  
26 practices to the extent otherwise required by chapters 43A and  
27 179A;

28 (6) report to the legislature on the performance of agency  
29 operations and the accomplishment of agency goals in the  
30 agency's biennial budget according to section 16A.10,  
31 subdivision 1; and

32 (7) recommend to the legislature appropriate changes in law  
33 necessary to carry out the mission and improve the performance  
34 of the department. [270.02, subd. 3a]

35 [EFFECTIVE DATE.] This section is effective August 1, 2005.

36 Sec. 4. [270C.04] [USE OF INFORMATION.]



1 Notwithstanding the provisions of any other law, the  
2 commissioner may use any and all information in the  
3 commissioner's possession, or to which the commissioner has  
4 access, to insure equal and consistent application and  
5 enforcement of all state revenue laws. This section shall not  
6 be construed as granting to the commissioner any power to  
7 release any information outside the department. [270.065]

8 [EFFECTIVE DATE.] This section is effective August 1, 2005.

9 Sec. 5. [270C.05] [ACCESS TO CRIMINAL JUSTICE DATA.]

10 The commissioner may enter into an agreement with the  
11 commissioner of public safety to allow designated employees of  
12 the Department of Revenue to have access to the criminal justice  
13 data communications network provided in section 299C.46. For  
14 purposes of that section, the criminal investigation unit of the  
15 Department of Revenue is considered a criminal justice agency.  
16 [270.062]

17 [EFFECTIVE DATE.] This section is effective August 1, 2005.

18 Sec. 6. [270C.055] [CRIMINAL INVESTIGATIONS, REFERRAL, AND  
19 INFORMATION DISCLOSURE.]

20 Subdivision 1. [REQUESTING ASSISTANCE.] If the  
21 commissioner has reason to believe that a criminal violation of  
22 the state revenue laws or chapter 349 has occurred, the  
23 commissioner may request the attorney general or the prosecuting  
24 authority of any county to assist in a criminal investigation.  
25 [270.064]

26 Subd. 2. [REFERRAL FOR PROSECUTION.] If a proceeding is  
27 referred to a prosecuting authority, and the prosecuting  
28 authority fails to issue or cause to be issued an indictment or  
29 criminal complaint within 30 days after the referral by the  
30 commissioner, the attorney general may conduct the proceeding.

31 Subd. 3. [AUTHORITY TO DISCLOSE INFORMATION.] The  
32 commissioner may disclose information to the prosecuting  
33 authority and attorney general pursuant to section 270B.05,  
34 subdivision 2, clause (1). [270.68, subd. 1, paragraph (c)]

35 [EFFECTIVE DATE.] This section is effective August 1, 2005.

36 Sec. 7. [270C.06] [RULEMAKING AUTHORITY.]

1 The commissioner shall, from time to time, make, publish,  
2 and distribute rules for the administration and enforcement of  
3 state revenue laws. The rules have the force of law. [270.06,  
4 clause (14)]

5 [EFFECTIVE DATE.] This section is effective August 1, 2005.

6 Sec. 8. [270C.07] [REVENUE NOTICES.]

7 Subdivision 1. [AUTHORITY.] The commissioner may make,  
8 adopt, and publish interpretive revenue notices. A "revenue  
9 notice" is a policy statement that has been published pursuant  
10 to subdivision 5 and that provides interpretation, details, or  
11 supplementary information concerning the application of state  
12 revenue laws or rules promulgated by the commissioner. Revenue  
13 notices are published for the information and guidance of  
14 taxpayers, local government officials, the department, and  
15 others concerned.

16 Subd. 2. [EFFECT.] Revenue notices do not have the force  
17 and effect of law and have no precedential effect, but may be  
18 relied on by taxpayers until revoked or modified. A notice may  
19 be expressly revoked or modified by the commissioner, by the  
20 issuance of a revenue notice, but may not be revoked or modified  
21 retroactively to the detriment of the taxpayers. A change in  
22 the law or an interpretation of the law occurring after the  
23 revenue notice is issued, whether in the form of a statute,  
24 court decision, administrative rule, or revenue notice, results  
25 in revocation or modification of the notice to the extent that  
26 the change affects the notice.

27 Subd. 3. [RETROACTIVITY.] Revenue notices are generally  
28 interpretive of existing law and therefore are retroactive to  
29 the effective date of the applicable law provision unless  
30 otherwise stated in the notice.

31 Subd. 4. [ISSUANCE.] The issuance of revenue notices is at  
32 the discretion of the commissioner. The commissioner shall  
33 establish procedures governing the issuance of revenue notices  
34 and tax information bulletins. At least one week before  
35 publication of a revenue notice in the State Register, the  
36 commissioner shall provide a copy of the notice to the chairs of

1 the Taxes Committee of the house of representatives and the  
2 Taxes and Tax Laws Committee of the senate.

3 Subd. 5. [PUBLICATION.] The commissioner shall publish the  
4 revenue notices in the State Register and in any other manner  
5 that makes them accessible to the general public. The  
6 commissioner may charge a reasonable fee for publications.

7 [270.0604]

8 [EFFECTIVE DATE.] This section is effective August 1, 2005.

9 Sec. 9. [270C.08] [TAX INFORMATION BULLETINS.]

10 The commissioner may issue tax information bulletins. "Tax  
11 information bulletins" are informational guides to enable  
12 taxpayers and local governmental officials to become more  
13 familiar with state revenue laws and their rights and  
14 responsibilities under these laws. Nothing contained in the tax  
15 information bulletins supersedes, alters, or otherwise changes  
16 any provisions of the state revenue laws, administrative rules,  
17 court decisions, or revenue notices. [270.0605]

18 [EFFECTIVE DATE.] This section is effective August 1, 2005.

19 Sec. 10. [270C.09] [OPINION OF ATTORNEY GENERAL; EFFECT.]

20 The commissioner may in writing request the opinion of the  
21 attorney general upon any matter regarding the state revenue  
22 laws. Any written opinion of the attorney general upon any such  
23 matter rendered in response to such request shall have the force  
24 and effect of law unless and until overruled by a decision of  
25 the Tax Court or a court of competent jurisdiction. [270.09]

26 [EFFECTIVE DATE.] This section is effective August 1, 2005.

27 Sec. 11. [270C.10] [EX-EMPLOYEES NOT TO REPRESENT  
28 TAXPAYERS; PENALTY.]

29 An employee of the department may not, for a period of one  
30 year after the employee's employment has terminated, act as  
31 counsel, attorney, or agent for a taxpayer in connection with a  
32 claim or proceeding pending in the department. An employee of  
33 the department may not act as counsel, attorney, or agent for a  
34 taxpayer at any time after termination of employment in  
35 connection with a claim or proceeding of which the person has  
36 knowledge that was acquired during the term of employment. A

1 violation of this section is a gross misdemeanor. [270.021]

2 [EFFECTIVE DATE.] This section is effective August 1, 2005.

3 Sec. 12. [270C.105] [BASIS FOR EVALUATION OF DEPARTMENT OF  
4 REVENUE EMPLOYEES.]

5 The department must not use tax enforcement results to  
6 impose individual revenue quotas with respect to employees or  
7 their immediate supervisors who are directly involved in  
8 assessment or collection activities. The department may,  
9 however, use individual performance with regard to number of  
10 cases completed and, in the case of collections employees,  
11 dollars collected, as factors in evaluating an employee and not  
12 be considered as failing to comply with this section.

13 [270.0602]

14 [EFFECTIVE DATE.] This section is effective August 1, 2005.

15 Sec. 13. [270C.11] [TAX EXPENDITURE BUDGET.]

16 Subdivision 1. [STATEMENT OF PURPOSE.] State governmental  
17 policy objectives are sought to be achieved both by direct  
18 expenditure of governmental funds and by the granting of special  
19 and selective tax relief or tax expenditures. Both direct  
20 expenditures of governmental funds and tax expenditures have an  
21 effect on the ability of the state and local governments to  
22 lower tax rates or to increase expenditures. As a result, tax  
23 expenditures should receive a regular and comprehensive review  
24 by the legislature as to (1) their total cost, (2) their  
25 effectiveness in achieving their objectives, (3) their effect on  
26 the fairness and equity of the distribution of the tax burden,  
27 and (4) the public and private cost of administering tax  
28 expenditure financed programs. This section is intended to  
29 facilitate a regular review of the state and local tax  
30 expenditure budget by the legislature by providing for the  
31 preparation of a regular biennial tax expenditure budget.

32 Subd. 2. [PREPARATION; SUBMISSION.] The commissioner shall  
33 prepare a tax expenditure budget for the state. The tax  
34 expenditure budget report shall be submitted to the legislature  
35 by February 1 of each even-numbered year.

36 Subd. 3. [PERIOD COVERED.] The report shall include

1 estimates of annual tax expenditures for, at a minimum, a  
2 three-year period including the two-year period covered in the  
3 governor's budget submitted in the preceding January pursuant to  
4 section 16A.11.

5 Subd. 4. [CONTENTS.] The report shall detail for each tax  
6 expenditure item the amount of tax revenue foregone, a citation  
7 of the statutory or other legal authority for the expenditure,  
8 and the year in which it was enacted or the tax year in which it  
9 became effective. The report may contain additional information  
10 which the commissioner considers relevant to the legislature's  
11 consideration and review of individual tax expenditure items.  
12 This may include, but is not limited to, statements of the  
13 intended purpose of the tax expenditure, analysis of whether the  
14 expenditure is achieving that objective, and the effect of the  
15 expenditure device on the distribution of the tax burden and  
16 administration of the tax system.

17 Subd. 5. [REVENUE ESTIMATES; LEGISLATIVE BILLS.] Upon  
18 reasonable notice from the chair of the house or senate tax  
19 committee that a bill is scheduled for hearing, the commissioner  
20 shall prepare an estimate of the effect on the state's tax  
21 revenues which would result from the passage of a legislative  
22 bill establishing, extending, or restricting a tax expenditure.  
23 These revenue estimates shall contain the same information as  
24 provided in subdivision 4 for expenditure items contained in the  
25 tax expenditure budget, as appropriate.

26 Subd. 6. [DEFINITIONS.] For purposes of this section, the  
27 following terms have the meanings given:

28 (1) "tax expenditure" means a tax provision which provides  
29 a gross income definition, deduction, exemption, credit, or rate  
30 for certain persons, types of income, transactions, or property  
31 that results in reduced tax revenue; and

32 (2) "tax" means any tax of statewide application or any tax  
33 authorized by state law to be levied by local governments  
34 generally. It does not include a special local tax levied  
35 pursuant to special law or to a special local tax levied  
36 pursuant to general authority that is no longer applicable to

1 local governments generally. [270.067]

2 [EFFECTIVE DATE.] This section is effective August 1, 2005.

3 Sec. 14. [270C.12] [TAX INFORMATION SAMPLE DATA.]

4 Subdivision 1. [PREPARATION OF SAMPLES.] The commissioner  
5 shall prepare microdata samples of income tax returns and other  
6 information useful for purposes of:

7 (1) estimating state revenues;

8 (2) simulating the effect of changes or proposed changes in  
9 state and federal tax law on the amount of state revenues; and

10 (3) analyzing the incidence of present or proposed taxes.

11 Subd. 2. [COORDINATING COMMITTEE.] A coordinating

12 committee is established to oversee and coordinate preparation  
13 of the microdata samples. The committee consists of:

14 (1) the director of the Research Division of the department  
15 who shall serve as chair of the committee;

16 (2) the state economist;

17 (3) the chair of the Committee on Taxes of the house of  
18 representatives or the chair's designee; and

19 (4) the chair of the Committee on Taxes and Tax Laws of the  
20 senate or the chair's designee. The committee shall consider  
21 the analysis needs and use of the microdata samples by the  
22 finance and revenue departments and the legislature in designing  
23 and preparing the samples, including the type of data to be  
24 included, the structure of the samples, size of the samples, and  
25 other relevant factors.

26 Subd. 3. [CONTENTS OF SAMPLES.] The samples must consist  
27 of information derived from a random sample of federal and  
28 Minnesota individual income tax returns. The samples prepared  
29 in odd numbered years must be augmented by additional  
30 information from other sources as the coordinating committee  
31 determines is feasible and appropriate. The coordinating  
32 committee shall consider inclusion of:

33 (1) information derived from property tax refund returns;

34 (2) the estimated market value of the taxpayer's home from  
35 the homestead declaration; and

36 (3) information from other sources, such as the surveys

1 conducted by the United States Departments of Commerce and Labor.

2 Subd. 4. [CONSULTATION ON ANALYSIS MODELS.] The  
3 coordinating committee shall facilitate regular consultation  
4 among the Department of Revenue, the Department of Finance, and  
5 house and senate staffs in development and maintenance of their  
6 respective computer models used to analyze the microdata  
7 samples. The committee shall encourage efforts to attain more  
8 commonality in the models, greater sharing of program  
9 development efforts and programming tasks, and more consistency  
10 in the resulting analyses. [270.0681]

11 [EFFECTIVE DATE.] This section is effective August 1, 2005.

12 Sec. 15. [270C.13] [TAX INCIDENCE REPORTS.]

13 Subdivision 1. [BIENNIAL REPORT.] The commissioner shall  
14 report to the legislature by March 1 of each odd-numbered year  
15 on the overall incidence of the income tax, sales and excise  
16 taxes, and property tax. The report shall present information  
17 on the distribution of the tax burden as follows: (1) for the  
18 overall income distribution, using a systemwide incidence  
19 measure such as the Suits index or other appropriate measures of  
20 equality and inequality; (2) by income classes, including at a  
21 minimum deciles of the income distribution; and (3) by other  
22 appropriate taxpayer characteristics.

23 Subd. 2. [BILL ANALYSES.] At the request of the chair of  
24 the house Tax Committee or the senate Committee on Taxes and Tax  
25 Laws, the commissioner shall prepare an incidence impact  
26 analysis of a bill or a proposal to change the tax system which  
27 increases, decreases, or redistributes taxes by more than  
28 \$20,000,000. To the extent data is available on the changes in  
29 the distribution of the tax burden that are affected by the bill  
30 or proposal, the analysis shall report on the incidence effects  
31 that would result if the bill were enacted. The report may  
32 present information using systemwide measures, such as Suits or  
33 other similar indexes, by income classes, taxpayer  
34 characteristics, or other relevant categories. The report may  
35 include analyses of the effect of the bill or proposal on  
36 representative taxpayers. The analysis must include a statement

1 of the incidence assumptions that were used in computing the  
2 burdens.

3 Subd. 3. [INCOME MEASURE.] The incidence analyses shall  
4 use the broadest measure of economic income for which reliable  
5 data is available. [270.0682]

6 [EFFECTIVE DATE.] This section is effective August 1, 2005.

7 Sec. 16. [270C.14] [AUTHORITY TO PAY LOCAL TAXES;  
8 APPROPRIATION.]

9 The commissioner may pay to any local government unit, any  
10 locally imposed sales taxes that may be assessed against the  
11 department. There is appropriated to the commissioner from the  
12 general fund the amount needed to make the payments. [270.058]

13 [EFFECTIVE DATE.] This section is effective August 1, 2005.

14 Sec. 17. [270C.15] [REVENUE DEPARTMENT SERVICE AND  
15 RECOVERY SPECIAL REVENUE FUND.]

16 A Revenue Department service and recovery special revenue  
17 fund is created for the purpose of recovering the costs of  
18 furnishing government data and related services or products, as  
19 well as recovering costs associated with collecting local taxes  
20 on sales. All money collected under this section is deposited  
21 in the Revenue Department service and recovery special revenue  
22 fund. Money in the fund is appropriated to the commissioner to  
23 reimburse the department for the costs incurred in administering  
24 the tax law or providing the data, service, or product. Any  
25 money paid to the department as a criminal fine for a violation  
26 of state revenue law that is designated by the court to fund  
27 enforcement of state revenue law is appropriated to this fund.  
28 [270.059]

29 [EFFECTIVE DATE.] This section is effective August 1, 2005.

30 Sec. 18. [270C.16] [COLLECTION OF DELINQUENT LIABILITIES;  
31 COSTS.]

32 Subdivision 1. [APPROPRIATION.] For the purpose of  
33 collecting delinquent tax liabilities or debts as defined in  
34 section 16D.02, subdivision 3, there is appropriated to the  
35 commissioner an amount representing the cost of collection by  
36 contract with collection agencies, revenue departments of other



1 states, or attorneys to enable the commissioner to reimburse  
2 these agencies, departments, or attorneys for this service. The  
3 commissioner shall report quarterly on the status of this  
4 program to the chair of the house Tax and Appropriation  
5 Committees and senate Tax and Finance Committees. [270.063,  
6 subd. 1]

7 Subd. 2. [PREPAYMENT.] Notwithstanding section 16A.15,  
8 subdivision 3, the commissioner may authorize the prepayment of  
9 sheriff's fees, attorney fees, fees charged by revenue  
10 departments of other states, or court costs to be incurred in  
11 connection with the collection of delinquent tax liabilities  
12 owed to the commissioner. [270.063, subd. 2]

13 [EFFECTIVE DATE.] This section is effective August 1, 2005.

14 Sec. 19. [270C.17] [COMMISSIONER TO COLLECT CERTAIN LOCAL  
15 TAXES.]

16 Subdivision 1. [COSTS DEDUCTED; APPROPRIATION.] If the  
17 commissioner agrees to collect a local tax, the local unit of  
18 government must agree that all the direct and indirect costs of  
19 the department for collecting the tax and any other statewide  
20 indirect costs will be deducted from the amounts collected and  
21 paid to the local unit of government.

22 Subd. 2. [DEVELOPMENT COSTS.] If the commissioner  
23 determines that a new computer system will be required to  
24 collect the local taxes, the costs of development of the system  
25 will be charged to the first local units of government to be  
26 included in the system. Any additional local units of  
27 government that by agreement are added to the system will be  
28 charged for a share of the development costs. The charge will  
29 be determined by the commissioner who shall then refund to the  
30 original local units of government their portion of the  
31 development costs recovered from the additional users.

32 [270.069]

33 [EFFECTIVE DATE.] This section is effective August 1, 2005.

34 Sec. 20. [270C.18] [SETOFF OF POLITICAL SUBDIVISION  
35 DEBTS.]

36 (a) As used in this section, "political subdivision" means

1 counties and home rule charter or statutory cities, and "debts"  
2 means a legal obligation to pay a fixed amount of money, which  
3 equals or exceeds \$100 and which is due and payable to the  
4 claimant political subdivision.

5 (b) If one political subdivision owes a debt to another  
6 political subdivision, and the debt has not been paid within six  
7 months of the date when payment was due, the creditor political  
8 subdivision may notify the commissioner of the debt, and shall  
9 provide the commissioner with information sufficient to verify  
10 the claim. If the commissioner has reason to believe that the  
11 claim is valid, and the debt has not been paid, the commissioner  
12 shall initiate setoff procedures under this section.

13 (c) Within ten days of receipt of the notification from the  
14 creditor political subdivision, the commissioner shall send a  
15 written notice to the debtor political subdivision, advising it  
16 of the nature and amount of the claim. This written notice  
17 shall advise the debtor of the creditor political subdivision's  
18 intention to request setoff of the refund against the debt.

19 The notice will also advise the debtor that the debt can be  
20 setoff against a state aid payment, and will advise the debtor  
21 of the right to contest the validity of the claim at a hearing.  
22 The debtor must assert this right by written request to the  
23 commissioner, which request the commissioner must receive within  
24 45 days of the mailing date of the notice.

25 (d) If the commissioner receives written notice of a debtor  
26 political subdivision's intention to contest at hearing the  
27 claim upon which the intended setoff is based, the commissioner  
28 shall initiate a hearing according to contested case procedures  
29 established in the state Administrative Procedure Act not later  
30 than 30 days after receipt of the debtor's request for a  
31 hearing. The costs of the hearing shall be paid equally by the  
32 political subdivisions that are parties to the hearing. The  
33 Office of Administrative Hearings shall separately bill each  
34 political subdivision for one-half of the costs.

35 (e) If the debtor political subdivision does not object to  
36 the claim, or does not prevail in an objection to the claim or

1 at a hearing on the claim, the commissioner shall deduct the  
2 amount of the debt from the next payment scheduled to be made to  
3 the debtor under section 273.1398 or chapter 477A. The  
4 commissioner shall remit the amount deducted to the claimant  
5 political subdivision. [270.66, subd. 4]

6 [EFFECTIVE DATE.] This section is effective August 1, 2005.

7 Sec. 21. [270C.19] [TAXES AND FEES; REFUND AND SHARING  
8 AGREEMENTS WITH INDIANS.]

9 Subdivision 1. [TAXES PAID BY INDIANS.] The commissioner  
10 is authorized to enter into a tax refund agreement with the  
11 governing body of any federally recognized Indian reservation in  
12 Minnesota. The agreement may provide for a mutually agreed upon  
13 amount as a refund to the governing body of any sales or excise  
14 tax paid by the total resident Indian population on or adjacent  
15 to a reservation into the state treasury, or for an amount which  
16 measures the economic value of an agreement by the tribal  
17 government to pay the equivalent of the state sales tax on items  
18 included in the sales tax base but exempt on the reservation,  
19 notwithstanding any other law which limits the refundment of  
20 taxes. The total resident Indian population on or adjacent to a  
21 reservation shall be defined according to the United States  
22 Department of the Interior, Bureau of Indian Affairs, as  
23 determined and stated in its Report on Service Population and  
24 Labor Force.

25 Subd. 2. [SALES, USE, AND EXCISE TAXES.] (a) The  
26 commissioner is authorized to enter into a tax agreement with  
27 the governing body of any federally recognized Indian  
28 reservation in Minnesota, that provides for the state and the  
29 tribal government to share sales, use, and excise tax revenues  
30 generated from on reservation activities of non-Indians and off  
31 reservation activities of members of the reservation. Every  
32 agreement entered into pursuant to this subdivision must require  
33 the commissioner to collect all state and tribal taxes covered  
34 by the agreement.

35 (b) The commissioner is authorized to collect any tribal  
36 taxes imposed pursuant to any agreement entered into pursuant to

1 this subdivision and to make payments authorized by the  
2 agreement to the tribal government from the funds collected.

3 (c) The commissioner shall pay to the tribal government its  
4 share of the taxes collected pursuant to the agreement, as  
5 indicated in the agreement, and grant the taxpayer a credit for  
6 the taxpayer's share of the amount paid to the tribal government  
7 against the taxpayer's Minnesota tax.

8 Subd. 3. [APPROPRIATION.] There is annually appropriated  
9 from the general fund to the commissioner the amounts necessary  
10 to make the refunds provided in this section.

11 Subd. 4. [PAYMENTS TO COUNTIES.] (a) The commissioner  
12 shall pay to a county in which an Indian gaming casino is  
13 located:

14 (1) ten percent of the state share of all taxes generated  
15 from activities on reservations and collected under a tax  
16 agreement under this section with the tribal government for the  
17 reservation located in the county; or

18 (2) five percent of excise taxes collected by the state  
19 that are determined by the department to have been generated  
20 from activities on a reservation located in the county, the  
21 tribal government of which does not have a tax agreement under  
22 this section and did not have a tax agreement on June 30, 2003.

23 If the tribe has casinos located in more than one county,  
24 the payment must be divided equally among the counties in which  
25 the casinos are located.

26 (b) The commissioner shall make the payments required under  
27 this subdivision by February 28 of the year following the year  
28 the taxes are collected.

29 (c) An amount sufficient to make the payments authorized by  
30 this subdivision is annually appropriated from the general fund  
31 to the commissioner.

32 Subd. 5. [FEES; APPROPRIATION.] (a) The commissioner may  
33 enter into an agreement with the governing body of any federally  
34 recognized Indian reservation in Minnesota concerning fees  
35 administered by the commissioner that are paid by the tribe,  
36 members of the tribe, or persons who conduct business with the

1 tribe, or otherwise imposed on on-reservation activities. The  
2 agreement may provide for the refund or sharing of the fee. The  
3 commissioner may make any payments required by the agreement  
4 from the fees collected.

5 (b) Each head of an agency, board, or other governmental  
6 entity that administers a program that is funded by fees  
7 administered by the commissioner may sign an agreement entered  
8 into by the commissioner under this subdivision. An agreement  
9 is not valid until signed by the head of each agency, board, or  
10 other governmental entity that administers a program funded by  
11 the particular fee covered in an agreement and by the  
12 commissioner.

13 (c) There is annually appropriated to the commissioner from  
14 the funds for which the fees are collected the amounts necessary  
15 to make payments as provided in this subdivision. [270.60]

16 [EFFECTIVE DATE.] This section is effective August 1, 2005.

17 TAX ADMINISTRATION

18 Sec. 22. [270C.25] [PROHIBITION OF SUITS TO RESTRAIN  
19 ASSESSMENT OR COLLECTION.]

20 Subdivision 1. [GENERAL RULE.] No suit to restrain  
21 assessment or collection of a tax, fee, penalty, or interest,  
22 imposed by a law administered by the commissioner, including a  
23 declaratory judgment action, can be maintained in any court by  
24 any person except pursuant to the express procedures in (1) this  
25 chapter, (2) chapter 271, (3) chapter 289A, and (4) any other  
26 law administered by the commissioner for contesting the  
27 assessment or collection of taxes, fees, penalties, or interest.

28 Subd. 2. [FACIAL CHALLENGE TO CONSTITUTIONALITY.] An  
29 action, otherwise prohibited under subdivision 1, that asserts a  
30 facial challenge to the constitutionality of a tax or fee  
31 imposed by a law administered by the commissioner may be  
32 maintained only if it is demonstrated to the court by clear and  
33 convincing evidence that under no circumstances could the  
34 commissioner ultimately prevail and that the taxpayer or fee  
35 payer will suffer irreparable harm if the relief sought is not  
36 granted. [289A.43]

1 [EFFECTIVE DATE.] This section is effective August 1, 2005.

2 Sec. 23. [270C.26] [PENALTY FOR FILING CERTAIN DOCUMENTS  
3 AGAINST DEPARTMENT OF REVENUE EMPLOYEES.]

4 Subdivision 1. [DEFINITIONS.] (a) "Recording office" means  
5 a county recorder, registrar of titles, or secretary of state in  
6 this state or another state.

7 (b) "Filing party" means the person or persons requesting  
8 or causing another person to request that the recording office  
9 accept documents or instruments for recording or filing.

10 Subd. 2. [INVALID DOCUMENTS NAMING COMMISSIONER OR  
11 DEPARTMENT EMPLOYEES.] Filing a document, including a  
12 nonconsensual common law lien under section 514.99, that  
13 purports to create a claim against the commissioner or an  
14 employee of the department based on performance or  
15 nonperformance of duties by the commissioner or employee is  
16 invalid unless accompanied by a specific order from a court of  
17 competent jurisdiction authorizing the filing of the document or  
18 unless a specific statute authorizes the filing of the document.

19 Subd. 3. [CIVIL PENALTY.] If a filing party causes a  
20 document described in subdivision 2 to be recorded in a  
21 recording office, the commissioner may assess a penalty against  
22 the filing party of \$1,000 per document filed, payable to the  
23 general fund. An order assessing a penalty under this section  
24 is reviewable administratively under section 270C.35 and is  
25 appealable to Tax Court under chapter 271. The penalty is  
26 collected and paid in the same manner as a tax collected by the  
27 commissioner. The penalty is in addition to any other remedy  
28 available to the commissioner or to an employee of the  
29 department against whom the document has been filed. [270.278]

30 [EFFECTIVE DATE.] This section is effective August 1, 2005.

31 Sec. 24. [270C.27] [CIVIL DAMAGES FOR FAILURE TO RELEASE  
32 LIEN.]

33 Subdivision 1. [IN GENERAL.] (a) A taxpayer may bring a  
34 civil action for damages against the commissioner in district  
35 court when an employee or the department has knowingly or  
36 negligently:

1 (1) failed to release a lien as required by section  
2 270C.63, subdivision 11; or

3 (2) failed to release a lien within 30 days after  
4 satisfaction of the liability on which the lien is based.

5 (b) An action under paragraph (a), clause (2), must be  
6 preceded by 30 days' written notice by the taxpayer to the  
7 commissioner and the taxpayer's rights advocate that the lien  
8 has not been released. An action under paragraph (a) must be  
9 commenced within two years after the date the right of action  
10 accrued.

11 Subd. 2. [DAMAGES.] On a finding of liability on the part  
12 of the defendant in an action brought under subdivision 1, the  
13 defendant is liable to the plaintiff in an amount equal to the  
14 sum of actual, direct economic damages sustained by the  
15 plaintiff due to the actions of the defendant, plus the costs of  
16 the action. Damages must be paid in accordance with section  
17 3.736, subdivision 7.

18 Subd. 3. [MITIGATION OF DAMAGES.] Damages awarded must be  
19 reduced by the amount of the damages that could reasonably have  
20 been mitigated by the plaintiff. [270.275]

21 [EFFECTIVE DATE.] This section is effective August 1, 2005.

22 Sec. 25. [270C.275] [CIVIL DAMAGES FOR CERTAIN  
23 UNAUTHORIZED COLLECTION ACTIONS.]

24 Subdivision 1. [IN GENERAL.] If in connection with the  
25 collection of delinquent taxes, an employee of the department  
26 recklessly or intentionally disregards a law administered by the  
27 commissioner, the taxpayer may bring a civil action for damages  
28 against the commissioner in district court within two years  
29 after the date the right of action accrues.

30 Subd. 2. [DAMAGES.] On a finding of liability on the part  
31 of the defendant in an action brought under subdivision 1, the  
32 defendant is liable to the plaintiff in an amount equal to the  
33 lesser of \$200,000, or the sum of (1) actual, direct economic  
34 damages sustained by the plaintiff as a proximate result of the  
35 reckless or intentional actions of the employee and (2) the  
36 costs of the action. Damages must be paid in accordance with

1 section 3.736, subdivision 7.

2 Subd. 3. [LIMITATIONS.] A judgment for damages must not be  
3 awarded under subdivision 2 unless the court determines that the  
4 plaintiff has exhausted the administrative remedies available to  
5 the plaintiff within the department. Damages awarded must be  
6 reduced by the amount of the damages that could reasonably have  
7 been mitigated by the plaintiff.

8 Subd. 4. [PENALTIES FOR PROCEDURES INSTITUTED PRIMARILY  
9 FOR DELAY.] When it appears to the district court that:

10 (1) proceedings before it under this section have been  
11 instituted or maintained by the taxpayer primarily for delay;

12 (2) the taxpayer's position in such proceeding is frivolous  
13 or groundless; or

14 (3) the taxpayer unreasonably failed to pursue available  
15 administrative remedies,

16 the district court, in its decision, may require the taxpayer to  
17 pay to the department a penalty not in excess of \$25,000. The  
18 penalty may be collected and paid in the same manner as a tax  
19 collected by the commissioner. [270.276]

20 [EFFECTIVE DATE.] This section is effective August 1, 2005.

21 Sec. 26. [270C.28] [DISCLOSURE OF RIGHTS OF TAXPAYERS.]

22 Subdivision 1. [IN GENERAL.] The commissioner shall  
23 prepare statements that set forth in simple and nontechnical  
24 terms:

25 (1) the rights and obligations of the department and the  
26 taxpayer during an audit;

27 (2) the procedures by which a taxpayer may appeal an  
28 adverse decision of the department, including administrative and  
29 judicial appeals;

30 (3) the procedures for filing refund claims and filing of  
31 taxpayer complaints; and

32 (4) the procedures that the department may use in enforcing  
33 a law administered by the commissioner, including assessment,  
34 jeopardy assessment, levy and distraint, and the filing of liens.

35 Subd. 2. [DISTRIBUTION.] The appropriate statement  
36 prepared in accordance with subdivision 1 must be distributed by



1 the commissioner to all taxpayers contacted with respect to the  
2 determination or collection of a tax, other than the providing  
3 of tax forms. Failure to receive the statement does not  
4 invalidate the determination or collection action. [270.0603]

5 [EFFECTIVE DATE.] This section is effective August 1, 2005.

6 Sec. 27. [270C.285] [PROCEDURES INVOLVING IN-PERSON  
7 TAXPAYER INTERVIEWS.]

8 Subdivision 1. [RECORDING OF INTERVIEWS.] (a) Upon  
9 reasonable advance notice from the taxpayer, a taxpayer shall be  
10 allowed to make an audio recording, with the taxpayer's  
11 equipment and at the taxpayer's expense, of an interview of the  
12 taxpayer by the department regarding the audit or collection of  
13 a tax.

14 (b) An employee of the department may record an interview  
15 described in paragraph (a) if the taxpayer is informed of the  
16 recording before the interview and a transcript or copy of the  
17 recording is made available to the taxpayer on the taxpayer's  
18 request, provided the department is reimbursed by the taxpayer  
19 for the cost of transcribing or copying the recording.

20 Subd. 2. [SAFEGUARDS.] (a) Before or at the start of an  
21 initial interview, an employee of the department shall provide  
22 to the taxpayer in the case of an audit interview an explanation  
23 of the audit process and the taxpayer's rights under that  
24 process and, in the case of a collection interview, an  
25 explanation of the collection process and the taxpayer's rights  
26 under that process.

27 (b) If a taxpayer requests to consult with an attorney,  
28 accountant, agent, preparer, or any other person permitted to  
29 represent the taxpayer before the department at any time during  
30 an interview, except an interview initiated by an administrative  
31 subpoena, the interview must be suspended for no more than 30  
32 days.

33 Subd. 3. [REPRESENTATIVES HOLDING POWER OF ATTORNEY.] An  
34 attorney, accountant, agent, preparer, or any other person  
35 permitted to represent the taxpayer before the department who  
36 has a written power of attorney executed by the taxpayer may

1 represent the taxpayer in an interview described in subdivision  
 2 1. The taxpayer may be required to accompany the representative  
 3 only if a subpoena is issued. In this instance, with the  
 4 consent of an immediate supervisor and after ten days' notice to  
 5 the representative, the department employee may notify the  
 6 taxpayer directly that the employee believes the representative  
 7 is unreasonably delaying the examination or investigation  
 8 process.

9 Subd. 4. [NOT TO APPLY TO CERTAIN INVESTIGATIONS.] This  
 10 section does not apply to criminal investigations or  
 11 investigations relating to the conduct of an employee of the  
 12 department. [270.272]

13 [EFFECTIVE DATE.] This section is effective August 1, 2005.

14 Sec. 28. [270C.29] [NOTICES TO HOLDERS OF POWERS OF  
 15 ATTORNEY.]

16 If a taxpayer has executed a written power of attorney, in  
 17 a form prescribed by the commissioner, the commissioner shall  
 18 allow the taxpayer to elect, in writing, that all notices and  
 19 correspondence between the department and the taxpayer will be  
 20 sent to the holder of the power of attorney. [270.277]

21 [EFFECTIVE DATE.] This section is effective August 1, 2005.

22 Sec. 29. [270C.30] [RETURNS; FORMAT; FURNISHING.]

23 The commissioner shall prescribe the content and format of  
 24 all returns, and may furnish them subject to charge on  
 25 application. [270.07, subd. 1, paragraph (a); 270.06, clause  
 26 (15)]

27 [EFFECTIVE DATE.] This section is effective August 1, 2005.

28 Sec. 30. [270C.302] [RETURNS, OTHER FORMS; WHERE FILED.]

29 Returns and other forms required to be filed under a law  
 30 administered by the commissioner must be filed at the  
 31 commissioner's office in St. Paul, or such other place as the  
 32 commissioner may designate. [289A.13]

33 [EFFECTIVE DATE.] This section is effective August 1, 2005.

34 Sec. 31. [270C.304] [ELECTRONICALLY FILED RETURNS;  
 35 SIGNATURES.]

36 For purposes of a law administered by the commissioner, the

1 name of the taxpayer, the name of the taxpayer's authorized  
2 agent, or the taxpayer's identification number, will constitute  
3 a signature when transmitted as part of the return information  
4 on returns filed by electronic means by the taxpayer or at the  
5 taxpayer's direction. "Electronic means" includes, but is not  
6 limited to, the use of a touch-tone telephone to transmit return  
7 information in a manner prescribed by the commissioner.

8 [289A.07]

9 [EFFECTIVE DATE.] This section is effective for returns  
10 filed on or after August 1, 2005.

11 Sec. 32. [270C.306] [COMMISSIONER MAY REQUIRE SOCIAL  
12 SECURITY OR IDENTIFYING NUMBERS ON FORMS.]

13 Notwithstanding the provisions of any other law, the  
14 commissioner may require that a form required to be filed with  
15 the commissioner include the Social Security number, federal  
16 employer identification number, or Minnesota taxpayer  
17 identification number of the taxpayer or applicant. [270.066]

18 [EFFECTIVE DATE.] This section is effective August 1, 2005.

19 Sec. 33. [270C.308] [PROHIBITION OF DISPLAY OF SOCIAL  
20 SECURITY NUMBERS.]

21 No label, envelope, or other material printed by the  
22 department may include the Social Security number of the  
23 taxpayer in a place that will be visible to a third party when  
24 delivered or mailed to the taxpayer. [270.0665]

25 [EFFECTIVE DATE.] This section is effective August 1, 2005.

26 Sec. 34. [270C.31] [EXAMINATIONS AND INVESTIGATIONS.]

27 Subdivision 1. [SCOPE.] To determine the accuracy of a  
28 return, to fix liability under state revenue law, to administer  
29 state revenue law, when conducting an investigation or an audit  
30 of a taxpayer, for the purpose of collection, and in any matter  
31 which the commissioner has the power to investigate or  
32 determine, the commissioner has authority to take the actions  
33 allowed in this section. [270.06, clauses (6) and (9); 289A.36,  
34 subd. 1]

35 Subd. 2. [REASONABLE EXAMINATIONS OR INVESTIGATIONS OF  
36 TAXPAYER.] The commissioner may make reasonable examinations or

1 investigations of a taxpayer's place of business, tangible  
2 personal property, equipment, computer systems, and facilities.  
3 The commissioner may inspect and copy the taxpayer's relevant  
4 books, records, papers, documents, and other data, in whatever  
5 form. [289A.36, subds. 1 and 3, clause (1), regarding  
6 taxpayers]

7 Subd. 3. [ACCESS TO RECORDS.] The commissioner may  
8 examine, except where privileged by law, the relevant records  
9 and files of any person, business, institution, financial  
10 institution, state agency, agency of the United States  
11 government, or agency of any other state where permitted by  
12 statute, agreement, or reciprocity. [289A.36, subd. 2]

13 Subd. 4. [EXAMINATIONS UNDER OATH.] The commissioner may  
14 administer oaths and affirmations and examine taxpayers and  
15 other persons under oath or affirmation. [270.15; 289A.36,  
16 subd. 3, clauses (1) and (2)]

17 Subd. 5. [DEPOSITIONS.] The commissioner may depose  
18 witnesses who reside inside or outside the state, or who are  
19 absent from the state. Depositions are to be taken, upon notice  
20 to the interested party, if any, in the same manner that  
21 depositions of witnesses are taken in civil actions in the  
22 district court. [270.06, clause (9)]

23 Subd. 6. [WITNESS FEES.] The fees of witnesses required by  
24 the commissioner to appear are equal to those allowed to  
25 witnesses appearing before courts of this state. The fees must  
26 be paid in the manner provided for the payment of other expenses  
27 incident to the administration of state revenue law. [289A.36,  
28 subd. 3, clause (2)]

29 Subd. 7. [LIMITATION OF AUTHORITY.] The authority granted  
30 in this section to the commissioner does not apply to a matter  
31 that has been appealed to Tax Court. [270.0601]

32 [EFFECTIVE DATE.] This section is effective August 1, 2005.

33 Sec. 35. [270C.32] [SUBPOENAS.]

34 Subdivision 1. [AUTHORITY TO ISSUE SUBPOENAS.] In addition  
35 to the authority to examine and investigate granted under  
36 section 270C.31, and to carry out that authority, the

1 commissioner may issue subpoenas to compel a person, at a time  
2 and place reasonable under the circumstances, to appear and give  
3 testimony, and to produce relevant books, records, papers,  
4 documents, and other data, in whatever form, for inspection and  
5 copying. [289A.36, subds. 2 and 3, clause (1); 270.06, clause  
6 (7)]

7 Subd. 2. [REQUEST BY TAXPAYER FOR SUBPOENA.] When the  
8 commissioner has the authority to issue a subpoena, the  
9 commissioner shall honor a reasonable request by a taxpayer to  
10 issue a subpoena. [289A.36, subd. 6]

11 Subd. 3. [THIRD-PARTY SUBPOENA WHERE TAXPAYER'S IDENTITY  
12 IS KNOWN.] (a) An examination or investigation may extend to a  
13 person that the commissioner determines has access to  
14 information that may be relevant to the examination or  
15 investigation. When a subpoena requiring the production of  
16 records as described in subdivision 1 is served on a third-party  
17 record keeper, written notice of the subpoena must be mailed to  
18 the taxpayer and to any other person who is identified in the  
19 subpoena. The notices must be given within three days of the  
20 day on which the subpoena is served. The notice required by  
21 this subdivision is sufficient if it is mailed to the last known  
22 address of the addressee.

23 (b) The provisions of this subdivision regarding notice to  
24 the taxpayer or other parties identified in the subpoena do not  
25 apply if there is reasonable cause to believe that the giving of  
26 notice may lead to attempts to conceal, destroy, or alter  
27 records or assets relevant to the examination, to prevent the  
28 communication of information from other persons through  
29 intimidation, bribery, or collusion, or to flee to avoid  
30 prosecution, testifying, or production of records. [289A.36,  
31 subd. 4]

32 Subd. 4. [THIRD-PARTY SUBPOENA WHERE TAXPAYER'S IDENTITY  
33 IS NOT KNOWN.] (a) The commissioner may issue a subpoena that  
34 does not identify the person or persons with respect to whose  
35 liability the subpoena is issued, but only if:

36 (1) the subpoena relates to the investigation of a

1 particular person or ascertainable group or class of persons;

2 (2) there is a reasonable basis to believe that the person  
3 or group or class of persons may fail or may have failed to  
4 comply with a state revenue law;

5 (3) the information sought to be obtained from the  
6 examination of the records, and the identity of the person or  
7 persons with respect to whose liability the subpoena is issued,  
8 is not readily available from other sources;

9 (4) the subpoena is clear and specific as to the  
10 information sought to be obtained; and

11 (5) the information sought to be obtained is limited solely  
12 to the scope of the investigation.

13 (b) The party served with a subpoena that does not identify  
14 the person or persons with respect to whose tax liability the  
15 subpoena is issued shall, within 20 days after service of the  
16 subpoena, petition the district court for the judicial district  
17 of the county in which that party is located for a determination  
18 as to whether the commissioner has complied with all the  
19 requirements in paragraph (a), clauses (1) to (5), and thus,  
20 whether the subpoena is enforceable. If no petition is made by  
21 the party served within the time prescribed, the subpoena shall  
22 have the force and effect of a court order. [270.06, clause  
23 (8); 289A.36, subd. 5]

24 Subd. 5. [ACCESS TO RECORDS IN CONNECTION WITH EXAMINATION  
25 OF BUSINESSES LOCATED OUTSIDE THE STATE.] (a) In order to  
26 determine whether a business located outside the state of  
27 Minnesota is required to file a return under a law administered  
28 by the commissioner, the commissioner may examine the relevant  
29 records and files of the business. To the full extent permitted  
30 by the Minnesota and United States Constitutions, the  
31 commissioner may compel production of those relevant records and  
32 files by subpoena. The subpoena may be served on the secretary  
33 of state along with the address to which service of the subpoena  
34 is to be sent and a fee of \$50. The secretary of state shall  
35 forward a copy of the subpoena to the business using the  
36 procedures for service of process in section 5.25, subdivision 6.

1 (b) The commissioner shall pay the reasonable cost of  
2 producing records subject to subpoena under this subdivision if:

3 (1) the subpoenaed party cannot produce the records without  
4 undue burden; and

5 (2) the examination made pursuant to paragraph (a) shows  
6 that the subpoenaed party is not required to file a return under  
7 a law administered by the commissioner. [289A.36, subd.9]

8 Subd. 6. [DEMAND FOR COURT ADMINISTRATOR'S SUBPOENA.] In  
9 addition to administrative subpoenas of the commissioner, upon  
10 demand of the commissioner or an agent of the commissioner, the  
11 court administrator of any district court shall issue a subpoena  
12 for a witness to appear before the agent, or for the production  
13 of relevant books, records, papers, documents, and other data,  
14 in whatever form, to the agent for inspection and copying.  
15 [270.06, clause (17)]

16 Subd. 7. [ENFORCEMENT OF SUBPOENAS.] Failure to comply  
17 with a subpoena shall be punished in the same manner as contempt  
18 of the district court in the following venues:

19 (1) the district court of the district in which a court  
20 administrator's subpoena is issued under subdivision 6; [270.06,  
21 clause (17)]

22 (2) the district court of the district in which the party  
23 served with a subpoena is located, when the subpoena is issued  
24 by the commissioner or the commissioner's agent; and [270.06,  
25 clause (17); 289A.36, subd. 7, paragraph (a)]

26 (3) the District Court for Ramsey County, when a subpoena  
27 is issued under subdivision 5. In addition to contempt  
28 remedies, the court may issue any order it deems reasonable to  
29 enforce compliance with a subpoena issued under subdivision 5.  
30 [289A.36, subd. 7, paragraph (b)]

31 Subd. 8. [PENALTY FOR VIOLATING COURT ORDER TO COMPLY WITH  
32 SUBPOENA.] In addition to sanctions imposed under subdivision 7,  
33 a penalty of \$250 per day is imposed on any business that is in  
34 violation of a court order to comply with a subpoena that is  
35 seeking information necessary for the commissioner to be able to  
36 determine whether the business is required to file a return or

1 pay a tax. The maximum penalty is \$25,000. Upon the request of  
2 the commissioner, the court shall determine the amount of the  
3 penalty and enter it as a judgment in favor of the  
4 commissioner. The penalty is not payable until the judgment is  
5 entered. [289A.36, subd. 10]

6 Subd. 9. [COST OF PRODUCTION OF RECORDS.] The cost of  
7 producing records of a third party required by a subpoena must  
8 be paid by the taxpayer, if the taxpayer requests the subpoena  
9 to be issued, or if the taxpayer has the records available but  
10 has refused to provide them to the commissioner. In other cases  
11 where the taxpayer cannot produce records and the commissioner  
12 then issues a subpoena for third-party records, the commissioner  
13 shall pay the reasonable cost of producing the records. The  
14 commissioner may later assess the reasonable costs against the  
15 taxpayer if the records contribute to the determination of an  
16 assessment of tax against the taxpayer. [289A.36, subd. 8]

17 Subd. 10. [LIMITATION OF AUTHORITY.] The authority granted  
18 in this section to the commissioner and the commissioner's  
19 agents does not apply to a matter that has been appealed to Tax  
20 Court. [270.0601]

21 [EFFECTIVE DATE.] This section is effective August 1, 2005.

22 Sec. 36. [270C.33] [COMMISSIONER ASSESSMENT PROCEDURES.]

23 Subdivision 1. [ORDERS AND DECISIONS.] All orders and  
24 decisions of the commissioner, or any subordinates, respecting  
25 any tax, assessment, or other obligation, must be in writing and  
26 entered into the records of the commissioner. [270.10, subd. 1]

27 Subd. 2. [NOTICES.] (a) At the same time that notice of an  
28 assessment, determination, or order, of the commissioner is  
29 given to a taxpayer, the taxpayer must be given a written notice  
30 that:

31 (1) describes the taxpayer's appeal rights;

32 (2) lists the amounts of tax, interest, additions to tax,  
33 and penalties due; and

34 (3) explains the basis for the assessment.

35 (b) Failure to provide all the required information does  
36 not invalidate the assessment, determination, or order for



1 purposes of satisfying statutory notice requirements if the  
2 assessment, determination, or order contains sufficient  
3 information to advise the taxpayer that an assessment has been  
4 made. [270.10, subd. 1a; 289A.37, subd. 1, paragraph (a)]

5 Subd. 3. [COMMISSIONER FILED RETURNS.] If a taxpayer fails  
6 to file a return, the commissioner, from information in the  
7 commissioner's possession or obtainable by the commissioner, may  
8 make and file a return for the taxpayer, or may issue an order  
9 of assessment under subdivision 4. [289A.35]

10 Subd. 4. [ORDERS OF ASSESSMENT.] (a) The commissioner may  
11 issue an order of assessment in any of the following  
12 circumstances:

13 (1) the commissioner determines that the correct amount of  
14 tax is different than that assessed on a return filed with the  
15 commissioner; [289A.37, subd. 1]

16 (2) no return has been filed and the commissioner  
17 determines the amount of tax that should have been assessed;  
18 [289A.37, subd. 1]

19 (3) the commissioner determines that the correct amount of  
20 a refundable credit is different than the amount claimed by a  
21 taxpayer. For purposes of this subdivision, "refundable credit"  
22 means a refund benefit or credit due a person that is unrelated  
23 to the person's liability for a tax. "Refundable credit" does  
24 not include estimated tax payments or withholding taxes. An  
25 assessment for an overpayment of a refundable credit may be  
26 collected in the same manner as a tax collected by the  
27 commissioner; and

28 (4) the commissioner determines the correct amount of a tax  
29 that the taxpayer is not required to assess by a return filed  
30 with the commissioner.

31 (b) An order of assessment must be in writing. [270.10,  
32 subd. 1]

33 (c) An order of assessment must be signed by the  
34 commissioner or a delegate, or have their facsimile signature,  
35 if the change in tax, excluding penalties and interest, exceeds  
36 \$1,000. [270.10, subd. 1]

1 (d) An order of assessment is final when made but, as  
2 applicable, is reviewable administratively under section  
3 270C.35, or appealable to Tax Court under chapter 271. [289A.37,  
4 subd. 1, paragraph (a)]

5 Subd. 5. [PROHIBITION AGAINST COLLECTION DURING APPEAL  
6 PERIOD OF AN ORDER.] No collection action can be taken on an  
7 order of assessment, including the filing of liens under section  
8 270C.63, and no late payment penalties may be imposed when a  
9 return has been filed for the tax type and period upon which the  
10 order is based, during the appeal period of an order. The  
11 appeal period of an order ends: (1) 60 days after the order has  
12 been mailed to the taxpayer by the commissioner; (2) if an  
13 administrative appeal is filed under section 270C.35, 60 days  
14 after determination of the administrative appeal; (3) if an  
15 appeal to Tax Court is filed under chapter 271, when the  
16 decision of the Tax Court is made; or (4) if an appeal to Tax  
17 Court is filed and the appeal is based upon a constitutional  
18 challenge to the tax, 60 days after final determination of the  
19 appeal. This subdivision does not apply to a jeopardy  
20 assessment under section 270C.36, or a jeopardy collection under  
21 section 270C.36. [289A.37, subd. 1, paragraph (b); 270.10,  
22 subd. 5]

23 Subd. 6. [ASSESSMENT PRESUMED VALID.] A return or  
24 assessment of tax made by the commissioner is prima facie  
25 correct and valid. The taxpayer has the burden of establishing  
26 its incorrectness or invalidity in any related action or  
27 proceeding. [289A.37, subd. 3]

28 Subd. 7. [AGGREGATE REFUND OR ASSESSMENT.] The  
29 commissioner, on examining returns for more than one year or  
30 period, may issue one order covering the period under  
31 examination that reflects the aggregate refund or additional tax  
32 due. [289A.37, subd. 4]

33 Subd. 8. [SUFFICIENCY OF NOTICE.] An assessment of tax  
34 made by the commissioner, sent postage prepaid by United States  
35 mail to the taxpayer at the taxpayer's last known address, is  
36 sufficient even if the taxpayer is deceased or is under a legal

1 disability, or, in the case of a corporation, has terminated its  
2 existence, unless the commissioner has been provided with a new  
3 address by a party authorized to receive notices of assessment.  
4 [289A.37, subd. 5]

5 Subd. 9. [CONSENT AGREEMENT.] A taxpayer shall have the  
6 right at any time, whether or not an order has been issued, to  
7 sign and deliver to the commissioner a written consent to a  
8 change in tax liability that waives the requirement of any  
9 additional notice and all rights to an administrative appeal and  
10 appeal to Tax Court concerning the assessment and collection of  
11 any part or all of the tax liability. [270.67, subd. 3]

12 [EFFECTIVE DATE.] This section is effective for assessments  
13 made on or after August 1, 2005.

14 Sec. 37. [270C.34] [ABATEMENT OF PENALTY, INTEREST, AND  
15 ADDITIONAL TAX CHARGE.]

16 Subdivision 1. [AUTHORITY.] (a) The commissioner may  
17 abate, reduce, or refund any penalty or interest that is imposed  
18 by a law administered by the commissioner as a result of the  
19 late payment of tax or late filing of a return, if the failure  
20 to timely pay the tax or failure to timely file the return is  
21 due to reasonable cause, or if the taxpayer is located in a  
22 presidentially declared disaster area. [270.07, subd. 1,  
23 paragraph (e)]

24 (b) The commissioner shall abate any part of a penalty or  
25 additional tax charge under section 289A.25, subdivision 2, or  
26 289A.26, subdivision 4, attributable to erroneous advice given  
27 to the taxpayer in writing by an employee of the department  
28 acting in an official capacity, if the advice:

29 (1) was reasonably relied on and was in response to a  
30 specific written request of the taxpayer; and

31 (2) was not the result of failure by the taxpayer to  
32 provide adequate or accurate information. [270.07, subd. 6,  
33 paragraph (c)]

34 Subd. 2. [PROCEDURE.] (a) A request for abatement of  
35 penalty under subdivision 1 or section 289A.60, subdivision 4,  
36 must be filed with the commissioner within 60 days of the date

1 the notice was mailed to the taxpayer's last known address,  
 2 stating that a penalty has been imposed.

3 (b) If the commissioner issues an order denying a request  
 4 for abatement of penalty, the taxpayer may file an  
 5 administrative appeal as provided in section 270C.35 or appeal  
 6 to Tax Court as provided in section 271.06.

7 (c) If the commissioner does not issue an order on the  
 8 abatement request within 60 days from the date the request is  
 9 received, the taxpayer may appeal to Tax Court as provided in  
 10 section 271.06. [270.07, subd. 6, paragraphs (a) and (b)]

11 [EFFECTIVE DATE.] This section is effective August 1, 2005.

12 Sec. 38. [270C.345] [DETERMINATION OF MINIMUMS AND  
 13 CANCELLATION; ADDITIONAL TAX, COLLECTION, REFUNDS.]

14 Notwithstanding any other provision of law, the  
 15 commissioner may:

16 (1) based upon the administrative costs of processing,  
 17 determine minimum standards for the determination of additional  
 18 tax for which an order shall be issued;

19 (2) based upon collection costs as compared to the amount  
 20 of tax involved, determine minimum standards of collection;

21 (3) based upon the administrative costs of processing,  
 22 determine the minimum amount of a refund to be made where no  
 23 claim has been filed; and

24 (4) cancel any amounts below these minimum standards  
 25 determined under clauses (1) and (2). [270.07, subd. 3]

26 [EFFECTIVE DATE.] This section is effective August 1, 2005.

27 Sec. 39. [270C.346] [ERRONEOUS REMITTANCES.]

28 If a remittance is erroneously made payable to the  
 29 commissioner and the commissioner had knowledge that the proper  
 30 payee is a state or local official of this state, the  
 31 commissioner may endorse such remittance to the proper state or  
 32 local official. The commissioner is also authorized to return a  
 33 remittance if the records indicate that it has been erroneously  
 34 submitted. [270.07, subd. 4]

35 [EFFECTIVE DATE.] This section is effective August 1, 2005.

36 Sec. 40. [270C.347] [REBATE CHECKS AND WARRANTS; AUTHORITY

1 TO REISSUE; APPROPRIATION.]

2 Subdivision 1. [CHECKS AND WARRANTS, AUTHORITY TO  
3 REISSUE.] Notwithstanding any other provision of law, the  
4 commissioner may, based on a showing of reasonable cause,  
5 reissue an uncashed rebate or property tax refund warrant or  
6 check that has lapsed under any provision of law relating to  
7 rebates or under section 290A.18, subdivision 2. The authority  
8 to reissue warrants or checks under this paragraph is limited to  
9 five years after the date of issuance of the original warrant or  
10 check. [270.07, subd. 3, paragraph (f)]

11 Subd. 2. [APPROPRIATION.] An amount sufficient for the  
12 reissuance of rebate warrants authorized under subdivision 1 is  
13 appropriated to the commissioner from the general fund.  
14 [270.07, subd. 3a]

15 [EFFECTIVE DATE.] This section is effective August 1, 2005.

16 Sec. 41. [270C.35] [ADMINISTRATIVE REVIEW.]

17 Subdivision 1. [TAXPAYER RIGHT TO RECONSIDERATION.] A  
18 taxpayer may obtain reconsideration by the commissioner of an  
19 order assessing tax, a denial of a request for abatement of  
20 penalty or interest imposed by a law administered by the  
21 commissioner, or a denial of a claim for refund by filing an  
22 administrative appeal under subdivision 4. A taxpayer cannot  
23 obtain reconsideration under this section if the action taken by  
24 the commissioner is the outcome of an administrative appeal.

25 Subd. 2. [APPEAL BY TAXPAYER.] A taxpayer who wishes to  
26 seek administrative review must follow the procedures in  
27 subdivision 4.

28 Subd. 3. [NOTICE DATE.] For purposes of this section, the  
29 term "notice date" means the date of the order adjusting the tax  
30 or order denying a request for abatement, or, in the case of a  
31 denied refund, the date of the notice of denial.

32 Subd. 4. [TIME AND CONTENT FOR ADMINISTRATIVE APPEAL.]  
33 Within 60 days after the notice date, the taxpayer must file a  
34 written appeal with the commissioner. The appeal need not be in  
35 any particular form but must contain the following information:

36 (1) name and address of the taxpayer;

1 (2) if a corporation, the state of incorporation of the  
2 taxpayer, and the principal place of business of the  
3 corporation;

4 (3) the Minnesota identification number or Social Security  
5 number of the taxpayer;

6 (4) the type of tax involved;

7 (5) the date;

8 (6) the tax years or periods involved and the amount of tax  
9 involved for each year or period;

10 (7) the findings in the notice that the taxpayer disputes;

11 (8) a summary statement that the taxpayer relies on for  
12 each exception; and

13 (9) the taxpayer's signature or signature of the taxpayer's  
14 duly authorized agent.

15 Subd. 5. [EXTENSIONS.] When requested in writing and  
16 within the time allowed for filing an administrative appeal, the  
17 commissioner may extend the time for filing an appeal for a  
18 period not more than 30 days from the expiration of the 60 days  
19 from the notice date.

20 Subd. 6. [DETERMINATION OF APPEAL.] On the basis of  
21 applicable law and available information, the commissioner shall  
22 determine the validity, if any, in whole or part of the appeal  
23 and notify the taxpayer of the decision. This notice must be in  
24 writing and contain the basis for the determination.

25 Subd. 7. [AGREEMENT DETERMINING TAX LIABILITY.] When it  
26 appears to be in the best interests of the state, the  
27 commissioner may settle any taxes, penalties, or interest that  
28 the commissioner has under consideration by virtue of an appeal  
29 filed under this section. An agreement must be in writing and  
30 signed by the commissioner and the taxpayer, or the taxpayer's  
31 representative authorized by the taxpayer to enter into an  
32 agreement. The agreement shall be final and conclusive and,  
33 except upon a showing of fraud or malfeasance, or  
34 misrepresentation of a material fact, the case shall not be  
35 reopened as to the matters agreed upon.

36 Subd. 8. [ORDER AND APPEAL OF AN ADMINISTRATIVE

1 DETERMINATION.] Following the determination of an appeal and  
2 notwithstanding any period of limitations for making assessments  
3 or other determinations to the contrary, the commissioner must  
4 issue an order reflecting that disposition. If the statute of  
5 limitations for making assessments or other determinations would  
6 have expired before the issuance of this order, except for this  
7 section, the order is limited to issues or matters contained in  
8 the appealed determination. The order is appealable to the  
9 Minnesota Tax Court under section 271.06.

10 Subd. 9. [APPEAL WHERE NO DETERMINATION.] If the  
11 commissioner does not make a determination within six months of  
12 the filing of an administrative appeal, the taxpayer may elect  
13 to appeal to Tax Court.

14 Subd. 10. [EXEMPTION FROM ADMINISTRATIVE PROCEDURE ACT.]  
15 This section is not subject to chapter 14. [289A.65]

16 [EFFECTIVE DATE.] This section is effective August 1, 2005.

17 Sec. 42. [270C.36] [JEOPARDY ASSESSMENT AND COLLECTION.]

18 Subdivision 1. [ASSESSMENT.] If the commissioner has  
19 reasonable grounds to believe that a taxpayer is about to leave,  
20 or take property from, this state with the purpose of evading a  
21 tax, or that the collection of the tax will be jeopardized by  
22 delays incident to other methods of collection, the commissioner  
23 may immediately declare the taxpayer's reporting period to be at  
24 an end and assess the tax due by issuing an order under section  
25 270C.33, subdivision 4. The commissioner may make the  
26 assessment on the basis of knowledge or information available to  
27 the commissioner, and notwithstanding the prohibition against  
28 collection under section 270C.33, subdivision 5, demand  
29 immediate payment of the amount due shown in the assessment.

30 [290.48, subd. 4; 290.92, subd. 6b; 297A.93, paragraph (a)]

31 Subd. 2. [COLLECTION.] Notwithstanding the prohibition  
32 against collection in section 270C.33, subdivision 5, and the  
33 notice provisions in section 270C.67, subdivision 3, if the  
34 commissioner has reason to believe that collection of a tax is  
35 in jeopardy, notice and demand for immediate payment of the tax  
36 may be made. If the tax is not paid, the commissioner may

1 proceed to collect by levy or by filing a lien under section  
2 270C.63. For this purpose, "tax" includes any penalty,  
3 interest, and costs, properly payable. [270.70, subs. 1 and 2,  
4 paragraph (b)]

5 Subd. 3. [ADMINISTRATIVE REVIEW.] Within five days after a  
6 jeopardy assessment or jeopardy collection is made to assess or  
7 collect a tax, the commissioner shall provide the taxpayer with  
8 a written statement of the information relied on in making the  
9 assessment or levy. Within 30 days after the written statement  
10 is provided or, if not provided, within 35 days after the  
11 assessment or levy, the taxpayer may request the commissioner to  
12 review the action taken. After a request for review, the  
13 commissioner shall determine whether the assessment or levy is  
14 reasonable and whether the amount assessed or demanded as a  
15 result of the action is appropriate under the circumstances.

16 Subd. 4. [JUDICIAL REVIEW.] A determination by the  
17 commissioner under subdivision 3 is appealable to the Tax Court  
18 in the manner provided by law, and the appeal must be  
19 expeditiously heard by the court. If the court determines that  
20 the making of the assessment or levy is unreasonable, or that  
21 the amount assessed or demanded is inappropriate, the court may  
22 order the commissioner to release the levy, abate the  
23 assessment, redetermine in whole or in part the amount assessed  
24 or demanded, or take other action. A determination by the court  
25 under this subdivision is final and may not be appealed by  
26 either party.

27 Subd. 5. [BURDEN OF PROOF.] In a proceeding under  
28 subdivision 4, the burden of proving that the assessment or  
29 collection of the tax was jeopardized by delay is on the  
30 commissioner. Regarding the issue of whether the amount  
31 assessed or demanded as a result of the action is appropriate,  
32 the commissioner shall provide a written statement explaining  
33 the basis for determining the amount, and the burden is on the  
34 taxpayer to show that the statement is incorrect or invalid.

35 [270.274]

36 Subd. 6. [DEFENSES.] It is not a defense to an assessment



1 or demand made under this section that the tax period has not  
2 terminated, that the time otherwise allowed by law to file a  
3 return has not expired, that the notices otherwise required by  
4 law for making an assessment or demand have not been given, or  
5 that the time otherwise allowed by law to appeal or pay the tax  
6 has not expired. [297A.93, paragraph (b)]

7 [EFFECTIVE DATE.] This section is effective for assessments  
8 made and collection action taken on or after August 1, 2005.

9 Sec. 43. [270C.37] [TAXPAYER ASSISTANCE ORDERS; TAXPAYER'S  
10 RIGHTS ADVOCATE.]

11 Subdivision 1. [AUTHORITY TO ISSUE.] On application filed  
12 by a taxpayer with the Department of Revenue taxpayer's rights  
13 advocate, in the form, manner, and in the time prescribed by the  
14 commissioner, and after thorough investigation, the taxpayer's  
15 rights advocate may issue a taxpayer assistance order if, in the  
16 determination of the taxpayer's rights advocate, the manner in  
17 which a law administered by the commissioner is being carried  
18 out is creating or will create an unjust and inequitable result  
19 for the taxpayer.

20 Subd. 2. [TERMS OF A TAXPAYER ASSISTANCE ORDER.] A  
21 taxpayer assistance order may require the department within a  
22 specified time period to release property of the taxpayer levied  
23 on, cease any action, take any action as permitted by law, or  
24 refrain from taking any action to enforce a law administered by  
25 the commissioner against the taxpayer, until the issue or issues  
26 giving rise to the order have been resolved.

27 Subd. 3. [AUTHORITY TO MODIFY OR RESCIND.] A taxpayer  
28 assistance order issued by the taxpayer's rights advocate under  
29 this section may be modified or rescinded by the commissioner.

30 Subd. 4. [SUSPENSION OF RUNNING OF PERIOD OF LIMITATION.]  
31 The running of the period of limitation with respect to an  
32 action described in subdivision 2 is suspended from the date of  
33 the taxpayer assistance order until the expiration date of the  
34 order or, if modified, the expiration date of the modified order  
35 or, if rescinded, the date of the rescission.

36 Subd. 5. [INDEPENDENT ACTION OF TAXPAYER'S RIGHTS

1 ADVOCATE.] This section does not prevent the taxpayer's rights  
2 advocate from taking action in the absence of an application  
3 under subdivision 1.

4 Subd. 6. [TAXPAYER'S RIGHTS ADVOCATE.] For purposes of  
5 this section, the term "taxpayer's rights advocate" includes a  
6 designee of the taxpayer's rights advocate. The taxpayer's  
7 rights advocate shall represent the interests of taxpayers who  
8 have grievances against the department in connection with an  
9 audit or collection activity, and shall report directly to the  
10 commissioner. A determination of the taxpayer's rights advocate  
11 under this section to issue or to not issue a taxpayer  
12 assistance order is final and cannot be appealed to the Tax  
13 Court or any other court. [270.273]

14 [EFFECTIVE DATE.] This section is effective August 1, 2005.  
15 Sec. 44. [270C.38] [NOTICE OF DETERMINATION OR ACTION OF  
16 THE COMMISSIONER.]

17 Subdivision 1. [SUFFICIENT NOTICE.] If no method of  
18 notification of a written determination or action of the  
19 commissioner is otherwise specifically provided for by law,  
20 notice of the determination or action sent postage prepaid by  
21 United States mail to the taxpayer or other person affected by  
22 the determination or action at the taxpayer's or person's last  
23 known address, is sufficient. If the taxpayer or person being  
24 notified is deceased or is under a legal disability, or, in the  
25 case of a corporation being notified that has terminated its  
26 existence, notice to the last known address of the taxpayer,  
27 person, or corporation is sufficient, unless the department has  
28 been provided with a new address by a party authorized to  
29 receive notices from the commissioner.

30 Subd. 2. [SERVICE OF NOTICE BY MAIL.] Notwithstanding any  
31 other law to the contrary, the commissioner, if required to  
32 serve notices by registered or certified mail, may choose to  
33 make such service by regular mail, retaining a record of  
34 adequate proof of such service. [270.061]

35 [EFFECTIVE DATE.] This section is effective for notices  
36 issued on or after August 1, 2005.

1       Sec. 45. [270C.39] [DUE DATE ON SATURDAY, SUNDAY, OR  
2 HOLIDAY.]

3       When the last day prescribed by law for the payment of any  
4 tax to or the filing of any return, statement, or document with  
5 the commissioner or the department falls on Saturday, Sunday, or  
6 a legal holiday, the performance of such act shall be considered  
7 timely if it is performed on the next succeeding day which is  
8 not a Saturday, Sunday, or legal holiday. For purposes of this  
9 section, the last day for the performance of the prescribed act  
10 shall be determined by including any authorized extension of  
11 time; the term "legal holiday" shall mean any day made a holiday  
12 in Minnesota by section 645.44, subdivision 5, or by the laws of  
13 the United States. [270.27]

14       [EFFECTIVE DATE.] This section is effective August 1, 2005.

15       Sec. 46. [270C.395] [TIMELY MAILING TREATED AS TIMELY  
16 FILING AND PAYING.]

17       Subdivision 1. [DATE OF DELIVERY.] When a document,  
18 including a return, claim, or statement, is required to be  
19 filed, or a payment is required to be made to the commissioner  
20 within a prescribed period, or on or before a prescribed date,  
21 and if the document or payment is delivered by electronic means  
22 or by United States mail after the period or the date to the  
23 place prescribed for filing or payment, then the date of  
24 delivery or of payment is the date of the confirmation  
25 time-and-date stamp of the transaction, if delivered by  
26 electronic means, or the date of the United States postmark  
27 stamped on the cover in which the document or payment is mailed,  
28 if delivered by United States mail, as the case may be.

29       Subd. 2. [MAILING REQUIREMENTS.] Subdivision 1 applies  
30 only if:

31       (1) the postmark date falls within the prescribed period or  
32 on or before the prescribed date,

33       (i) for filing (including any extension granted for the  
34 filing) of the document, or

35       (ii) for making the payment (including any extension  
36 granted for making the payment); and

1 (2) the document or payment was within the time prescribed  
2 in clause (1), deposited in the mail in the United States in an  
3 envelope or other appropriate wrapper, postage prepaid, properly  
4 addressed to the office of the Department of Revenue with which  
5 the document is required to be filed or to which payment is  
6 required to be made.

7 Subd. 3. [CONFIRMATION OF ELECTRONIC FILING AND PAYMENT  
8 AND UNITED STATES POSTAL SERVICE POSTMARK.] The confirmation  
9 numbers and confirmation time-and-date stamps received by the  
10 taxpayer following electronic payment or filing are proof of the  
11 payment authorization and filing dates. Only the postmark of  
12 the United States Postal Service, rather than those of private  
13 postage meters, qualifies as proof of timely mailing under this  
14 section. If the document or payment is sent by United States  
15 registered mail, the date of registration shall be treated as  
16 the postmark date. If the document or payment is sent by United  
17 States certified mail and the sender's receipt is postmarked by  
18 the postal employee to whom the envelope containing such  
19 document or payment is presented, the date of the United States  
20 postmark on the receipt shall be treated as the postmark date of  
21 the document or payment.

22 Subd. 4. [RECEIPT DATE OTHERWISE GOVERNS.] In any case in  
23 which the document or payment is not treated as timely filed or  
24 paid under this section, the date of receipt by the  
25 commissioner, and not the postmark date, shall govern for  
26 purposes of determining the amount of any penalties for late  
27 filing or payment.

28 Subd. 5. [PRIVATE DELIVERY SERVICES.] A reference in this  
29 section to the United States mail shall be treated as including  
30 a reference to any designated delivery service, and any  
31 reference in this section to a postmark by the United States  
32 Postal Service shall be treated as including a reference to any  
33 date recorded or marked by any designated delivery service in  
34 accordance with section 7502(f) of the Internal Revenue Code.

35 [270.271]

36 [EFFECTIVE DATE.] This section is effective August 1, 2005.

1 Sec. 47. [270C.40] [INTEREST PAYABLE TO COMMISSIONER.]

2 Subdivision 1. [INTEREST; RATE.] If any tax payable to the  
3 commissioner or to the department is not paid within the time  
4 specified by law for payment, the unpaid tax shall bear interest  
5 at the rate for each year determined in subdivision 5 from the  
6 date such tax should have been paid until the date that the tax  
7 was paid, unless otherwise provided by law.

8 Subd. 2. [EXTENSION OF TIME.] When an extension of time  
9 has been granted by the commissioner, interest shall be paid at  
10 the rate for each year determined in subdivision 5 from the date  
11 such payment should have been made, if no extension had been  
12 granted, until the date of payment of such tax.

13 Subd. 3. [PENALTY.] If any penalty payable to the  
14 commissioner shall by law bear interest, such penalty shall bear  
15 interest at the rate for each year determined in subdivision 5  
16 from the date the penalty was assessable until the date that  
17 such penalty was paid, unless a different rate of interest is  
18 otherwise provided by law.

19 Subd. 4. [UNDERPAYMENT OF ESTIMATED TAX.] There shall be  
20 added to the amount of any underpayment of estimated tax,  
21 computed pursuant to chapter 289A, an amount in lieu of  
22 interest. The amount in lieu of interest for that taxable year  
23 shall be the amount determined in subdivision 5 for January 1 on  
24 which begins the taxable year or precedes the beginning of the  
25 taxable year. The amount in lieu of interest does not bear  
26 interest after the due date of the return for that taxable year.

27 Subd. 5. [ANNUAL INTEREST RATE.] The rate of interest or  
28 amount in lieu of interest contained in subdivisions 1 to 4  
29 shall be determined by the commissioner not later than October  
30 15 of each year and shall be equal to the prime rate charged by  
31 banks during the six-month period ending on September 30 of that  
32 year, rounded to the nearest full percent. The rate of interest  
33 or amount in lieu of interest becomes effective on January 1 of  
34 the immediately succeeding year except as provided in  
35 subdivision 4. For purposes of this subdivision, the term  
36 "prime rate charged by banks" means the average predominant

1 prime rate quoted by commercial banks to large businesses, as  
2 determined by the Board of Governors of the Federal Reserve  
3 System. The determination of the commissioner pursuant to this  
4 subdivision shall not be considered a "rule" and shall not be  
5 subject to the Administrative Procedure Act contained in chapter  
6 14.

7 Subd. 6. [UNPAID JUDGMENT.] Notwithstanding section  
8 549.09, if judgment is entered upon any tax payable to the  
9 commissioner which has not been paid within the time specified  
10 by law for payment, the unpaid judgment shall bear interest at  
11 the rate specified in this section from the date judgment is  
12 entered until the date of payment. [270.75]

13 [EFFECTIVE DATE.] This section is effective August 1, 2005.

14 Sec. 48. [270C.405] [INTEREST ON REFUNDS.]

15 When any tax payable to the commissioner or to the  
16 department is overpaid and an amount is due the taxpayer as a  
17 refund of the overpayment, the overpayment shall bear interest  
18 from the date of payment of the tax until the date the refund is  
19 paid or credit is made, unless another period for computing  
20 interest is provided by law. The interest rate per annum on  
21 overpayments shall be the interest rate contained in section  
22 270C.40, subdivision 5; the rate shall be adjusted annually and  
23 become effective as provided in section 270C.40, subdivision 5.  
24 The determination of the commissioner pursuant to this  
25 subdivision is not a "rule" and is not subject to the  
26 Administrative Procedure Act contained in chapter 14. [270.76]

27 [EFFECTIVE DATE.] This section is effective August 1, 2005.

28 Sec. 49. [270C.41] [AGREEMENT WITH INTERNAL REVENUE  
29 SERVICE.]

30 Pursuant to section 270B.12, the commissioner may enter  
31 into an agreement with the Internal Revenue Service to identify  
32 taxpayers who have refunds due from the department and  
33 liabilities owing to the Internal Revenue Service. In  
34 accordance with the procedures established in the agreement, the  
35 Internal Revenue Service may levy against the refunds to be paid  
36 by the department. For each refund levied upon, the

1 commissioner shall first deduct from the refund a fee of \$20,  
2 and then remit the refund or the amount of the levy, whichever  
3 is less, to the Internal Revenue Service. The proceeds of fees  
4 shall be deposited into the Department of Revenue recapture  
5 revolving fund under section 270A.07, subdivision 1. [270.052]

6 [EFFECTIVE DATE.] This section is effective August 1, 2005.

7 Sec. 50. [270C.42] [ELECTRONIC PAYMENTS; PENALTY.]

8 Subdivision 1. [PAYMENTS REQUIRED TO BE MADE

9 ELECTRONICALLY.] (a) If a taxpayer is required to make payment  
10 of a tax to the commissioner by electronic means, the taxpayer  
11 shall make all payments of all taxes and fees paid to the  
12 commissioner by electronic means.

13 (b) Paragraph (a) does not apply to payments required to be  
14 made for individual income taxes under section 289A.20,  
15 subdivision 1, paragraph (a), or 289A.25. [270.771]

16 Subd. 2. [PENALTY FOR FAILURE TO PAY ELECTRONICALLY.] In  
17 addition to other applicable penalties imposed by law, after  
18 notification from the commissioner to the taxpayer that payments  
19 for a tax payable to the commissioner are required to be made by  
20 electronic means, and the payments are remitted by some other  
21 means, there is a penalty in the amount of five percent of each  
22 payment that should have been remitted electronically. After  
23 the commissioner's initial notification to the taxpayer that  
24 payments are required to be made by electronic means, the  
25 commissioner is not required to notify the taxpayer in  
26 subsequent periods if the initial notification specified the  
27 amount of tax liability at which a taxpayer is required to remit  
28 payments by electronic means. The penalty can be abated under  
29 the abatement procedures prescribed in section 270C.34 if the  
30 failure to remit the payment electronically is due to reasonable  
31 cause. The penalty bears interest at the rate specified in  
32 section 270C.40 from the due date of the payment of the tax to  
33 the date of payment of the penalty. [270.78]

34 [EFFECTIVE DATE.] This section is effective August 1, 2005.

35 Sec. 51. [270C.425] [FINANCIAL TRANSACTION CARDS; PAYMENT  
36 OF TAXES; APPROPRIATION.]

1 (a) The commissioner may allow taxpayers to use financial  
2 transaction cards, as defined in section 325G.02, subdivision 2,  
3 to pay any of the following which are payable to the  
4 commissioner:

5 (1) taxes;

6 (2) estimated tax deposits;

7 (3) penalties;

8 (4) interest;

9 (5) additions to taxes; and

10 (6) fees.

11 (b) The commissioner may impose a fee on each transaction  
12 under paragraph (a). The fee is equal to the fee the  
13 commissioner is required to pay for the taxpayer's use of the  
14 financial transaction card. This fee must be deposited in the  
15 general fund and is appropriated to the commissioner for the  
16 purpose of paying the transaction card fee.

17 (c) The types of financial transaction cards that will be  
18 accepted shall be determined solely by the commissioner. The  
19 selection of transaction card vendors shall be made through a  
20 request for proposals process. Before issuing a request for  
21 proposals, the commissioner shall review the request for  
22 proposals and any specifications with the commissioner of  
23 finance. The commissioner shall select the transaction card  
24 vendors from among those which meet the operational and cost  
25 requirements of the department. The commissioner may limit the  
26 number of different types of financial transaction cards that  
27 will be accepted.

28 (d) If the commissioner allows taxpayers to pay taxes with  
29 financial transaction cards, the commissioner shall report  
30 quarterly on the status of this program to the chairs of the  
31 house tax and appropriations committees and the chairs of the  
32 senate tax and finance committees. [270.74]

33 [EFFECTIVE DATE.] This section is effective August 1, 2005.

34 Sec. 52. [270C.43] [REFUNDS PAYABLE IN INSTALLMENTS.]

35 Subdivision 1. [LAW HELD UNCONSTITUTIONAL.] Where there is

36 (1) a final judicial determination that a law administered by



1 the commissioner is unconstitutional, is in violation of state  
2 or federal law, or that a regulation or statute has been  
3 misinterpreted by the department; and (2) the determination is  
4 not limited to prospective application, the procedures in this  
5 section relating to refunds attributable to that determination  
6 apply.

7 Subd. 2. [ESTIMATE OF CUMULATIVE REFUNDS.] The  
8 commissioner shall estimate the cumulative refunds due resulting  
9 from the judicial determination.

10 Subd. 3. [GENERAL REFUND PROVISIONS.] If the commissioner  
11 determines that the cumulative refunds due all affected  
12 taxpayers will not exceed \$50,000,000, the general provisions  
13 for refunding for the particular tax type apply.

14 Subd. 4. [REFUND PROCEDURES.] (a) If the commissioner  
15 determines that the cumulative refunds due all affected  
16 taxpayers will exceed \$50,000,000, the refund procedures in this  
17 subdivision apply.

18 (b) The refunds due shall be paid in five installments.  
19 The first installment will be paid during the calendar year  
20 following the later of the filing of the refund claim or the  
21 final judicial determination and subsequent installments will be  
22 paid at any time during each of the four succeeding calendar  
23 years.

24 (c) The commissioner shall compute the annual refund  
25 installment due under this subdivision, and notify the taxpayer  
26 of the total amount of the claim for refund which has been  
27 allowed.

28 (d) The installment paid each year equals 20 percent of the  
29 refund allowed unless the commissioner determines that the  
30 cumulative refunds due for a particular year under this section  
31 will exceed \$150,000,000. If the refunds payable will exceed  
32 that amount, they will be reduced pro rata with any balance  
33 remaining due payable with the final refund installment.

34 (e) Unless contrary to the provisions in this section, the  
35 provisions for refunds in the various tax types, including  
36 provisions related to the payment of interest, apply to the

1 refunds subject to these provisions.

2 (f) The commissioner may establish a de minimis individual  
3 refund amount below which the installment provisions do not  
4 apply. The amount established under this paragraph is not  
5 subject to the provisions of chapter 14.

6 (g) If the commissioner of finance determines that it is in  
7 the best interest of the state, refunds payable under this  
8 section may be paid in fewer than five installments. [270.79]

9 [EFFECTIVE DATE.] This section is effective for refunds  
10 payable on or after August 1, 2005.

11 Sec. 53. [270C.44] [PRACTICE BEFORE THE COMMISSIONER.]

12 The commissioner shall prescribe rules governing the  
13 qualification and practice of agents, attorneys, or other  
14 persons representing taxpayers before the commissioner. The  
15 rules may require that those persons, agents, and attorneys show  
16 that they are of good character and in good repute, have the  
17 necessary qualifications to give taxpayers valuable services,  
18 and are otherwise competent to advise and assist taxpayers in  
19 the presentation of their case before being recognized as  
20 representatives of taxpayers. After due notice and opportunity  
21 for hearing, the commissioner may suspend and bar from further  
22 practice before the commissioner any person, agent, or attorney  
23 who is shown to be incompetent or disreputable, who refuses to  
24 comply with the rules, or who with intent to defraud, willfully  
25 or knowingly deceives, misleads, or threatens a taxpayer or  
26 prospective taxpayer, by words, circular, letter, or by  
27 advertisement. This section does not curtail the rights of  
28 individuals to appear in their own behalf or partners or  
29 corporations' officers to appear in behalf of their respective  
30 partnerships or corporations. [270.06, clause (16)]

31 [EFFECTIVE DATE.] This section is effective August 1, 2005.

32 Sec. 54. [270C.445] [TAX PREPARATION SERVICES.]

33 Subdivision 1. [SCOPE.] (a) This section applies to a  
34 person who offers, provides, or facilitates the provision of  
35 refund anticipation loans, as part of or in connection with the  
36 provision of tax preparation services.

1 (b) This section does not apply to:

2 (1) a tax preparer who provides tax preparation services  
3 for fewer than six clients in a calendar year;

4 (2) the provision by a person of tax preparation services  
5 to a spouse, parent, grandparent, child, or sibling; and

6 (3) the provision of services by an employee for an  
7 employer.

8 Subd. 2. [DEFINITIONS.] (a) For purposes of this section,  
9 the following terms have the meanings given.

10 (b) "Client" means an individual for whom a tax preparer  
11 performs or agrees to perform tax preparation services.

12 (c) "Person" means an individual, corporation, partnership,  
13 limited liability company, association, trustee, or other legal  
14 entity.

15 (d) "Refund anticipation loan" means a loan, whether  
16 provided by the tax preparer or another entity such as a  
17 financial institution, in anticipation of, and whose payment is  
18 secured by, a client's federal or state income tax refund or  
19 both.

20 (e) "Tax preparation services" means services provided for  
21 a fee or other consideration to a client to:

22 (1) assist with preparing or filing state or federal  
23 individual income tax returns;

24 (2) assume final responsibility for completed work on an  
25 individual income tax return on which preliminary work has been  
26 done by another; or

27 (3) offer or facilitate the provision of refund  
28 anticipation loans.

29 (f) "Tax preparer" or "preparer" means a person providing  
30 tax preparation services subject to this section.

31 Subd. 3. [STANDARDS OF CONDUCT.] No tax preparer shall:

32 (1) without good cause fail to promptly, diligently, and  
33 without unreasonable delay complete a client's tax return;

34 (2) obtain the signature of a client to a tax return or  
35 authorizing document that contains blank spaces to be filled in  
36 after it has been signed;

1 (3) fail to sign a client's tax return when payment for  
2 services rendered has been made;

3 (4) fail or refuse to give a client a copy of any document  
4 requiring the client's signature within a reasonable time after  
5 the client signs the document;

6 (5) fail to retain for at least four years a copy of  
7 individual income tax returns;

8 (6) fail to maintain a confidential relationship between  
9 themselves and their clients or former clients;

10 (7) fail to take commercially reasonable measures to  
11 safeguard a client's nonpublic personal information;

12 (8) make, authorize, publish, disseminate, circulate, or  
13 cause to make, either directly or indirectly, any false,  
14 deceptive, or misleading statement or representation relating to  
15 or in connection with the offering or provision of tax  
16 preparation services;

17 (9) require a client to enter into a loan arrangement in  
18 order to complete a tax return;

19 (10) claim credits or deductions on a client's tax return  
20 for which the tax preparer knows or reasonably should know the  
21 taxpayer does not qualify;

22 (11) charge, offer to accept, or accept a fee based upon a  
23 percentage of an anticipated refund for tax preparation  
24 services;

25 (12) under any circumstances, withhold or fail to return to  
26 a client a document provided by the client for use in preparing  
27 the client's tax return.

28 Subd. 4. [REQUIRED DISCLOSURES; REFUND ANTICIPATION

29 LOANS.] (a) If a tax preparer offers to make or facilitate a  
30 refund anticipation loan to the client, the preparer must make  
31 the disclosures in this subdivision. The disclosures must be  
32 made before or at the same time the preparer offers the refund  
33 anticipation loan to the client.

34 (b) The tax preparer must provide to a client a written  
35 notice on a single sheet of paper, separate from any other  
36 document or writing, containing:

1 (1) a legend, centered at the top on the single sheet of  
2 paper, in bold, capital letters, and in 28-point type stating  
3 "NOTICE";

4 (2) the following verbatim statements:

5 (i) "This is a loan. The annual percentage rate (APR),  
6 based on the estimated payment period, is (fill in the estimated  
7 APR)."

8 (ii) "Your refund will be used to repay the loan. As a  
9 result, the amount of your refund will be reduced by (fill in  
10 appropriate dollar amount) for fees, interest, and other  
11 charges."

12 (iii) "You can get your refund in about two weeks if you  
13 file your return electronically and have the Internal Revenue  
14 Service send your refund to your own bank account." and

15 (3) if the client is subject to additional interest when a  
16 refund is delayed, the following verbatim statement must also be  
17 included in the notice: "If you choose to take this loan and  
18 your refund is delayed, you may have to pay additional interest."

19 (c) All required statements must be in capital and small  
20 font type fonts, in a minimum of 14-point type, with at least a  
21 double space between each line in the statement and four spaces  
22 between each statement.

23 (d) The notice must be signed and dated by the tax preparer  
24 and the client.

25 Subd. 5. [ITEMIZED BILL REQUIRED.] A tax preparer must  
26 provide an itemized statement of the charges for services, at  
27 least separately stating the charges for:

28 (1) return preparation;

29 (2) electronic filing; and

30 (3) providing or facilitating a refund anticipation loan.

31 Subd. 6. [ENFORCEMENT; PENALTIES.] The commissioner may  
32 impose an administrative penalty of not more than \$1,000 per

33 violation of subdivision 3, 4, or 5. The commissioner may

34 terminate a tax preparer's authority to transmit returns

35 electronically to the state, if the commissioner determines the

36 tax preparer engaged in a pattern and practice of violating this

1 section. Imposition of a penalty under this subdivision is  
 2 subject to the contested case procedure under chapter 14. The  
 3 commissioner shall collect the penalty in the same manner as a  
 4 tax collected by the commissioner.

5 Subd. 7. [ENFORCEMENT; CIVIL ACTIONS.] (a) Any violation  
 6 of this section is an unfair, deceptive, and unlawful trade  
 7 practice within the meaning of section 8.31.

8 (b) A client may bring a civil action seeking redress for a  
 9 violation of this section in the conciliation or the district  
 10 court of the county in which unlawful action is alleged to have  
 11 been committed or where the respondent resides or has a  
 12 principal place of business.

13 (c) A district court finding for the plaintiff must award  
 14 actual damages, including incidental and consequential damages,  
 15 reasonable attorney fees, court costs, and any other equitable  
 16 relief as the court considers appropriate.

17 Subd. 8. [EXEMPTIONS; ENFORCEMENT PROVISIONS.] The  
 18 provisions of subdivisions 6 and 7 do not apply to:

19 (1) an attorney admitted to practice under section 481.01;

20 (2) a certified public accountant holding a certificate  
 21 under section 326A.04 or a person issued a permit to practice  
 22 under section 326A.05;

23 (3) a person designated as a registered accounting  
 24 practitioner under Minnesota Rules, part 1105.6600, or a  
 25 registered accounting practitioner firm issued a permit under  
 26 Minnesota Rules, part 1105.7100;

27 (4) an enrolled agent who has passed the special enrollment  
 28 examination administered by the Internal Revenue Service; and

29 (5) any fiduciary, or the regular employees of a fiduciary,  
 30 while acting on behalf of the fiduciary estate, the testator,  
 31 trustor, grantor, or beneficiaries of them. [270.30]

32 [EFFECTIVE DATE.] This section is effective August 1, 2005.

33 Sec. 55. [270C.447] [LEGAL ACTION TO ENJOIN TAX RETURN  
 34 PREPARER.]

35 Subdivision 1. [COMMENCEMENT OF ACTION.] A civil action in  
 36 the name of the state of Minnesota may be commenced to enjoin

1 any person who is a tax return preparer doing business in this  
2 state from further engaging in any conduct described in  
3 subdivision 2. An action under this subdivision must be brought  
4 by the attorney general in the district court for the judicial  
5 district of the tax return preparer's residence or principal  
6 place of business, or in which the taxpayer with respect to  
7 whose tax return the action is brought resides. The court may  
8 exercise its jurisdiction over the action separate and apart  
9 from any other action brought by the state of Minnesota against  
10 the tax return preparer or any taxpayer.

11 Subd. 2. [INJUNCTION PROHIBITING SPECIFIC CONDUCT.] In an  
12 action under subdivision 1, if the court finds that a tax return  
13 preparer has:

14 (1) engaged in any conduct subject to a civil penalty under  
15 section 289A.60 or a criminal penalty under section 289A.63;

16 (2) misrepresented the preparer's eligibility to practice  
17 before the Department of Revenue, or otherwise misrepresented  
18 the preparer's experience or education as a tax return preparer;

19 (3) guaranteed the payment of any tax refund or the  
20 allowance of any tax credit; or

21 (4) engaged in any other fraudulent or deceptive conduct  
22 that substantially interferes with the proper administration of  
23 a law administered by the commissioner, and injunctive relief is  
24 appropriate to prevent the recurrence of that conduct,  
25 the court may enjoin the person from further engaging in that  
26 conduct.

27 Subd. 3. [INJUNCTION PROHIBITING ALL BUSINESS ACTIVITIES.]  
28 If the court finds that a tax return preparer has continually or  
29 repeatedly engaged in conduct described in subdivision 2, and  
30 that an injunction prohibiting that conduct would not be  
31 sufficient to prevent the person's interference with the proper  
32 administration of a law administered by the commissioner, the  
33 court may enjoin the person from acting as a tax return  
34 preparer. The court may not enjoin the employer of a tax return  
35 preparer for conduct described in subdivision 2 engaged in by  
36 one or more of the employer's employees unless the employer was

1 also actively involved in that conduct. [289A.60, subd. 13,  
2 paragraphs (b), (c), and (d)]

3 Subd. 4. [TAX RETURN PREPARER.] For purposes of this  
4 section, the term "tax return preparer" means an individual who  
5 prepares for compensation, or who employs one or more  
6 individuals to prepare for compensation, a return of tax or a  
7 claim for refund of tax. The preparation of a substantial part  
8 of a return or claim for refund is treated as if it were the  
9 preparation of the entire return or claim for refund. An  
10 individual is not considered a tax return preparer merely  
11 because the individual:

12 (1) gives typing, reproducing, or other mechanical  
13 assistance;

14 (2) prepares a return or claim for refund of the employer,  
15 or an officer or employee of the employer, by whom the  
16 individual is regularly and continuously employed;

17 (3) prepares a return or claim for refund of any person as  
18 a fiduciary for that person; or

19 (4) prepares a claim for refund for a taxpayer in response  
20 to a tax order issued to the taxpayer.

21 [EFFECTIVE DATE.] This section is effective August 1, 2005.

#### 22 COLLECTION

23 Sec. 56. [270C.50] [USE OF COLLECTION REMEDIES.]

24 In addition to the remedies provided in the state revenue  
25 laws, the commissioner may use any remedy available to  
26 nongovernmental creditors to collect taxes. [270.06, clause  
27 (14)]

28 [EFFECTIVE DATE.] This section is effective August 1, 2005.

29 Sec. 57. [270C.51] [ALLOCATION OF PAYMENT.]

30 In the discretion of the commissioner, payments received  
31 for taxes may be credited first to the oldest liability not  
32 secured by a judgment or lien. For liabilities to which  
33 payments are applied, the commissioner may credit payments first  
34 to penalties, next to interest, and then to the tax due.

35 [270.652; 297E.12, subd. 10]

36 [EFFECTIVE DATE.] This section is effective August 1, 2005.



1       Sec. 58. [270C.52] [SETTLEMENT AGREEMENTS, PAYMENT  
2 AGREEMENTS, AND OFFERS IN COMPROMISE.]

3       Subdivision 1. [LIABILITY AGREEMENTS.] The commissioner,  
4 or any employee of the department authorized in writing by the  
5 commissioner, is authorized to enter into an agreement in  
6 writing with any taxpayer, or duly authorized agent or  
7 representative of the taxpayer, relating to the liability of the  
8 taxpayer in respect of any tax for any tax period ending prior  
9 to the date of the agreement. The agreement shall be final and  
10 conclusive and, except upon a showing of fraud or malfeasance,  
11 or misrepresentation of a material fact, the case shall not be  
12 reopened as to the matters agreed upon, or the agreement  
13 modified, by any employee or agent of the state; and, in any  
14 suit, action, or proceeding, the agreement, or any  
15 determination, assessment, collection, payment, abatement,  
16 refund, or credit, made in accordance with the agreement, shall  
17 not be annulled, modified, set aside, or disregarded. [270.67,  
18 subd. 1]

19       Subd. 2. [PAYMENT AGREEMENTS.] (a) When any portion of any  
20 tax payable to the commissioner together with interest and  
21 penalty thereon, if any, has not been paid, the commissioner may  
22 extend the time for payment for a further period. When the  
23 authority of this section is invoked, the extension shall be  
24 evidenced by written agreement signed by the taxpayer and the  
25 commissioner, stating the amount of the tax with penalty and  
26 interest, if any, and providing for the payment of the amount in  
27 installments.

28       (b) The agreement may contain a confession of judgment for  
29 the amount and for any unpaid portion thereof. If the agreement  
30 contains a confession of judgment, the confession of judgment  
31 must provide that the commissioner may enter judgment against  
32 the taxpayer in the district court of the county of residence as  
33 shown upon the taxpayer's tax return for the unpaid portion of  
34 the amount specified in the extension agreement.

35       (c) The agreement shall provide that it can be terminated,  
36 after notice by the commissioner, if information provided by the

1 taxpayer prior to the agreement was inaccurate or incomplete,  
2 collection of the tax covered by the agreement is in jeopardy,  
3 there is a subsequent change in the taxpayer's financial  
4 condition, the taxpayer has failed to make a payment due under  
5 the agreement, or the taxpayer has failed to pay any other tax  
6 or file a tax return coming due after the agreement.

7 (d) The notice must be given at least 14 calendar days  
8 prior to termination, and shall advise the taxpayer of the right  
9 to request a reconsideration from the commissioner of whether  
10 termination is reasonable and appropriate under the  
11 circumstances. A request for reconsideration does not stay  
12 collection action beyond the 14-day notice period. If the  
13 commissioner has reason to believe that collection of the tax  
14 covered by the agreement is in jeopardy, the commissioner may  
15 proceed under section 270C.36 and terminate the agreement  
16 without regard to the 14-day period.

17 (e) The commissioner may accept other collateral the  
18 commissioner considers appropriate to secure satisfaction of the  
19 tax liability. The principal sum specified in the agreement  
20 shall bear interest at the rate specified in section 270C.40 on  
21 all unpaid portions thereof until the same has been fully paid  
22 or the unpaid portion thereof has been entered as a judgment.  
23 The judgment shall bear interest at the rate specified in  
24 section 270C.40.

25 (f) If it appears to the commissioner that the tax reported  
26 by the taxpayer is in excess of the amount actually owing by the  
27 taxpayer, the extension agreement or the judgment entered  
28 pursuant thereto shall be corrected. If after making the  
29 extension agreement or entering judgment with respect thereto,  
30 the commissioner determines that the tax as reported by the  
31 taxpayer is less than the amount actually due, the commissioner  
32 shall assess a further tax in accordance with the provisions of  
33 law applicable to the tax.

34 (g) The authority granted to the commissioner by this  
35 section is in addition to any other authority granted to the  
36 commissioner by law to extend the time of payment or the time

1 for filing a return and shall not be construed in limitation  
2 thereof. [270.67, subd. 2]

3 Subd. 3. [OFFER-IN-COMPROMISE AND INSTALLMENT PAYMENT  
4 PROGRAM.] (a) In implementing the authority provided in  
5 subdivision 2 or in sections 8.30 and 16D.15 to accept offers of  
6 installment payments or offers-in-compromise of tax liabilities,  
7 the commissioner shall prescribe guidelines for employees of the  
8 department to determine whether an offer-in-compromise or an  
9 offer to make installment payments is adequate and should be  
10 accepted to resolve a dispute. In prescribing the guidelines,  
11 the commissioner shall develop and publish schedules of national  
12 and local allowances designed to provide that taxpayers entering  
13 into a compromise or payment agreement have an adequate means to  
14 provide for basic living expenses. The guidelines must provide  
15 that the taxpayer's ownership interest in a motor vehicle, to  
16 the extent of the value allowed in section 550.37, will not be  
17 considered as an asset; in the case of an offer related to a  
18 joint tax liability of spouses, that value of two motor vehicles  
19 must be excluded. The guidelines must provide that employees of  
20 the department shall determine, on the basis of the facts and  
21 circumstances of each taxpayer, whether the use of the schedules  
22 is appropriate and that employees must not use the schedules to  
23 the extent the use would result in the taxpayer not having  
24 adequate means to provide for basic living expenses. The  
25 guidelines must provide that:

26 (1) an employee of the department shall not reject an  
27 offer-in-compromise or an offer to make installment payments  
28 from a low-income taxpayer solely on the basis of the amount of  
29 the offer; and

30 (2) in the case of an offer-in-compromise which relates  
31 only to issues of liability of the taxpayer:

32 (i) the offer must not be rejected solely because the  
33 commissioner is unable to locate the taxpayer's return or return  
34 information for verification of the liability; and

35 (ii) the taxpayer shall not be required to provide an  
36 audited, reviewed, or compiled financial statement.

1 (b) The commissioner shall establish procedures:

2 (1) that require presentation of a counteroffer or a  
3 written rejection of the offer by the commissioner if the amount  
4 offered by the taxpayer in an offer-in-compromise or an offer to  
5 make installment payments is not accepted by the commissioner;

6 (2) for an administrative review of any written rejection  
7 of a proposed offer-in-compromise or installment agreement made  
8 by a taxpayer under this section before the rejection is  
9 communicated to the taxpayer;

10 (3) that allow a taxpayer to request reconsideration of any  
11 written rejection of the offer or agreement to the commissioner  
12 to determine whether the rejection is reasonable and appropriate  
13 under the circumstances; and

14 (4) that provide for notification to the taxpayer when an  
15 offer-in-compromise has been accepted, and issuance of  
16 certificates of release of any liens imposed under section  
17 270C.63 related to the liability which is the subject of the  
18 compromise. [270.67, subd. 4]

19 [EFFECTIVE DATE.] This section is effective August 1, 2005.

20 Sec. 59. [270C.53] [COLLECTION; TAXPAYER INABILITY TO  
21 PAY.]

22 Notwithstanding any other provision of law, the  
23 commissioner may, based upon the inability of a taxpayer to pay  
24 a delinquent tax liability, abate the liability if the taxpayer  
25 agrees to perform uncompensated public service work for a state  
26 agency, a political subdivision or public corporation of this  
27 state, or a nonprofit educational, medical, or social service  
28 agency. The Department of Corrections shall administer the work  
29 program. No benefits under chapter 176 or 268 shall be  
30 available, but a claim authorized under section 3.739 may be  
31 made by the taxpayer. The state may not enter into any  
32 agreement that has the purpose of or results in the displacement  
33 of public employees by a delinquent taxpayer under this  
34 section. The state must certify to the appropriate bargaining  
35 agent or employees, as applicable, that the work performed by a  
36 delinquent taxpayer will not result in the displacement of

1 currently employed workers or layoff from a substantially  
2 equivalent position, including partial displacement such as  
3 reduction in hours of nonovertime work, wages, or other  
4 employment benefits. [270.07, subd. 3, clause (e)]

5 [EFFECTIVE DATE.] This section is effective August 1, 2005.

6 Sec. 60. [270C.54] [COLLECTION OF FINANCIAL INSTITUTION  
7 FEES.]

8 The commissioner shall collect from a taxpayer any  
9 collection fees or costs charged by financial institutions and  
10 incurred by the commissioner. [270.063, subd. 3]

11 [EFFECTIVE DATE.] This section is effective August 1, 2005.

12 Sec. 61. [270C.545] [FEDERAL TAX REFUND OFFSET FEES; TIME  
13 LIMIT FOR SUBMITTING CLAIMS FOR OFFSET.]

14 For fees charged by the Department of the Treasury of the  
15 United States for the offset of federal tax refunds that are  
16 deducted from the refund amounts remitted to the commissioner,  
17 the unpaid debts of the taxpayers whose refunds are being offset  
18 to satisfy the debts are reduced only by the actual amount of  
19 the refund payments received by the commissioner.

20 Notwithstanding any other provision of law to the contrary, a  
21 claim for the offset of a federal tax refund must be submitted  
22 to the Department of the Treasury of the United States within  
23 ten years after the date of the assessment of the tax owed by  
24 the taxpayer whose refund is to be offset to satisfy the debt.

25 [270.063, subd. 4]

26 [EFFECTIVE DATE.] This section is effective August 1, 2005.

27 Sec. 62. [270C.56] [PERSONAL LIABILITY.]

28 Subdivision 1. [LIABILITY IMPOSED.] A person who, either  
29 singly or jointly with others, has the control of, supervision  
30 of, or responsibility for filing returns or reports, paying  
31 taxes, or collecting or withholding and remitting taxes and who  
32 fails to do so, or a person who is liable under any other law,  
33 is liable for the payment of taxes, penalties, and interest  
34 arising under chapters 295, 296A, 297F, 297A, and 297G, or  
35 sections 290.92 and 297E.02.

36 Subd. 2. [PERSON DEFINED.] The term "person" includes, but

1 is not limited to, a corporation, estate, trust, organization,  
2 or association, whether organized for profit or not, an officer  
3 or director of a corporation, a member of a partnership, an  
4 employee, a third party (including, but not limited to, a  
5 financial institution, lender, or surety), and any other  
6 individual or entity. "Person" does not include an unpaid,  
7 volunteer member of a board of trustees or directors of an  
8 organization exempt from taxation under section 290.05, if the  
9 member is solely serving in an honorary capacity, does not  
10 participate in the day-to-day or financial operations of the  
11 organization, and has no actual knowledge of the failure to file  
12 returns or remit taxes.

13 Subd. 3. [PROCEDURE FOR ASSESSMENT.] The commissioner may  
14 assess liability for the taxes described in subdivision 1  
15 against a person liable under this section. The assessment may  
16 be based upon information available to the commissioner. It  
17 must be made within the prescribed period of limitations for  
18 assessing the underlying tax, or within one year after the date  
19 of an order assessing underlying tax, whichever period expires  
20 later. An order assessing personal liability under this section  
21 is reviewable under section 270C.35 and is appealable to Tax  
22 Court.

23 If a person has been assessed under this section for an  
24 amount for a given period and the time for appeal has expired or  
25 there has been a final determination that the person is liable,  
26 collection action is not stayed pursuant to section 270C.33,  
27 subdivision 5, for subsequent assessments of additional amounts  
28 for the same person for the same period and tax type.

29 Subd. 4. [RIGHT OF CONTRIBUTION.] A person who has paid  
30 all or part of a liability assessed under this section has a  
31 cause of action against other liable persons to recover the  
32 amount paid in excess of that person's share of the liability.  
33 A claim for recovery of contribution may be made only in a  
34 proceeding which is separate from, and cannot be joined or  
35 consolidated with, an administrative or judicial proceeding or  
36 investigation involving the commissioner's administration or

1 enforcement of this section. An order assessing liability under  
2 this section against the person from whom contribution is being  
3 sought is not a prerequisite for bringing an action for recovery  
4 of contribution, nor is the issuance of an order binding on the  
5 court in which the proceeding is brought. The court can  
6 determine whether each person would be liable under this section  
7 and the share of liability. The commissioner cannot be made a  
8 party to any proceeding for recovery of contribution, nor is a  
9 determination in such a proceeding binding on the commissioner  
10 for the purpose of administering or enforcing this section. An  
11 action for contribution arises when the liability under this  
12 section is paid in full, or the liability of the person seeking  
13 contribution has been determined by agreement between the  
14 commissioner and such person and paid, and must be brought  
15 within the time period prescribed in section 541.05. [270.101]

16 [EFFECTIVE DATE.] This section is effective August 1, 2005.

17 Sec. 63. [270C.57] [SUCCESSOR LIABILITY OF BUSINESSES.]

18 Subdivision 1. [DEFINITIONS.] (a) The following terms used  
19 in this section have the following meanings.

20 (b) "Successor" means a person who directly or indirectly  
21 purchases, acquires, is gifted, or succeeds to the business or  
22 stock of goods of any person quitting, selling, or otherwise  
23 disposing of a business or stock of goods. Successor does not  
24 include a personal representative or beneficiary of an estate, a  
25 trustee in bankruptcy, a debtor in possession, a receiver, a  
26 secured party, a mortgagee, an assignee of rents, or any other  
27 lienholder.

28 (c) "Person" means an individual, partnership, corporation,  
29 sole proprietorship, joint venture, limited liability company,  
30 or any other type of business entity or association.

31 (d) "Withhold" means setting aside money or dealing with  
32 the payment of consideration in a manner that denies a  
33 transferring business the benefit of the transfer in an amount  
34 equal to the sales and withholding tax liability of the  
35 transferring business.

36 (e) "Purchase price" means the consideration paid or to be

1 paid for the transfer by the successor to the transferring  
2 business, and includes amounts paid for tangible property or  
3 intangibles such as leases, licenses, or goodwill. Purchase  
4 price also includes debts assumed or forgiven by the successor,  
5 or real or personal property conveyed or to be conveyed by the  
6 successor to the transferring business.

7 (f) "Arm's-length transaction" means a transfer for  
8 adequate consideration between independent parties both acting  
9 in their own best interests. If the parties are related to each  
10 other, a rebuttable presumption arises that the transaction is  
11 not at arm's length.

12 (g) "Transfer" means every mode, direct or indirect,  
13 absolute or conditional, voluntary or involuntary, of disposing  
14 of or parting with a business or an interest in a business, or a  
15 stock of goods, whether by gift or for consideration. Transfer  
16 includes a change in the type of business entity or the name of  
17 the business, where one business is discontinued and a new one  
18 started. Transfer also includes the acquisition by a new  
19 corporation of the assets of a prior business in exchange for  
20 the stock of the new corporation. Transfer does not include an  
21 assignment for the benefit of creditors, foreclosure or  
22 enforcement of a mortgage, assignment of rents, security  
23 interest or lien, sale or disposition in a bankruptcy  
24 proceeding, or sale or disposition by a receiver.

25 (h) "Transfer in bulk" means a transfer, other than in the  
26 ordinary course of the transferor's trade or business, of more  
27 than one-half of all the property of a business at all locations  
28 combined, as measured by the value of the property at the time  
29 of the transfer.

30 Subd. 2. [BULK TRANSFERS; LIABILITY OF SUCCESSOR; LIEN.]

31 (a) Whenever a business transfers in bulk to a successor the  
32 business assets, and an enforceable lien for unpaid sales and  
33 withholding taxes has been filed against the business by the  
34 commissioner under section 270C.63, at least 20 days before  
35 taking possession of the assets or paying the purchase price,  
36 the successor shall notify the commissioner of the transfer and



1 the terms and conditions related to it. The notice must include  
2 the tax identification number of the transferring business. If  
3 an agreement to transfer has been entered into, this notice  
4 requirement only applies: (1) if a lien described under this  
5 paragraph has been filed prior to the date of the agreement; or  
6 (2) if the date of the transfer is more than 30 days after the  
7 date of the agreement, and a lien described under this paragraph  
8 is filed at least 30 days prior to the date of transfer.

9 (b) If the successor fails to give the notice required in  
10 paragraph (a), the successor is liable for any unpaid sales and  
11 withholding taxes, interest, and penalties due from the  
12 transferring business to the extent of the purchase price. If  
13 the successor provides the notice required in paragraph (a) and,  
14 within 20 days after receipt of the notice, the commissioner  
15 notifies the successor that tax liabilities exist in addition to  
16 those included on the lien or there are sales and withholding  
17 tax returns due but not filed, the successor is, in addition to  
18 being liable for the amounts included on the lien, liable for  
19 all other uncontested sales and withholding taxes, interest, and  
20 penalties as stated in the commissioner's notice from the  
21 transferring business to the extent of the purchase price if the  
22 successor pays the purchase price or takes possession of the  
23 assets without withholding and remitting the liability to the  
24 commissioner. The successor is liable whether the purchase  
25 price is paid or the assets are transferred prior to or after  
26 notification from the commissioner. The commissioner may also  
27 notify the successor that there are no sales or withholding tax  
28 liabilities or returns due from the transferring business other  
29 than the liabilities included on the lien, and of the current  
30 balance due to satisfy the lien.

31 (c) If, based upon the information available, the  
32 commissioner determines that a transfer was not at arm's length  
33 or was a gift, the successor's liability under this section  
34 equals the value of the assets transferred. For purposes of  
35 imposing the liability, the value of the property transferred is  
36 presumed, subject to rebuttal, to equal the unpaid sales and

1 withholding taxes, interest, and penalties of the transferring  
2 business.

3 (d) In the case of a gift resulting in successor liability  
4 under this section, return of the gifted property by the donee  
5 to the donor releases the donee's successor liability.

6 (e) A successor who complies with the requirements of  
7 paragraphs (a) and (b) is not liable for any assessments of  
8 sales and withholding taxes of the transferring business made  
9 after the commissioner provides notice to the successor under  
10 paragraph (b), except for taxes assessed on returns filed to  
11 comply with the notice. If the commissioner fails to provide  
12 the notice and the 20-day period expires, the successor is not  
13 liable for any sales and withholding taxes of the transferring  
14 business other than those included on the lien.

15 Subd. 3. [ASSESSMENT ABATEMENT; REVIEW.] The commissioner  
16 may assess liability under this section within the time  
17 prescribed for collecting the underlying sales and withholding  
18 taxes, interest, and penalties. The assessment is presumed to  
19 be valid, and the burden is upon the successor to show it is  
20 incorrect or invalid. An order assessing successor liability is  
21 reviewable administratively under section 270C.35 and is  
22 appealable to Tax Court under chapter 271. The commissioner may  
23 abate an assessment if the successor's failure to give the  
24 notice required under this section is due to reasonable cause.  
25 The procedural and appeal provisions under section 270C.34 apply  
26 to abatement requests under this subdivision. Collection  
27 remedies available against the transferring business are  
28 available against the successor from the date of assessment of  
29 successor liability.

30 Subd. 4. [DISCLOSURE.] Notification by the commissioner to  
31 the successor under subdivision 2, paragraph (b), that the  
32 transferring business owes sales and withholding taxes,  
33 interest, and penalties or has returns that are due, or that  
34 there are no outstanding liabilities or returns other than the  
35 liabilities included on the lien, or of the current balance due  
36 to satisfy the lien, is not a disclosure violation under chapter

1 270B. [270.102]

2 [EFFECTIVE DATE.] This section is effective August 1, 2005.

3 Sec. 64. [270C.58] [LIABILITY OF TRANSFEREES AND  
4 FIDUCIARIES.]

5 Subdivision 1. [TRANSFEREES AND FIDUCIARIES.] The amounts  
6 of the following liabilities are, except as otherwise provided  
7 in subdivision 3, assessed, collected, and paid in the same  
8 manner and subject to the same provisions and limitations as a  
9 deficiency in a tax imposed by chapter 290, including any  
10 provisions of law for the collection of taxes:

11 (1) the liability, at law or in equity, of a transferee of  
12 property of a taxpayer for tax or overpayment of a refund,  
13 including interest, additional amounts, and additions to the tax  
14 or overpayment provided by law, imposed upon the taxpayer by  
15 chapter 290 or provided for in chapter 290A; and

16 (2) the liability of a fiduciary under subdivision 2, for  
17 the payment of tax from the estate of the taxpayer. The  
18 liability may reflect the amount of tax shown on the return or  
19 any deficiency in tax. [289A.31, subd. 3]

20 Subd. 2. [TAX AS A PERSONAL DEBT OF A FIDUCIARY.] A tax  
21 imposed by chapter 290 and an overpayment of a refund provided  
22 for in chapter 290A, and interest and penalties, is a personal  
23 debt of the taxpayer from the time the liability arises,  
24 regardless of when the time for discharging the liability by  
25 payment occurs. The debt is, in the case of the personal  
26 representative of the estate of a decedent and in the case of  
27 any fiduciary, that of the individual in the individual's  
28 official or fiduciary capacity only, unless the individual has  
29 voluntarily distributed the assets held in that capacity without  
30 reserving sufficient assets to pay the tax, interest, and  
31 penalties, in which event the individual is personally liable  
32 for the deficiency. [289A.31, subd. 4]

33 Subd. 3. [TIME LIMIT FOR ASSESSMENT AND COLLECTION FOR  
34 TRANSFEREE OR FIDUCIARY.] The period of limitation for  
35 assessment and collection of any liability of a transferee or  
36 fiduciary is as follows:

1       (1) In the case of the liability of an initial transferee  
2 of the property of the taxpayer, the tax may be assessed within  
3 one year after the expiration of the period of limitation of  
4 assessment against the taxpayer. The tax may be collected by  
5 action brought within one year after the expiration of the  
6 period of limitation for the starting of an action against the  
7 taxpayer.

8       (2) In the case of the liability of the transferee of a  
9 transferee of the property of the taxpayer, the tax may be  
10 assessed within one year after the expiration of the period of  
11 limitation for assessment against the preceding transferee, but  
12 only if within 3-1/2 years after the expiration of the period of  
13 limitation for assessment against the taxpayer. The tax may be  
14 collected by action brought within one year after the expiration  
15 of the period of limitation for the starting of an action  
16 against the preceding transferee, but only if within four years  
17 after the expiration of the period of limitation for bringing an  
18 action against the taxpayer; except that if before the  
19 expiration of the period of limitation for the assessment of the  
20 liability of the transferee a court proceeding for the  
21 collection of the tax or liability has been begun against the  
22 taxpayer or last preceding transferee, liability of the  
23 transferee expires one year after the return of execution in the  
24 court proceeding and the period of limitation for collection by  
25 action will expire one year after the liability is assessed.

26       (3) In the case of the liability of a fiduciary, the tax  
27 may be assessed up to one year after the liability arises or not  
28 later than the expiration of the period for collection of the  
29 tax for which the liability arises, whichever is later, and may  
30 be collected by action brought within one year after assessment.

31       (4) For the purposes of this subdivision, if the taxpayer  
32 is deceased, or in the case of a corporation, has ended its  
33 existence, the period of limitation for assessment against the  
34 taxpayer will be the period that would be in effect had death or  
35 termination of existence not occurred.

36       As used in this subdivision, the term "transferee" includes

1 heir, legatee, devisee, and distributee. [289A.38, subd. 13]

2 [EFFECTIVE DATE.] This section is effective August 1, 2005.

3 Sec. 65. [270C.585] [TRANSFEREE LIABILITY FOR ESTATE TAX.]

4 The personal representative and person to whom property  
5 that is subject to taxation under chapter 291 is transferred,  
6 other than a bona fide purchaser, mortgagee, or lessee, is  
7 personally liable for that tax, until its payment, to the extent  
8 of the value of the property at the time of the transfer.

9 Personal liability also does not extend to subsequent  
10 transferees from bona fide purchasers, mortgagees, and lessees.  
11 [289A.31, subd. 6]

12 [EFFECTIVE DATE.] This section is effective August 1, 2005.

13 Sec. 66. [270C.59] [LIABILITY OF THIRD PARTIES PAYING OR  
14 PROVIDING FOR WAGES.]

15 (a) For purposes of section 290.92, if a lender, surety, or  
16 other person, who is not an employer with respect to an employee  
17 or group of employees, pays wages directly to such an employee  
18 or group of employees, employed by one or more employers, or to  
19 an agent on behalf of such employee or employees, such lender,  
20 surety, or other person shall be liable to the commissioner in a  
21 sum equal to the taxes required to be deducted and withheld from  
22 such wages by such employer.

23 (b) If a lender, surety, or other person supplies funds to  
24 or for the account of an employer for the specific purpose of  
25 paying wages of the employees of such employer, with actual  
26 notice or knowledge that such employer does not intend to or  
27 will not be able to make timely payment or deposit of the  
28 amounts of tax required by section 290.92 to be deducted and  
29 withheld by such employer from such wages, such lender, surety,  
30 or other person shall be liable personally to the commissioner  
31 in a sum equal to the taxes which are not paid over to the  
32 commissioner by such employer with respect to such wages.

33 (c) For purposes of this section, a person shall be deemed  
34 for purposes of a particular transaction to have actual notice  
35 or knowledge of any fact from the time such fact is brought to  
36 the attention of the individual conducting such transaction, and

1 in any event from the time such fact would have been brought to  
2 such individual's attention if the person had exercised due  
3 diligence. A person exercises due diligence by maintaining  
4 reasonable routines for communicating significant information to  
5 the person conducting the transaction and there is reasonable  
6 compliance with the routines. Due diligence does not require an  
7 individual acting for the person to communicate information  
8 unless such communication is part of the individual's regular  
9 duties or unless the individual has reason to know of the  
10 transaction and that the transaction would be materially  
11 affected by the information.

12 (d) Any amounts paid to the commissioner pursuant to this  
13 section shall be credited to the liability of the employer.

14 [290.92, subd. 22]

15 [EFFECTIVE DATE.] This section is effective August 1, 2005.

16 Sec. 67. [270C.61] [LEGAL ACTION; CONFESSION OF JUDGMENT.]

17 Subdivision 1. [LEGAL ACTION.] (a) In addition to all  
18 other methods authorized by law for the collection of tax, if  
19 any tax payable to the commissioner or to the department,  
20 including penalties and interest thereon, is not paid within 60  
21 days after it is required by law to be paid, the commissioner  
22 may proceed under this subdivision. Within five years after the  
23 date of assessment of the tax or at any time a lien filed under  
24 section 270C.63 is enforceable, or, if the action is to renew or  
25 enforce a judgment, at any time before the judgment's  
26 expiration, the commissioner may bring an action in court  
27 against the person liable for the payment or collection of the  
28 tax, in the name of the state, for the recovery of the tax and  
29 interest and penalties due in respect thereof. The action may  
30 be commenced by the commissioner in the same manner as any other  
31 civil action.

32 (b) The commissioner may also serve the summons and  
33 complaint by mailing a copy to the taxpayer's last known address  
34 by certified mail. Service by certified mail is complete when  
35 mailed in acceptable form with the United States Postal Service  
36 or with the central mail system of the state of Minnesota.

1 [270.68, subd. 1]

2 Subd. 2. [COURT-ORDERED RETURNS.] In addition to other  
3 remedies that may be available, the commissioner may bring an  
4 action in equity by the state against a taxpayer for an  
5 injunction ordering the taxpayer to file a complete and proper  
6 return or amended return. The district courts of this state  
7 have jurisdiction over the action and disobedience of an  
8 injunction issued under this subdivision will be punished as a  
9 contempt of district court. The action may be commenced by the  
10 commissioner in the same manner as any other civil action.

11 [289A.36, subd. 3, clause (3)]

12 Subd. 3. [PROSECUTING AUTHORITY.] The commissioner may  
13 request the county attorney or the attorney general to conduct  
14 the proceedings on behalf of the state. [270.68, subd. 1,  
15 paragraph (c)]

16 Subd. 4. [APPEALS.] Either party to an action or a  
17 judgment for the recovery of any taxes, interest, or penalties  
18 under subdivision 1 may appeal the judgment as in other civil  
19 cases. [270.68, subd. 2]

20 Subd. 5. [TAX PRESUMED VALID.] The tax, as assessed by the  
21 commissioner, with any penalties included therein, shall be  
22 presumed to be valid and correctly determined and assessed, and  
23 the burden shall be upon the taxpayer to show its incorrectness  
24 or invalidity. A statement filed by the commissioner showing  
25 the amount of the tax and penalties as determined or assessed by  
26 the commissioner, is admissible in evidence and shall establish  
27 prima facie the facts set forth therein. [270.68, subd. 3]

28 Subd. 6. [CONFESSION OF JUDGMENT.] (a) The commissioner  
29 may, within 3-1/2 years after any return is filed,  
30 notwithstanding section 541.09, enter judgment on any confession  
31 of judgment contained in the return after ten days' notice  
32 served upon the taxpayer by mail at the address shown in the  
33 return. The judgment shall be entered by the court  
34 administrator of district court upon the filing of a photocopy  
35 or similar reproduction of that part of the return containing  
36 the confession of judgment along with a statement of the

1 commissioner or an agent that the tax has not been paid. The  
2 commissioner may prescribe the words for the confession of  
3 judgment statement contained on the return.

4 (b) Notwithstanding any other provision of the law to the  
5 contrary, the commissioner may, within five years after a  
6 written agreement is signed by the taxpayer and the commissioner  
7 under the provisions of section 270C.52, subdivision 2, enter  
8 judgment on the confession of judgment contained within the  
9 agreement after ten days' notice served upon the taxpayer at the  
10 address shown in the agreement. Such judgment shall be entered  
11 by the court administrator of district court upon the filing of  
12 the agreement or a certified copy thereof along with a statement  
13 of the commissioner or an agent that the tax has not been paid.

14 [270.68, subd. 4]

15 [EFFECTIVE DATE.] This section is effective August 1, 2005.

16 Sec. 68. [270C.62] [DATE OF ASSESSMENT; DEFINITION.]

17 For purposes of taxes, the term "date of assessment" means  
18 the date a liability reported on a return was entered into the  
19 records of the commissioner or the date a return should have  
20 been filed, whichever is later; or, in the case of taxes  
21 assessed by the commissioner, "date of assessment" means the  
22 date of the order assessing taxes or date of the return made by  
23 the commissioner; or, in the case of an amended return filed by  
24 the taxpayer, the assessment date is the date additional  
25 liability reported on the return, if any, was entered into the  
26 records of the commissioner; or, in the case of a check from a  
27 taxpayer that is dishonored and results in an erroneous refund  
28 being given to the taxpayer, remittance of the check is deemed  
29 to be an assessment and the "date of assessment" is the date the  
30 check was received by the commissioner. [270.65]

31 [EFFECTIVE DATE.] This section is effective for assessments  
32 made on or after August 1, 2005.

33 Sec. 69. [270C.63] [LIEN FOR TAXES.]

34 Subdivision 1. [CREATION OF LIEN.] Tax, and interest and  
35 penalties imposed with respect thereto, including any recording  
36 fees, sheriff fees, or court costs that may accrue, shall become



1 a lien upon all the property within this state, both real and  
2 personal, of the person liable for the payment or collection of  
3 the tax, except property exempt under subdivision 8, from and  
4 after the date of assessment of the tax.

5 Subd. 2. [FILING OF LIENS NECESSARY FOR ENFORCEABILITY  
6 AGAINST CERTAIN PERSONS.] The lien imposed by subdivision 1 is  
7 not enforceable against any purchaser, mortgagee, pledgee,  
8 holder of a Uniform Commercial Code security interest,  
9 mechanic's lienor, or judgment lien creditor whose interest has  
10 been duly perfected or is a conveyance or interest entitled to  
11 protection against judgments and attachments under section  
12 507.34 or under any other applicable provisions of state law,  
13 until a notice of lien has been filed by the commissioner in the  
14 office of the county recorder of the county in which real  
15 property is situated, or in the case of personal property in the  
16 Office of the Secretary of State.

17 Subd. 3. [METHOD OF FILING.] Notices of liens, and lien  
18 releases, transcriptions, and renewals, in a form prescribed by  
19 the commissioner, may be filed with the county recorder or the  
20 secretary of state by mail, personal delivery, or by electronic  
21 transmission by the commissioner or an agent of the department  
22 into the computerized filing system of the secretary of state.  
23 The secretary of state shall transmit the notice electronically  
24 to the office of the county recorder, if that is the place of  
25 filing, in the county or counties shown on the computer entry.  
26 The filing officer, whether the county recorder or the secretary  
27 of state, shall endorse and index a printout of the notice in  
28 the same manner as if the notice had been mailed or delivered.

29 Subd. 4. [ENTRY OF INFORMATION INTO CENTRAL  
30 DATABASE.] County recorders and the secretary of state shall  
31 enter information relative to lien notices, transcriptions,  
32 renewals, and releases filed in their offices into the central  
33 database of the secretary of state. For notices filed  
34 electronically with the county recorders, the date and time of  
35 receipt of the notice and county recorder's file number, and for  
36 notices filed electronically with the secretary of state, the

1 secretary of state's recording information, must be entered by  
2 the filing officer into the central database before the close of  
3 the working day following the day of the original data entry by  
4 the department.

5 Subd. 5. [CONFORMITY WITH FEDERAL LIEN REGISTRATION  
6 ACT.] The filing and indexing of all notices must be in  
7 accordance with the filing and indexing of notices of federal  
8 liens, certificates of release, and refiled notices under  
9 section 272.483.

10 Subd. 6. [PAYMENT OF RECORDING FEES.] Notwithstanding any  
11 other law to the contrary, the department is exempt from payment  
12 of fees when a lien, lien renewal, or lien transcription is  
13 offered for recording. The recording fees must be paid along  
14 with the release fee at the end of the month in which the  
15 release of lien is recorded, after receipt of a monthly  
16 statement from a county recorder or the secretary of state. The  
17 department shall add the recording fees to the delinquent tax  
18 liability of the taxpayer. Notwithstanding any other law to the  
19 contrary, the fee for filing or recording a notice of lien, or  
20 lien release, transcription, or renewal is \$15.

21 Subd. 7. [APPROPRIATION.] There is appropriated to the  
22 commissioner an amount representing the cost of payment of  
23 recording fees to the county recorders and the secretary of  
24 state. The commissioner shall keep a separate accounting of the  
25 costs and of payments for recording fees remitted by taxpayers,  
26 and make the records available to the legislature upon request.

27 Subd. 8. [EXEMPT PROPERTY.] The lien imposed on personal  
28 property by this section, even though properly filed, is not  
29 enforceable: (1) against a purchaser with respect to tangible  
30 personal property purchased at retail in the ordinary course of  
31 the seller's trade or business, unless at the time of purchase  
32 the purchaser intends the purchase to or knows the purchase will  
33 hinder, evade, or defeat the collection of a tax; or (2) against  
34 the personal property listed as exempt in sections 550.37,  
35 550.38, and 550.39.

36 Subd. 9. [PERIOD OF LIMITATIONS.] The lien imposed by this

1 section shall, notwithstanding any other provision of law to the  
2 contrary, be enforceable from the time the lien arises and for  
3 ten years from the date of filing the notice of lien, which must  
4 be filed by the commissioner within five years after the date of  
5 assessment of the tax or final administrative or judicial  
6 determination of the assessment. A notice of lien filed in one  
7 county may be transcribed to any other county within ten years  
8 after the date of its filing, but the transcription shall not  
9 extend the period during which the lien is enforceable. A  
10 notice of lien may be renewed by the commissioner before the  
11 expiration of the ten-year period for an additional ten years.  
12 The taxpayer must receive written notice of the renewal.

13 Subd. 10. [ENFORCEABILITY OF LIEN.] The lien imposed by  
14 this section shall be enforceable by levy as authorized in  
15 section 270C.67, or by judgment lien foreclosure as authorized  
16 in chapter 550.

17 Subd. 11. [NOTICE OF MORTGAGE FORECLOSURE OR CONTRACT  
18 TERMINATION.] In the case of a mortgage foreclosure upon real  
19 property commenced under chapter 580, or a termination of  
20 contract of sale of real property commenced under section  
21 559.21, if the commissioner has filed a lien under this section  
22 before the foreclosure sale or date of termination, notice of  
23 the mortgage foreclosure or termination of contract of sale  
24 shall be mailed to the commissioner not less than 25 days prior  
25 to the foreclosure sale or date of termination. Provided,  
26 notice need not be given pursuant to this subdivision if the  
27 lien of the commissioner has been filed within 30 days or less  
28 prior to the foreclosure sale or date of termination. The  
29 notice must contain the following information: (1) the name and  
30 address of the taxpayer; (2) a copy of the notice of mortgage  
31 foreclosure or contract for deed cancellation; (3) a copy of the  
32 lien filed by the commissioner; (4) the total unpaid balance of  
33 the mortgage or contract for deed; (5) a legal description of  
34 the property; and (6) the fair market value of the property.

35 Subd. 12. [FILING ENTITLEMENT.] Execution of notices of  
36 liens or of other notices affecting state tax liens by the

1 original or facsimile signature of the commissioner entitles  
2 them to be filed, and no other attestation, certification, or  
3 acknowledgment is necessary. For purposes of this subdivision,  
4 transmission of notices under subdivision 3 constitutes  
5 execution.

6 Subd. 13. [LIEN SEARCH FEES.] Upon request of any person,  
7 the filing officer shall issue a certificate showing whether  
8 there is recorded in that filing office, on the date and hour  
9 stated in the certificate, any notice of lien or certificate or  
10 notice affecting any lien filed on or after ten years before the  
11 date of the search certificate, naming a particular person, and  
12 giving the date and hour of filing of each notice or certificate  
13 naming the person. The fee for a certificate shall be as  
14 provided by section 336.9-525 or 357.18, subdivision 1, clause  
15 (3). Upon request, the filing officer shall furnish a copy of  
16 any notice of state lien, or notice or certificate affecting a  
17 state lien, for a fee of 50 cents per page.

18 Subd. 14. [LIMITATION FOR HOMESTEAD PROPERTY.] A lien  
19 imposed under this section upon property defined as homestead  
20 property in sections 510.01 and 510.02 may not be enforced  
21 against homestead property by levy under section 270C.67, or by  
22 judgment lien foreclosure under chapter 550, but notwithstanding  
23 section 510.07, is enforceable against the proceeds from the  
24 sale, conveyance, or transfer of the homestead.

25 Subd. 15. [ERRONEOUS LIENS.] After the filing of a notice  
26 of lien under this section on the property or rights to property  
27 of a person, the person may appeal to the commissioner, in the  
28 form and at the time prescribed by the commissioner, alleging an  
29 error in the filing of the lien and requesting its release. If  
30 the commissioner determines that the filing of the notice of any  
31 lien was erroneous, within 14 days after the determination, the  
32 commissioner must issue a certificate of release of the lien.  
33 The certificate must include a statement that the filing of the  
34 lien was erroneous. In the event that the lien is erroneous and  
35 is not released within the 14-day period, reasonable attorney  
36 fees shall be paid. Damages must be paid in accordance with

1 section 3.736, subdivision 7. Even if a lien is not erroneous,  
2 the commissioner may withdraw the lien if the filing of the lien  
3 was premature or not in accordance with administrative  
4 procedures of the commissioner, or withdrawal of the lien will  
5 facilitate the collection of the tax liability.

6 Subd. 16. [LIEN RELEASE FEE.] A fee of \$25 must be paid to  
7 the commissioner for each duplicate of an original release of  
8 lien.

9 Subd. 17. [FORTY-FIVE DAY RULE.] A notice of tax lien  
10 filed under this section has priority over a security interest  
11 arising under article 9 of the Uniform Commercial Code that is  
12 perfected before the date of filing of the lien imposed by this  
13 section, but only if:

14 (1) the perfected security interest secures property  
15 acquired by the taxpayer or advances made by the secured party  
16 after the notice of tax lien is filed; and

17 (2) the property is acquired or the advance is made after  
18 the 45th day following the day on which the notice of tax lien  
19 is filed, or after the secured party has actual notice or  
20 knowledge of the tax lien filing, whichever is earlier.

21 Subd. 18. [REGISTERED LAND.] When a lien is filed with a  
22 county recorder under subdivisions 2 to 5, the county recorder  
23 shall search the registered land records in that county and  
24 cause the lien to be memorialized on every certificate of title  
25 or certificate of possessory title of registered land in that  
26 county which can be reasonably identified as owned by the  
27 taxpayer who is named on the lien. The fees for memorializing  
28 the lien shall be paid in the manner prescribed by subdivision  
29 6. The county recorders, and their employees and agents, shall  
30 not be liable for any loss or damages arising from failure to  
31 identify a parcel of registered land owned by the taxpayer who  
32 is named on the lien.

33 Subd. 19. [ASSIGNMENT OF LIENS.] The commissioner may sell  
34 and assign to a third party the right of redemption in specific  
35 real property for liens filed under this section. The  
36 redemption in the hands of the assignee shall not be enforceable

1 by any of the collection remedies provided to the commissioner  
2 by law. The assignee is limited to the same rights of  
3 redemption the commissioner would have in any mortgage  
4 foreclosure proceeding, but in any bankruptcy proceeding does  
5 not obtain the priority of the commissioner as a tax claimant.  
6 Should the taxpayer or its assigns exercise the right of  
7 redemption the assignment by the commissioner is extinguished.

8 Subd. 20. [ATTACHMENT TO PROCEEDS OF PROPERTY.] Any lien  
9 imposed under this section attaches to the proceeds of property  
10 with the same priority that the lien has with respect to the  
11 property itself. "Proceeds of property" means proceeds from the  
12 sale, lease, license, exchange, or other disposition of the  
13 property, including insurance proceeds arising from the loss or  
14 destruction of the property. [270.69]

15 [EFFECTIVE DATE.] This section is effective August 1, 2005.

16 Sec. 70. [270C.64] [CREDIT OF OVERPAYMENT TO DELINQUENT  
17 TAX LIABILITIES.]

18 Notwithstanding any other provision of law to the contrary,  
19 in the case of an overpayment of any tax collected by the  
20 commissioner, the commissioner may credit the amount of such  
21 overpayment against any uncontested delinquent tax liability on  
22 the part of the taxpayer who made the overpayment. An  
23 overpayment may be credited under this subdivision only if the  
24 uncontested delinquent liability has been assessed within ten  
25 years of the date on which the overpayment is credited.  
26 However, this limitation shall not be applicable if the  
27 delinquent liability has been entered into judgment or if legal  
28 action is pending for collection of the liability or for renewal  
29 of the judgment. An amount paid as tax shall constitute an  
30 overpayment even if in fact there was no tax liability with  
31 respect to which such amount was paid. [270.07, subd. 5]

32 [EFFECTIVE DATE.] This section is effective August 1, 2005.

33 Sec. 71. [270C.65] [RIGHT OF SETOFF.]

34 Subdivision 1. [CERTIFICATION BY COMMISSIONER.] The  
35 commissioner of revenue is authorized to certify to the  
36 commissioner of finance, or to any state agency described in

1 subdivision 3 which disburses its own funds, that a taxpayer has  
2 an uncontested delinquent tax liability owed to the commissioner  
3 of revenue. The certification must be made within ten years  
4 after the date of assessment of the tax. Once certification is  
5 made, the commissioner of finance or the state agency shall  
6 apply to the delinquent tax liability funds sufficient to  
7 satisfy the unpaid tax liability from funds appropriated for  
8 payment of an obligation of the state or any of its agencies  
9 that are due and owing the taxpayer. No setoff shall be made  
10 against any funds exempt under section 550.37 or those funds  
11 owed an individual taxpayer who receives assistance under the  
12 provisions of chapter 256.

13 Subd. 2. [SETOFF SATISFIES STATE OBLIGATION.] All funds,  
14 whether general or dedicated, shall be subject to setoff in the  
15 manner herein provided. Transfer of funds as herein provided is  
16 payment of the obligation of the state or any of its agencies to  
17 such taxpayer and any actions for said funds, if any, shall be  
18 had against the Department of Revenue on the issue of such tax  
19 liability. Nothing in this section shall be construed to limit  
20 the previously existing right of the state or any of its  
21 agencies to setoff.

22 Subd. 3. [AGENCIES SHALL MAINTAIN RECORDS.]  
23 Notwithstanding any provision to the contrary, every person,  
24 organization, or corporation doing business (hereafter called  
25 vendor) with the state of Minnesota or any of its departments,  
26 agencies, or educational institutions including the University  
27 of Minnesota (all hereafter called agency) shall provide that  
28 agency with either their Social Security number, federal  
29 taxpayer identification number, or Minnesota tax identification  
30 number. The commissioner may verify to the agency the  
31 identifying information provided by a vendor. The agency shall  
32 maintain records of this information, and shall make these  
33 records available, on request, to the commissioner for the sole  
34 purpose of identifying people who have not filed state tax  
35 returns or who have not paid uncontested tax liabilities  
36 (hereafter called delinquent taxpayer). When an agency is

1 notified by the commissioner that a vendor is a delinquent  
2 taxpayer, payments shall not be made by the agency to the vendor  
3 until the commissioner notifies the agency that the vendor no  
4 longer is a delinquent taxpayer. Furthermore, if the vendor has  
5 an uncontested delinquent tax liability, the setoff provided in  
6 subdivision 1 may be implemented. The commissioner shall  
7 determine that a vendor no longer is a delinquent taxpayer when  
8 the vendor has filed all delinquent returns and (1) paid all  
9 uncontested tax liabilities or (2) entered into an agreement  
10 with the commissioner which provides for the payment of these  
11 liabilities. [270.66]

12 [EFFECTIVE DATE.] This section is effective August 1, 2005.

13 Sec. 72. [270C.66] [CONTRACTS WITH STATE; WITHHOLDING.]

14 No department of the state of Minnesota, nor any political  
15 or governmental subdivision of the state shall make final  
16 settlement with any contractor under a contract requiring the  
17 employment of employees for wages by said contractor and by  
18 subcontractors until satisfactory showing is made that said  
19 contractor or subcontractor has complied with the provisions of  
20 section 290.92. A certificate by the commissioner shall satisfy  
21 this requirement with respect to the contractor or  
22 subcontractor. If, at the time of final settlement, there are  
23 any unpaid withholding taxes, penalties, or interest arising  
24 from the government contract, the commissioner shall issue a  
25 certification to the contractor or subcontractor upon payment,  
26 with certified funds, of any unpaid withholding taxes,  
27 penalties, and interest. Payment is received by the  
28 commissioner upon delivery of the certified funds to the central  
29 office located in St. Paul, or any district or subdistrict  
30 office located throughout the state. [290.97]

31 [EFFECTIVE DATE.] This section is effective August 1, 2005.

32 Sec. 73. [270C.67] [LEVY AND DISTRAINT.]

33 Subdivision 1. [AUTHORITY.] If any tax payable to the  
34 commissioner or to the department is not paid when due, such tax  
35 may be collected by the commissioner within five years after the  
36 date of assessment of the tax, or if a lien has been filed,



1 during the period the lien is enforceable, or if the tax  
2 judgment has been filed, within the statutory period of  
3 enforcement of a valid tax judgment, by a levy upon all property  
4 and rights to property, including any property in the possession  
5 of law enforcement officials, of the person liable for the  
6 payment or collection of such tax (except that which is exempt  
7 from execution pursuant to section 550.37) or property on which  
8 there is a lien provided in section 270C.63. For this purpose,  
9 "tax" includes any penalty, interest, and costs, properly  
10 payable.

11 Subd. 2. [WRIT OF ENTRY.] The term "levy" includes the  
12 power of distraint and seizure by any means; provided, no entry  
13 can be made upon the business premises or residence of a  
14 taxpayer in order to seize property without first obtaining a  
15 writ of entry listing the property to be seized and signed by a  
16 judge of the district court of the district in which the  
17 business premises or residence is located.

18 Subd. 3. [NOTICE AND DEMAND; COLLECTION BY LEVY.] Before a  
19 levy is made, notice and demand for payment of the amount due  
20 must be given to the person liable for the payment or collection  
21 of the tax at least 30 days prior to the levy. The notice  
22 required under this subdivision must be sent to the taxpayer's  
23 last known address and must include a brief statement that sets  
24 forth in simple and nontechnical terms:

25 (1) the administrative appeals available to the taxpayer  
26 with respect to the levy and sale; and

27 (2) the alternatives available to the taxpayer that can  
28 prevent a levy, including installment payment agreements under  
29 section 270C.52, subdivision 2.

30 Subd. 4. [MANNER OF EXECUTION AND SALE.] In making the  
31 execution of the levy and in collecting the taxes due, the  
32 commissioner shall have all of the powers provided in chapter  
33 550 and in any other law for purposes of effecting an execution  
34 against property in this state. The sale of property levied  
35 upon, and the time and manner of redemption therefrom, shall, to  
36 the extent not provided in sections 270C.7101 to 270C.7109, be

1 governed by chapter 550. The seal of the court, subscribed by  
2 the court administrator, as provided in section 550.04, shall  
3 not be required. The levy for collection of taxes may be made  
4 whether or not the commissioner has commenced a legal action for  
5 collection of such taxes.

6 Subd. 5. [STAY OF SALE.] (a) Where a jeopardy assessment  
7 or any other assessment has been made by the commissioner, the  
8 property seized for collection of the tax shall not be sold  
9 until the time has expired for filing an appeal of the  
10 assessment with the Tax Court pursuant to chapter 271. If an  
11 appeal has been filed, no sale shall be made unless the taxes  
12 remain unpaid for a period of more than 30 days after final  
13 determination of the appeal by the Tax Court or by the  
14 appropriate judicial forum.

15 (b) Notwithstanding paragraph (a), seized property may be  
16 sold if:

17 (1) the taxpayer consents in writing to the sale; or

18 (2) the commissioner determines that the property is  
19 perishable or may become greatly reduced in price or value by  
20 keeping, or that such property cannot be kept without great  
21 expense.

22 (c) The Tax Court has jurisdiction to review a  
23 determination made under paragraph (b), clause (2). Review is  
24 commenced by motion of the commissioner or the taxpayer. The  
25 order of the court in response to the motion is reviewable in  
26 the same manner as any other decision of the Tax Court.

27 Subd. 6. [PROBATE PROCEEDINGS.] Where a levy has been made  
28 to collect taxes pursuant to this section and the property  
29 seized is properly included in a formal proceeding commenced  
30 under sections 524.3-401 to 524.3-505 and maintained under full  
31 supervision of the court, such property shall not be sold until  
32 the probate proceedings are completed or until the court so  
33 orders.

34 Subd. 7. [BOND OR SECURITY TO RELEASE SEIZURE.] The  
35 property seized shall be returned by the commissioner if the  
36 owner gives a surety bond equal to the appraised value of the

1 owner's interest in the property, as determined by the  
2 commissioner, or deposits with the commissioner security in such  
3 form and amount as the commissioner deems necessary to insure  
4 payment of the liability, but not more than twice the liability.

5 Subd. 8. [INJUNCTION.] Notwithstanding any other provision  
6 to the contrary, if a levy or sale pursuant to this section  
7 would irreparably injure rights in property which the court  
8 determines to be superior to rights of the state in such  
9 property, the district court may grant an injunction to prohibit  
10 the enforcement of such levy or to prohibit such sale.

11 Subd. 9. [OPTIONAL REMEDY.] Any action taken by the  
12 commissioner pursuant to this section shall not constitute an  
13 election by the state to pursue a remedy to the exclusion of any  
14 other remedy.

15 Subd. 10. [EQUITABLE RELIEF.] After the commissioner has  
16 seized the property of any person, that person may, upon giving  
17 48 hours notice to the commissioner and to the court, bring a  
18 claim for equitable relief before the district court for the  
19 release of the property to the taxpayer upon such terms and  
20 conditions as the court may deem equitable.

21 Subd. 11. [LEVY AND SALE BY SHERIFF.] If any tax payable  
22 to the commissioner or to the department is not paid as provided  
23 in subdivision 3, the commissioner may, within the time periods  
24 provided in subdivision 1 for collection of taxes, delegate the  
25 authority granted by subdivision 1, by means of issuing a  
26 warrant to the sheriff of any county of the state commanding the  
27 sheriff, as agent for the commissioner, to levy upon and sell  
28 the real and personal property of the person liable for the  
29 payment or collection of the tax and to levy upon the rights to  
30 property of that person within the county, or to levy upon and  
31 seize any property within the county on which there is a lien  
32 provided in section 270C.63, and to return the warrant to the  
33 commissioner and pay to the commissioner the money collected by  
34 virtue thereof by a time to be therein specified not less than  
35 60 days from the date of the warrant. The sheriff shall proceed  
36 thereunder to levy upon and seize any property of the person and

1 to levy upon the rights to property of the person within the  
2 county (except the person's homestead or that property which is  
3 exempt from execution pursuant to section 550.37), or to levy  
4 upon and seize any property within the county on which there is  
5 a lien provided in section 270C.63. For purposes of the  
6 preceding sentence, "tax" includes any penalty, interest, and  
7 costs, properly payable. The sheriff shall then sell so much of  
8 the property levied upon as is required to satisfy the taxes,  
9 interest, and penalties, together with the sheriff's costs; but  
10 the sales, and the time and manner of redemption therefrom,  
11 shall, to the extent not provided in sections 270C.7101 to  
12 270C.7109, be governed by chapter 550. The proceeds of the  
13 sales, less the sheriff's costs, shall be turned over to the  
14 commissioner, who shall then apply the proceeds as provided in  
15 section 270C.7108.

16 Subd. 12. [PRIORITY OF LEVY.] Notwithstanding section  
17 52.12, a levy by the commissioner made pursuant to the  
18 provisions of this section upon a taxpayer's funds on deposit in  
19 a financial institution located in this state, shall have  
20 priority over any unexercised right of setoff of the financial  
21 institution to apply the levied funds toward the balance of an  
22 outstanding loan or loans owed by the taxpayer to the financial  
23 institution. A claim by the financial institution that it  
24 exercised its right to setoff prior to the levy by the  
25 commissioner must be substantiated by evidence of the date of  
26 the setoff, and shall be verified by the sworn statement of a  
27 responsible corporate officer of the financial institution.  
28 Furthermore, for purposes of determining the priority of any  
29 levy made under this section, the levy shall be treated as if it  
30 were an execution made pursuant to chapter 550.

31 Subd. 13. [EFFECT OF HONORING LEVY.] Any person in  
32 possession of (or obligated with respect to) property or rights  
33 to property subject to levy upon which a levy has been made who,  
34 upon demand by the commissioner, surrenders the property or  
35 rights to property (or who pays a liability under section  
36 270C.70, subdivision 1) shall be discharged from any obligation

1 or liability to the person liable for the payment or collection  
2 of the delinquent tax with respect to the property or rights to  
3 property so surrendered or paid.

4 Subd. 14. [NOTICE OF LEVY.] Notwithstanding any other  
5 provision of law to the contrary, the notice of any levy  
6 authorized by this section may be served by mail or by delivery  
7 by an agent of the department.

8 Subd. 15. [UNECONOMICAL LEVY.] No levy may be made on  
9 property if the amount of the expenses that the commissioner  
10 estimates would be incurred by the department with respect to  
11 the levy and sale of the property exceeds the fair market value  
12 of the property at the anticipated time of levy.

13 Subd. 16. [LEVY ON APPEARANCE DATE OF SUBPOENA.] No levy  
14 may be made on the property of a person on the day on which the  
15 person, or an officer or employee of the person, is required to  
16 appear in response to a subpoena issued by the commissioner to  
17 collect unpaid taxes, unless the commissioner determines that  
18 the collection of the tax is in jeopardy. [270.70]

19 [EFFECTIVE DATE.] This section is effective August 1, 2005.

20 Sec. 74. [270C.68] [CONTINUOUS LEVY.]

21 Subdivision 1. [AUTHORITY.] The commissioner may, within  
22 five years after the date of assessment of the tax, or if a lien  
23 has been filed under section 270C.63, within the statutory  
24 period for enforcement of the lien, give notice to a person to  
25 withhold the amount of any tax, interest, or penalties, due from  
26 a taxpayer. The amounts withheld shall be transmitted to the  
27 commissioner at the times the commissioner designates.

28 Subd. 2. [LEVY CONTINUOUS.] The levy made under  
29 subdivision 1 is continuous from the date the notice is received  
30 until the amount due stated on the notice has been withheld or  
31 the notice has been released by the commissioner under section  
32 270C.7109, whichever occurs first.

33 Subd. 3. [AMOUNT TO BE WITHHELD.] The amount required to  
34 be withheld under this section is the least of:

35 (1) the amount stated on the notice;

36 (2) if the taxpayer is not a natural person, 100 percent of

1 the payment; or

2 (3) if the taxpayer is an individual, 25 percent of the  
3 payment.

4 Subd. 4. [PAYMENTS COVERED.] For purposes of this section,  
5 the term "payments" does not include wages as defined in section  
6 290.92 or funds in a deposit account as defined in section  
7 336.9-102(a)(29). The term payments does include the following:

8 (1) payments due for services of independent contractors,  
9 dividends, rents, royalties, residuals, patent rights, and  
10 mineral or other natural resource rights;

11 (2) payments or credits under written or oral contracts for  
12 services or sales whether denominated as wages, salary,  
13 commission, bonus, or otherwise, if the payments are not covered  
14 by section 270C.69; and

15 (3) any other periodic payments or credits resulting from  
16 an enforceable obligation to the taxpayer.

17 Subd. 5. [DETERMINATION OF STATUS; EFFECT.] A  
18 determination of a taxpayer's status as an independent  
19 contractor under this section does not affect the determination  
20 of the taxpayer's status for the purposes of any other law or  
21 rule. [270.7001]

22 [EFFECTIVE DATE.] This section is effective August 1, 2005.

23 Sec. 75. [270C.69] [WITHHOLDING BY EMPLOYER OF DELINQUENT  
24 TAXES.]

25 Subdivision 1. [NOTICE AND PROCEDURES.] (a) The  
26 commissioner may, within five years after the date of assessment  
27 of the tax, or if a lien has been filed under section 270C.63,  
28 within the statutory period for enforcement of the lien, give  
29 notice to any employer deriving income which has a taxable situs  
30 in this state regardless of whether the income is exempt from  
31 taxation, that an employee of that employer is delinquent in a  
32 certain amount with respect to any taxes, including penalties,  
33 interest, and costs. The commissioner can proceed under this  
34 section only if the tax is uncontested or if the time for appeal  
35 of the tax has expired. The commissioner shall not proceed  
36 under this section until the expiration of 30 days after mailing

1 to the taxpayer, at the taxpayer's last known address, a written  
2 notice of (1) the amount of taxes, interest, and penalties due  
3 from the taxpayer and demand for their payment, and (2) the  
4 commissioner's intention to require additional withholding by  
5 the taxpayer's employer pursuant to this section. The effect of  
6 the notice shall expire one year after it has been mailed to the  
7 taxpayer provided that the notice may be renewed by mailing a  
8 new notice which is in accordance with this section. The  
9 renewed notice shall have the effect of reinstating the priority  
10 of the original claim. The notice to the taxpayer shall be in  
11 substantially the same form as that provided in section 571.72.  
12 The notice shall further inform the taxpayer of the wage  
13 exemptions contained in section 550.37, subdivision 14. If no  
14 statement of exemption is received by the commissioner within 30  
15 days from the mailing of the notice, the commissioner may  
16 proceed under this section. The notice to the taxpayer's  
17 employer may be served by mail or by delivery by an agent of the  
18 department and shall be in substantially the same form as  
19 provided in section 571.75. Upon receipt of notice, the  
20 employer shall withhold from compensation due or to become due  
21 to the employee, the total amount shown by the notice, subject  
22 to the provisions of section 571.922. The employer shall  
23 continue to withhold each pay period until the notice is  
24 released by the commissioner under section 270C.7109. Upon  
25 receipt of notice by the employer, the claim of the state of  
26 Minnesota shall have priority over any subsequent garnishments  
27 or wage assignments. The commissioner may arrange between the  
28 employer and the employee for withholding a portion of the total  
29 amount due the employee each pay period, until the total amount  
30 shown by the notice plus accrued interest has been withheld.

31 (b) The "compensation due" any employee is defined in  
32 accordance with the provisions of section 571.921. The maximum  
33 withholding allowed under this section for any one pay period  
34 shall be decreased by any amounts payable pursuant to a  
35 garnishment action with respect to which the employer was served  
36 prior to being served with the notice of delinquency and any

1 amounts covered by any irrevocable and previously effective  
2 assignment of wages; the employer shall give notice to the  
3 commissioner of the amounts and the facts relating to such  
4 assignments within ten days after the service of the notice of  
5 delinquency on the form provided by the commissioner as noted in  
6 this section.

7 (c) Within ten days after the expiration of such pay  
8 period, the employer shall remit to the commissioner, on a form  
9 and in the manner prescribed by the commissioner, the amount  
10 withheld during each pay period under this section.

11 Subd. 2. [TERMINATION OF EMPLOYMENT.] If the employee  
12 ceases to be employed by the employer before the full amount set  
13 forth in a notice of delinquency plus accrued interest has been  
14 withheld, the employer shall immediately notify the commissioner  
15 in writing of the termination date of the employee and the total  
16 amount withheld. No employer may discharge any employee by  
17 reason of the fact that the commissioner has proceeded under  
18 subdivision 1. If an employer discharges an employee in  
19 violation of this provision, the employee shall have the same  
20 remedy as provided in section 571.927, subdivision 2.

21 Subd. 3. [APPLICATION TO GOVERNMENT  
22 EMPLOYER.] Subdivisions 1 and 2 apply to cases in which the  
23 employer is the United States or any instrumentality thereof or  
24 this state or any municipality or other subordinate unit  
25 thereof. The provisions imposing liability on the employer for  
26 failure to withhold or remit under section 270C.70 do not apply  
27 to such government employers.

28 Subd. 4. [REFUND TO EMPLOYEE.] The commissioner shall  
29 refund to the employee excess amounts withheld from the employee  
30 under this section. If any excess results from payments by the  
31 employer because of payments made under section 270C.70, the  
32 excess attributable to the employer's payment shall be refunded  
33 to the employer.

34 Subd. 5. [ADDITIONAL INTEREST, COSTS, CHARGES.] Employers  
35 required to withhold delinquent taxes, penalties, interest, and  
36 costs under this section shall not be required to compute any



1 additional interest, costs or other charges to be withheld.

2 Subd. 6. [LEGAL EFFECT.] The collection remedy provided to  
3 the commissioner by this section shall have the same legal  
4 effect as if it were a levy made pursuant to section 270C.67.

5 [290.92, subd. 23]

6 [EFFECTIVE DATE.] This section is effective August 1, 2005.

7 Sec. 76. [270C.70] [PERSONAL LIABILITY FOR FAILURE TO  
8 HONOR A LEVY.]

9 Subdivision 1. [SURRENDER OF PROPERTY SUBJECT TO LEVY.] A  
10 person who fails or refuses to surrender property or rights to  
11 property subject to a levy served on the person under section  
12 270C.67, 270C.68, or 270C.69 is liable in an amount equal to the  
13 value of the property or rights not surrendered, or the amount  
14 of taxes, penalties, and interest for the collection of which  
15 the levy was made, whichever is less. A financial institution  
16 need not surrender funds on deposit until ten days after service  
17 of the levy.

18 Subd. 2. [PENALTY.] In addition to the personal liability  
19 imposed by subdivision 1, if a person required to surrender  
20 property or rights to property fails to do so without reasonable  
21 cause, the person is liable for a penalty equal to 25 percent of  
22 the amount under subdivision 1.

23 Subd. 3. [PERSON DEFINED.] The term "person" as used in  
24 this section includes an officer or employee of a corporation,  
25 or a member or employee of a partnership, who as such officer,  
26 employee, or member is under a duty to surrender the property or  
27 rights to property or to respond to the levy.

28 Subd. 4. [ORDER ASSESSING LIABILITY.] The liability  
29 imposed by this section may, after demand to honor a levy has  
30 been made, be assessed by the commissioner within 60 days after  
31 service of the demand. The assessment may be based on  
32 information available to the commissioner. The assessment is  
33 presumed to be valid, and the burden is on the person assessed  
34 to show it is incorrect or invalid. An order assessing  
35 liability for failure to honor a levy is reviewable  
36 administratively under section 270C.35, and is appealable to Tax

1 Court under chapter 271. The amount assessed, plus interest at  
2 the rate specified in section 270C.40, may be collected by any  
3 remedy available to the commissioner for the collection of  
4 taxes. The proceeds collected are applied first to the  
5 liability of the original taxpayer to the extent of the  
6 liability under subdivision 1 plus interest, and then to the  
7 penalty under subdivision 2. [270.7002]

8 [EFFECTIVE DATE.] This section is effective August 1, 2005.

9 Sec. 77. [270C.7101] [SALE OF SEIZED PROPERTY.]

10 Subdivision 1. [NOTICE OF SEIZURE.] As soon as practicable  
11 after seizure of property, notice in writing shall be given by  
12 the commissioner to the owner of the property (or, in the case  
13 of personal property, the possessor thereof), and shall be  
14 served in like manner as a summons in a civil action in the  
15 district court. If the owner cannot be readily located, or has  
16 no dwelling or place of business within this state, the notice  
17 may be mailed to the last known address. The notice shall  
18 specify the sum demanded and shall contain, in the case of  
19 personal property, an account of the property seized and, in the  
20 case of real property, a description with reasonable certainty  
21 of the property seized.

22 Subd. 2. [NOTICE OF SALE.] The commissioner shall as soon  
23 as practicable after the seizure of the property give notice of  
24 sale of the property to the owner, in the manner of service  
25 prescribed in subdivision 1. In the case of personal property,  
26 the notice shall be served at least ten days prior to the sale.  
27 In the case of real property, the notice shall be served at  
28 least four weeks prior to the sale. The commissioner shall also  
29 cause public notice of each sale to be made. In the case of  
30 personal property, notice shall be posted at least ten days  
31 prior to the sale at the county courthouse for the county where  
32 the seizure is made, and in not less than two other public  
33 places. For purposes of this requirement, the Internet is a  
34 public place for posting the information. In the case of real  
35 property, six weeks' published notice shall be given prior to  
36 the sale, in a newspaper published or generally circulated in

1 the county. The notice of sale provided in this subdivision  
2 shall specify the property to be sold, and the time, place,  
3 manner, and conditions of the sale. Whenever levy is made  
4 without regard to the 30-day period provided in section 270C.67,  
5 subdivision 3, public notice of sale of the property seized  
6 shall not be made within the 30-day period unless section  
7 270C.7102 (relating to sale of perishable goods) is applicable.

8 Subd. 3. [SALE OF INDIVISIBLE PROPERTY.] If any property  
9 liable to levy is not divisible, so as to enable the  
10 commissioner by sale of a part thereof to raise the whole amount  
11 of the tax and expenses, the whole of the property shall be sold.

12 Subd. 4. [TIME AND PLACE OF SALE.] The time of sale shall  
13 be after the expiration of the notice periods prescribed in  
14 subdivision 2. The place of sale shall be within the county in  
15 which the property is seized, except by special order of the  
16 commissioner.

17 Subd. 5. [MANNER AND CONDITIONS OF SALE.] (a) Before the  
18 sale the commissioner shall determine a minimum price for which  
19 the property shall be sold, and if no person offers for the  
20 property at the sale the amount of the minimum price, the  
21 property shall be declared to be purchased at the minimum price  
22 for the state of Minnesota; otherwise the property shall be  
23 declared to be sold to the highest bidder. In determining the  
24 minimum price, the commissioner shall take into account the  
25 expense of making the levy and sale. The announcement of the  
26 minimum price determined by the commissioner may be delayed  
27 until the receipt of the highest bid.

28 (b) The sale shall not be conducted in any manner other  
29 than:

30 (1) by public auction;

31 (2) by public sale under sealed bids; or

32 (3) in the case of items which individually or in usually  
33 marketable units have a value of \$50 or less, by public or  
34 private proceedings as a unit or in parcels at any time and  
35 place and on any terms, but every aspect of the disposition  
36 including the method, manner, time, place, and terms must be

1 commercially reasonable.

2 (c) In the case of seizure of several items of property,  
3 the items may be offered separately, in groups, or in the  
4 aggregate, and shall be sold under whichever method produces the  
5 highest aggregate amount, except that sales under paragraph (b),  
6 clause (3), must produce a reasonable amount under the  
7 circumstances.

8 (d) Payment in full shall be required at the time of  
9 acceptance of a bid, except that a part of the payment may be  
10 deferred by the commissioner for a period not to exceed 30 days.

11 (e) Other methods (including advertising) in addition to  
12 those prescribed in subdivision 2 may be used in giving notice  
13 of the sale.

14 (f) The commissioner may adjourn the sale from time to time  
15 for a period not to exceed 30 days.

16 (g) If payment in full is required at the time of  
17 acceptance of a bid and is not then and there paid, the  
18 commissioner shall forthwith proceed to again sell the property  
19 in the manner provided in this section. If the conditions of  
20 the sale permit part of the payment to be deferred, and if the  
21 part is not paid within the prescribed period, suit may be  
22 instituted against the purchaser for the purchase price or that  
23 part thereof as has not been paid, together with interest at the  
24 rate specified in section 549.09 from the date of the sale; or,  
25 in the discretion of the commissioner, the sale may be declared  
26 by the commissioner to be null and void for failure to make full  
27 payment of the purchase price and the property may again be  
28 advertised and sold as provided in this section. In the event  
29 of a readvertisement and sale, any new purchaser shall receive  
30 the property or rights to property free and clear of any claim  
31 or right of the former defaulting purchaser, of any nature  
32 whatsoever, and the amount paid upon the bid price by the  
33 defaulting purchaser shall be forfeited.

34 Subd. 6. [RIGHT TO REQUEST SALE OF SEIZED PROPERTY WITHIN  
35 60 DAYS.] The owner of property seized by levy may request that  
36 the commissioner offer to sell the property within 60 days after

1 the request, or within a longer period requested by the owner.  
2 The request must be complied with unless the commissioner  
3 determines and notifies the owner within that period that  
4 compliance is not in the best interests of the state of  
5 Minnesota. A determination by the commissioner not to comply  
6 with the request is appealable to the Tax Court in the manner  
7 provided by law.

8 Subd. 7. [SALE OF SEIZED SECURITIES.] (a) At the time of  
9 levy on securities, the commissioner shall provide notice to the  
10 taxpayer that the securities may be sold after ten days from the  
11 date of seizure.

12 (b) If the commissioner levies upon nonexempt publicly  
13 traded securities and the value of the securities is less than  
14 or equal to the total obligation for which the levy is done,  
15 after ten days the person who possesses or controls the  
16 securities shall liquidate the securities in a commercially  
17 reasonable manner. After liquidation, the person shall transfer  
18 the proceeds to the commissioner, less any applicable  
19 commissions or fees, or both, which are charged in the normal  
20 course of business.

21 (c) If the commissioner levies upon nonexempt publicly  
22 traded securities and the value of the securities exceeds the  
23 total amount of the levy, the owner of the securities may,  
24 within seven days after receipt of the commissioner's notice of  
25 levy given pursuant to subdivision 1, instruct the person who  
26 possesses or controls the securities which securities are to be  
27 sold to satisfy the obligation. If the owner does not provide  
28 instructions for liquidation, the person who possesses or  
29 controls the securities shall liquidate the securities in an  
30 amount sufficient to pay the obligation, plus any applicable  
31 commissions or fees, or both, which are charged in the normal  
32 course of business, beginning with the nonexempt securities  
33 purchased most recently. After liquidation, the person who  
34 possesses or controls the securities shall transfer to the  
35 commissioner the amount of money needed to satisfy the levy.

36 [270.701]

1        [EFFECTIVE DATE.] This section is effective for levies made  
2 on or after August 1, 2005.

3        Sec. 78. [270C.7102] [SALE OF PERISHABLE GOODS.]

4        If the commissioner determines that any property seized is  
5 liable to perish or become greatly reduced in price or value by  
6 keeping, or that the property cannot be kept without great  
7 expense, the commissioner shall appraise the value of the  
8 property, and if the owner of the property can be readily found,  
9 the commissioner shall give the owner notice of the  
10 determination of the appraised value of the property. The  
11 property shall be returned to the owner if, within the time  
12 specified in the notice, the owner (a) pays to the commissioner  
13 an amount equal to the appraised value, or (b) gives bond in the  
14 form, with the sureties, and in the amount as the commissioner  
15 prescribes to pay the appraised amount at the time the  
16 commissioner determines to be appropriate in the circumstances.  
17 If the owner does not pay the amount or furnish the bond in  
18 accordance with this section, the commissioner shall as soon as  
19 practicable make public sale of the property in accordance with  
20 section 270C.7101. [270.702]

21        [EFFECTIVE DATE.] This section is effective for levies made  
22 on or after August 1, 2005.

23        Sec. 79. [270C.7103] [REDEMPTION OF PROPERTY.]

24        Subdivision 1. [BEFORE SALE.] Any person whose property  
25 has been levied upon shall have the right to pay the amount due,  
26 together with the expenses of the proceeding, if any, to the  
27 commissioner at any time prior to the sale thereof, and upon  
28 payment the commissioner shall restore the property to the  
29 person, and all further proceedings in connection with the levy  
30 on the property shall cease from the time of payment.

31        Subd. 2. [REDEMPTION OF REAL ESTATE AFTER SALE.] The  
32 owners of any real property sold as provided in this section,  
33 their heirs, executors, or administrators, or any person having  
34 any interest therein, or a lien thereon, or any person in their  
35 behalf, shall be permitted to redeem the property sold, or any  
36 particular tract of the property, at any time within six months,

1 or in case the real property sold exceeds ten acres in size, at  
2 any time within 12 months, after the sale thereof. The property  
3 or tract of property shall be permitted to be redeemed upon  
4 payment to the purchaser (or if not found in the county in which  
5 the property to be redeemed is situated, then to the  
6 commissioner, for the use of the purchaser, or the purchaser's  
7 heirs or assigns) of the amount paid by the purchaser together  
8 with interest at the rate of 20 percent per annum.

9 Subd. 3. [RECORD.] When any lands sold are redeemed as  
10 provided in this section, the commissioner shall cause entry of  
11 the fact to be made upon the record required by section  
12 270C.7106 and the entry shall be evidence of the redemption.  
13 [270.703]

14 [EFFECTIVE DATE.] This section is effective for levies made  
15 on or after August 1, 2005.

16 Sec. 80. [270C.7104] [CERTIFICATE OF SALE.]

17 In the case of property sold as provided in section  
18 270C.7101, the commissioner shall give to the purchaser a  
19 certificate of sale upon payment in full of the purchase price.  
20 In the case of real property the certificate shall set forth the  
21 real property purchased, for whose taxes the property was sold,  
22 the name of the purchaser, and the price paid. If real property  
23 is declared purchased by the state of Minnesota, the  
24 commissioner shall within ten days from the sale cause the  
25 certificate of sale to be duly recorded by the county recorder  
26 of the county in which the real property is located. [270.704]

27 [EFFECTIVE DATE.] This section is effective for levies made  
28 on or after August 1, 2005.

29 Sec. 81. [270C.7105] [EFFECT OF CERTIFICATE OF SALE.]

30 Subdivision 1. [PERSONAL PROPERTY.] (a) In all cases of  
31 sale pursuant to section 270C.7101 of personal property, the  
32 certificate of sale given pursuant to section 270C.7104 shall be  
33 prima facie evidence of the right of the commissioner to make  
34 the sale, and conclusive evidence of the regularity of the  
35 proceedings in making the sale. The certificate shall transfer  
36 to the purchaser all right, title, and interest of the party

1 delinquent in and to the property sold.

2 (b) If the property consists of stocks, the certificate of  
3 sale shall be notice, when received, to any corporation,  
4 company, or association of the transfer, and shall be authority  
5 to the corporation, company, or association to record the  
6 transfer on its books and records in the same manner as if the  
7 stocks were transferred or assigned by the party holding the  
8 same, in lieu of any original or prior certificate, which shall  
9 be void, whether canceled or not.

10 (c) If the subject of sale is securities or other evidences  
11 of debt, the certificate of sale shall be a good and valid  
12 receipt to the person holding the same, as against any person  
13 holding or claiming to hold possession of the securities or  
14 other evidences of debt.

15 (d) If the property consists of a motor vehicle, the  
16 certificate of sale shall be notice, when received, to the  
17 registrar of motor vehicles of this state of the transfer, and  
18 shall be authority to the registrar to record the transfer on  
19 the books and records in the same manner as if the certificate  
20 of title to the motor vehicle were transferred or assigned by  
21 the party holding the same, in lieu of any original or prior  
22 certificate, which shall be void, whether canceled or not.

23 Subd. 2. [REAL PROPERTY.] In the case of the sale of real  
24 property pursuant to section 270C.7101, the certificate of sale  
25 given pursuant to section 270C.7104 shall be prima facie  
26 evidence of the facts therein stated, and shall be considered  
27 and operate as a conveyance of all the right, title, and  
28 interest the party delinquent had in and to the real property  
29 thus sold at the time the lien of the state of Minnesota  
30 attached thereto.

31 Subd. 3. [JUNIOR ENCUMBRANCES.] A certificate of sale of  
32 personal property or real property given pursuant to section  
33 270C.7104 shall discharge the property from all liens,  
34 encumbrances, and titles over which the lien of the state of  
35 Minnesota with respect to which the levy was made had priority.  
36 [270.705]



1 [EFFECTIVE DATE.] This section is effective for levies made  
2 on or after August 1, 2005.

3 Sec. 82. [270C.7106] [RECORDS OF SALE.]

4 The commissioner shall maintain a record of all sales of  
5 property under section 270C.7101 and of redemptions of real  
6 property. The record shall set forth the tax for which the sale  
7 was made, the dates of seizure and sale, the name of the party  
8 assessed and all proceedings in making the sale, the amount of  
9 expenses, the names of the purchasers, and the date of the  
10 certificate of sale. A copy of the record, or any part thereof,  
11 certified by the commissioner shall be evidence in any court of  
12 the truth of the facts therein stated. [270.706]

13 [EFFECTIVE DATE.] This section is effective for levies made  
14 on or after August 1, 2005.

15 Sec. 83. [270C.7107] [EXPENSE OF LEVY AND SALE.]

16 The commissioner shall determine the expenses to be allowed  
17 in all cases of levy and sale. [270.707]

18 [EFFECTIVE DATE.] This section is effective for levies made  
19 on or after August 1, 2005.

20 Sec. 84. [270C.7108] [APPLICATION OF PROCEEDS OF LEVY.]

21 Subdivision 1. [COLLECTION OF LIABILITY.] Any money  
22 realized by proceedings under this chapter, whether by seizure,  
23 by surrender under section 270C.67, by sale of seized property,  
24 by sale of property redeemed by the state of Minnesota (if the  
25 interest of the state of Minnesota in the property was a lien  
26 arising under the provisions of section 270C.63), or by  
27 agreement, arrangement, or any other means shall be applied as  
28 follows:

29 (a) First, against the expenses of the proceedings; then

30 (b) If the property seized and sold is subject to a tax  
31 that has not been paid, the amount remaining after applying  
32 clause (a) shall next be applied against the tax liability (and,  
33 if the tax was not previously assessed, it shall then be  
34 assessed); and

35 (c) The amount, if any, remaining after applying clauses

36 (a) and (b) shall be applied against the tax liability in

1 respect of which the levy was made or the sale was conducted.

2 Subd. 2. [SURPLUS PROCEEDS.] Any surplus proceeds  
3 remaining after the application of subdivision 1 shall, upon  
4 application and satisfactory proof in support thereof, be  
5 credited or refunded by the commissioner to the person or  
6 persons legally entitled thereto. [270.708]

7 [EFFECTIVE DATE.] This section is effective for levies made  
8 on or after August 1, 2005.

9 Sec. 85. [270C.7109] [AUTHORITY TO RELEASE LEVY AND RETURN  
10 PROPERTY.]

11 Subdivision 1. [RELEASE OF LEVY.] The commissioner shall  
12 release a levy on all or part of the property or rights to  
13 property levied on and shall promptly notify the person on whom  
14 the levy was made that the levy has been released if: (1) the  
15 liability for which the levy was made is satisfied or has become  
16 unenforceable by lapse of time; (2) release of the levy will  
17 facilitate collection of the liability; (3) the taxpayer has  
18 entered into an installment payment agreement under section  
19 270C.52, subdivision 2, unless the agreement provides otherwise,  
20 or unless release of the levy will jeopardize the status of the  
21 department as a secured creditor; or (4) the fair market value  
22 of the property exceeds the liability, and release of the levy  
23 on a part of the property can be made without hindering  
24 collection. In the case of tangible personal property essential  
25 in carrying on the trade or business of the taxpayer, the  
26 commissioner shall provide for an expedited determination under  
27 this subdivision. A release of levy under this subdivision does  
28 not prevent a subsequent levy on the property released.

29 Subd. 2. [RETURN OF PROPERTY.] If the commissioner  
30 determines that property has been wrongfully levied upon, it  
31 shall be lawful for the commissioner to return:

32 (a) The specific property levied upon, at any time;

33 (b) An amount of money equal to the amount of money levied  
34 upon, at any time before the expiration of nine months from the  
35 date of the levy; or

36 (c) An amount of money equal to the amount of money

1 received by the state of Minnesota from a sale of the property,  
2 at any time before the expiration of nine months from the date  
3 of the sale.

4 For purposes of clause (c), if property is declared  
5 purchased by the state of Minnesota at a sale pursuant to  
6 section 270C.7101, subdivision 5 (relating to manner and  
7 conditions of sale), the state of Minnesota shall be treated as  
8 having received an amount of money equal to the minimum price  
9 determined pursuant to section 270C.7101, subdivision 5, or, if  
10 larger, the amount received by the state of Minnesota from the  
11 resale of the property. [270.709]

12 [EFFECTIVE DATE.] This section is effective for levies made  
13 on or after August 1, 2005.

14 Sec. 86. [270C.711] [ACQUISITION AND RESALE OF SEIZED  
15 PROPERTY.]

16 For the purpose of enabling the commissioner to purchase or  
17 redeem seized property in which the state of Minnesota has an  
18 interest arising from a lien for unpaid taxes, or to provide for  
19 the operating costs of collection activities of the department,  
20 there is appropriated to the commissioner an amount representing  
21 the cost of such purchases, redemptions, or collection  
22 activities. Seized property acquired by the state of Minnesota  
23 to satisfy unpaid taxes shall be resold by the commissioner.  
24 The commissioner shall preserve the value of seized property  
25 while controlling it, including but not limited to the  
26 procurement of insurance. For the purpose of refunding the  
27 proceeds from the sale of levied or redeemed property which are  
28 in excess of the actual tax liability plus costs of acquiring  
29 the property, there is hereby created a levied and redeemed  
30 property refund account in the agency fund. All amounts  
31 deposited into this account are appropriated to the  
32 commissioner. The commissioner shall report quarterly on the  
33 status of this program to the chairs of the house Taxes and Ways  
34 and Means Committees and senate Taxes and Tax Laws and Finance  
35 Committees. [270.71]

36 [EFFECTIVE DATE.] This section is effective August 1, 2005.

1 Sec. 87. [270C.72] [TAX CLEARANCE; ISSUANCE OF LICENSES.]

2 Subdivision 1. [TAX CLEARANCE REQUIRED.] The state or a  
3 political subdivision of the state may not issue, transfer, or  
4 renew, and must revoke, a license for the conduct of a  
5 profession, occupation, trade, or business, if the commissioner  
6 notifies the licensing authority that the applicant owes the  
7 state delinquent taxes payable to the commissioner, penalties,  
8 or interest. The commissioner may not notify the licensing  
9 authority unless the applicant taxpayer owes \$500 or more in  
10 delinquent taxes, penalties, or interest, or has not filed  
11 returns. If the applicant taxpayer does not owe delinquent  
12 taxes, penalties, or interest, but has not filed returns, the  
13 commissioner may not notify the licensing authority unless the  
14 taxpayer has been given 90 days' written notice to file the  
15 returns or show that the returns are not required to be filed.  
16 A licensing authority that has received a notice from the  
17 commissioner may issue, transfer, renew, or not revoke the  
18 applicant's license only if (a) the commissioner issues a tax  
19 clearance certificate and (b) the commissioner or the applicant  
20 forwards a copy of the clearance to the authority. The  
21 commissioner may issue a clearance certificate only if the  
22 applicant does not owe the state any uncontested delinquent  
23 taxes, penalties, or interest and has filed all required returns.

24 Subd. 2. [DEFINITIONS.] For purposes of this section, the  
25 following terms have the meanings given.

26 (a) "Delinquent taxes" do not include a tax liability if  
27 (i) an administrative or court action which contests the amount  
28 or validity of the liability has been filed or served, (ii) the  
29 appeal period to contest the tax liability has not expired, or  
30 (iii) the applicant has entered into a payment agreement and is  
31 current with the payments.

32 (b) "Applicant" means an individual, if the license is  
33 issued to or in the name of an individual, or the corporation or  
34 partnership, if the license is issued to or in the name of a  
35 corporation or partnership. "Applicant" also means an officer  
36 of a corporation, a member of a partnership, or an individual

1 who is liable for delinquent taxes, either for the entity for  
2 which the license is at issue or for another entity for which  
3 the liability was incurred, or personally as a licensee. In the  
4 case of a license transfer, "applicant" also means both the  
5 transferor and the transferee of the license. "Applicant" also  
6 means any holder of a license.

7 (c) "License" means any permit, registration,  
8 certification, or other form of approval authorized by statute  
9 or rule to be issued by the state or a political subdivision of  
10 the state as a condition of doing business or conducting a  
11 trade, profession, or occupation in Minnesota, specifically  
12 including, but not limited to, a contract for space rental at  
13 the Minnesota state fair and authorization to operate  
14 concessions or rides at county and local fairs, festivals, or  
15 events.

16 (d) "Licensing authority" includes the Minnesota State Fair  
17 Board and county and local boards or governing bodies.

18 Subd. 3. [NOTICE AND HEARING.] (a) The commissioner, on  
19 notifying a licensing authority pursuant to subdivision 1 not to  
20 issue, transfer, or renew a license, must send a copy of the  
21 notice to the applicant. If the applicant requests, in writing,  
22 within 30 days of the date of the notice a hearing, a contested  
23 case hearing must be held. The hearing must be held within 45  
24 days of the date the commissioner refers the case to the Office  
25 of Administrative Hearings. Notwithstanding any law to the  
26 contrary, the applicant must be served with 20 days' notice in  
27 writing specifying the time and place of the hearing and the  
28 allegations against the applicant. The notice may be served  
29 personally or by mail.

30 (b) Prior to notifying a licensing authority pursuant to  
31 subdivision 1 to revoke a license, the commissioner must send a  
32 notice to the applicant of the commissioner's intent to require  
33 revocation of the license and of the applicant's right to a  
34 hearing under paragraph (a). A license is subject to revocation  
35 when 30 days have passed following the date of the notice in  
36 this paragraph without the applicant requesting a hearing, or,

1 if a hearing is timely requested, upon final determination of  
2 the hearing under section 14.62, subdivision 1. A license shall  
3 be revoked by the licensing authority within 30 days after  
4 receiving notice from the commissioner to revoke.

5 (c) A hearing under this subdivision is in lieu of any  
6 other hearing or proceeding provided by law arising from any  
7 action taken under subdivision 1.

8 Subd. 4. [LICENSING AUTHORITY; DUTIES.] All licensing  
9 authorities must require the applicant to provide the  
10 applicant's Social Security number and Minnesota business  
11 identification number on all license applications. Upon request  
12 of the commissioner, the licensing authority must provide the  
13 commissioner with a list of all applicants, including the name,  
14 address, business name and address, Social Security number, and  
15 business identification number of each applicant. The  
16 commissioner may request from a licensing authority a list of  
17 the applicants no more than once each calendar year. [270.72]

18 [EFFECTIVE DATE.] This section is effective August 1, 2005.

19 Sec. 88. [270C.721] [REVOCATION OF CERTIFICATES OF  
20 AUTHORITY TO DO BUSINESS IN THIS STATE.]

21 When a foreign corporation authorized to do business in  
22 this state under chapter 303, or a foreign limited liability  
23 company or partnership authorized to do business in this state  
24 under chapter 322B, fails to comply with a law administered by  
25 the commissioner that imposes a tax, the commissioner may serve  
26 the secretary of state with a certified copy of an order finding  
27 such failure to comply. The secretary of state, upon receipt of  
28 the order, shall revoke the certificate of authority to do  
29 business in this state, and shall reinstate the certificate  
30 under section 303.19 or 322B.960, subdivision 6, only when the  
31 corporation or limited liability company or partnership has  
32 obtained from the commissioner an order finding that the  
33 corporation or limited liability company or partnership is in  
34 compliance with such law. An order requiring revocation of a  
35 certificate shall not be issued unless the commissioner gives  
36 the corporation or limited liability company or partnership 30

1 days' written notice of the proposed order, specifying the  
2 violations of law, and affording an opportunity to request a  
3 contested case hearing under chapter 14. [270.721]

4 [EFFECTIVE DATE.] This section is effective August 1, 2005.

5 Sec. 89. [270C.722] [REVOCATION OF SALES TAX PERMITS.]

6 Subdivision 1. [NOTICE OF REVOCATION; HEARINGS.] (a) If:

7 (1) a person fails to comply with chapter 297A or the sales and  
8 use tax provisions of chapter 289A or the rules related to sales  
9 tax, or (2) any retailer purchases for resale from an unlicensed  
10 seller more than 20,000 cigarettes or \$500 or more worth of  
11 tobacco products, without reasonable cause, the commissioner may  
12 give the person 30 days' notice in writing, specifying the  
13 violations, and stating that based on the violations the  
14 commissioner intends to revoke the person's permit issued under  
15 section 297A.84. The notice must also advise the person of the  
16 right to contest the revocation under this subdivision. It must  
17 also explain the general procedures for a contested case hearing  
18 under chapter 14. The notice may be served personally or by  
19 mail in the manner prescribed for service of an order of  
20 assessment.

21 (b) If the person does not request a hearing within 30 days  
22 after the date of the notice of intent, the commissioner may  
23 serve a notice of revocation of permit upon the person, and the  
24 permit is revoked. If a hearing is timely requested, and held,  
25 the permit is revoked after the commissioner serves an order of  
26 revocation of permit under section 14.62, subdivision 1.

27 Subd. 2. [NEW PERMITS AFTER REVOCATION.] (a) The  
28 commissioner shall not issue a new permit after revocation or  
29 reinstate a revoked permit unless the taxpayer applies for a  
30 permit and provides reasonable evidence of intention to comply  
31 with the sales and use tax laws and rules. The commissioner may  
32 require the applicant to provide security, in addition to that  
33 authorized by section 297A.92, in an amount reasonably necessary  
34 to ensure compliance with the sales and use tax laws and rules.  
35 If the commissioner issues or reinstates a permit not in  
36 conformance with the requirements of this subdivision or

1 applicable rules, the commissioner may cancel the permit upon  
2 notice to the permit holder. The notice must be served by first  
3 class and certified mail at the permit holder's last known  
4 address. The cancellation shall be effective immediately,  
5 subject to the right of the permit holder to show that the  
6 permit was issued in conformance with the requirements of this  
7 subdivision and applicable rules. Upon such showing, the permit  
8 must be reissued.

9 (b) If a taxpayer has had a permit or permits revoked three  
10 times in a five-year period, the commissioner shall not issue a  
11 new permit or reinstate the revoked permit until 24 months have  
12 elapsed after revocation and the taxpayer has satisfied the  
13 conditions for reinstatement of a revoked permit or issuance of  
14 a new permit imposed by this section and rules adopted under  
15 this section.

16 (c) For purposes of this subdivision, "taxpayer" means:

17 (1) an individual, if a revoked permit was issued to or in  
18 the name of an individual, or a corporation or partnership, if a  
19 revoked permit was issued to or in the name of a corporation or  
20 partnership; and

21 (2) an officer of a corporation, a member of a partnership,  
22 or an individual who is liable for delinquent sales taxes,  
23 either for the entity for which the new or reinstated permit is  
24 at issue, or for another entity for which a permit was  
25 previously revoked, or personally as a permit holder. [297A.86]

26 [EFFECTIVE DATE.] This section is effective August 1, 2005.

27 Sec. 90. [270C.725] [POSTING OF TAX DELINQUENCY; SALE OF  
28 LIQUOR OR BEER.]

29 Subdivision 1. [POSTING, NOTICE.] Pursuant to the  
30 authority to disclose under section 270B.12, subdivision 4, the  
31 commissioner shall, by the 15th of each month, submit to the  
32 commissioner of public safety a list of all taxpayers who are  
33 required to pay, withhold, or collect the tax imposed by section  
34 290.02, 290.0922, 290.92, 290.9727, 290.9728, 290.9729, or  
35 297A.62, or local sales and use tax payable to the commissioner,  
36 or a local option tax administered and collected by the



1 commissioner, and who are ten days or more delinquent in either  
2 filing a tax return or paying the tax.

3 The commissioner is under no obligation to list a taxpayer  
4 whose business is inactive. At least ten days before notifying  
5 the commissioner of public safety, the commissioner shall notify  
6 the taxpayer of the intended action.

7 The commissioner of public safety shall post the list in  
8 the same manner as provided in section 340A.318, subdivision 3.  
9 The list will prominently show the date of posting. If a  
10 taxpayer previously listed files all returns and pays all taxes  
11 specified in this subdivision then due, the commissioner shall  
12 notify the commissioner of public safety within two business  
13 days.

14 Subd. 2. [SALES PROHIBITED.] Beginning the third business  
15 day after the list is posted, no wholesaler, manufacturer, or  
16 brewer may sell or deliver any product to a taxpayer included on  
17 the posted list.

18 Subd. 3. [PENALTY.] A wholesaler, manufacturer, or brewer  
19 of intoxicating liquor or 3.2 percent malt liquor who violates  
20 subdivision 2 is subject to the penalties provided in section  
21 340A.304. [270.73]

22 [EFFECTIVE DATE.] This section is effective August 1, 2005.

23 Sec. 91. [270C.728] [PUBLICATION OF NAMES OF DELINQUENT  
24 TAXPAYERS.]

25 Subdivision 1. [COMMISSIONER MAY PUBLISH.] (a)  
26 Notwithstanding any other law, the commissioner may publish a  
27 list or lists of taxpayers who owe delinquent taxes, and who  
28 meet the requirements of paragraph (b).

29 (b) For purposes of this section, a taxpayer may be  
30 included on a list if:

31 (1) the taxes owed remain unpaid at least 180 days after  
32 the dates they were due;

33 (2) the taxpayer's total liability for the taxes, including  
34 penalties, interest, and other charges, is at least \$5,000; and

35 (3) a tax lien has been filed or a judgment for the  
36 liability has been entered against the taxpayer before notice is

1 given under subdivision 3.

2 (c) In the case of listed taxpayers that are business  
3 entities, the commissioner may also list the names of  
4 responsible persons assessed pursuant to section 270C.56 for  
5 listed liabilities, who are not protected from publication by  
6 subdivision 2, and for whom the requirements of paragraph (b)  
7 are satisfied with regard to the personal assessment.

8 (d) Before any list is published under this section, the  
9 commissioner must certify in writing that each of the conditions  
10 for publication as provided in this section has been satisfied,  
11 and that procedures were followed to ensure the accuracy of the  
12 list and notice was given to the affected taxpayers.

13 Subd. 2. [REQUIRED AND EXCLUDED TAXPAYERS.] (a) The  
14 commissioner may publish lists of some or all of the taxpayers  
15 described in subdivision 1. A list must include the taxpayers  
16 with the largest unpaid liabilities of the kind used to define  
17 the list, subject to the limitations of paragraphs (b) and (c).

18 (b) For the purposes of this section, a tax is not  
19 delinquent if:

20 (1) an administrative or court action contesting the amount  
21 or validity of the taxpayer's liability has been filed or served  
22 and is unresolved at the time when notice would be given under  
23 subdivision 3;

24 (2) an appeal period to contest the liability has not  
25 expired; or

26 (3) the liability is subject to a payment agreement and  
27 there is no delinquency in the payments required under the  
28 agreement.

29 (c) Unpaid liabilities are not subject to publication if:

30 (1) the commissioner is in the process of reviewing or  
31 adjusting the liability;

32 (2) the taxpayer is a debtor in a bankruptcy proceeding and  
33 the automatic stay is in effect;

34 (3) the commissioner has been notified that the taxpayer is  
35 deceased; or

36 (4) the time period for collecting the taxes has expired.

1        Subd. 3. [NOTICE TO TAXPAYER.] (a) At least 30 days before  
2 publishing the name of a delinquent taxpayer, the commissioner  
3 shall mail a written notice to the taxpayer, detailing the  
4 amount and nature of each liability and the intended publication  
5 of the information listed in subdivision 4 related to the  
6 liability. The notice must be mailed by first class and  
7 certified mail addressed to the last known address of the  
8 taxpayer. The notice must include information regarding the  
9 exceptions listed in subdivision 2 and must state that the  
10 taxpayer's information will not be published if the taxpayer  
11 pays the delinquent obligation, enters into an agreement to pay,  
12 or provides information establishing that subdivision 2  
13 prohibits publication of the taxpayer's name.

14        (b) After at least 30 days has elapsed since the notice was  
15 mailed and the delinquent tax has not been paid and the taxpayer  
16 has not proved to the commissioner that subdivision 2 prohibits  
17 publication, the commissioner may publish in a list of  
18 delinquent taxpayers the information about the taxpayer that is  
19 listed in subdivision 4.

20        Subd. 4. [FORM OF LIST.] The list may be published by any  
21 medium or method. The list must contain the name, address, type  
22 of tax, and period for which payment is due for each liability,  
23 including penalties, interest, and other charges owed by each  
24 listed delinquent taxpayer.

25        Subd. 5. [REMOVAL FROM LIST.] The commissioner shall  
26 remove the name of a taxpayer from the list of delinquent  
27 taxpayers after the commissioner receives written notice of and  
28 verifies any of the following facts about the liability in  
29 question:

30        (1) the taxpayer has contacted the commissioner and  
31 arranged resolution of the liability;

32        (2) an active bankruptcy proceeding has been initiated for  
33 the liability;

34        (3) a bankruptcy proceeding concerning the liability has  
35 resulted in discharge of the liability; or

36        (4) the commissioner has written off the liability.

1 Subd. 6. [NAMES PUBLISHED IN ERROR.] If the commissioner  
2 publishes a name under subdivision 1 in error, the taxpayer  
3 whose name was erroneously published has a right to request a  
4 retraction and apology. If the taxpayer so requests, the  
5 commissioner shall publish a retraction and apology  
6 acknowledging that the taxpayer's name was published in error.  
7 The retraction and apology must appear in the same medium and  
8 the same format as the original list that contained the name  
9 listed in error.

10 Subd. 7. [PAYMENT OF DAMAGES.] Actions against the  
11 commissioner or the state of Minnesota arising out of the  
12 implementation of this program must be brought under section  
13 270C.275. If an action results in damages awarded to a  
14 taxpayer, the damages must be paid out of the department's  
15 operating budget rather than in accordance with section 3.736,  
16 subdivision 7. [270.691]

17 [EFFECTIVE DATE.] This section is effective August 1, 2005.

18 OVERSIGHT AND ADMINISTRATION OF PROPERTY TAX SYSTEM

19 Sec. 92. [270C.85] [ADMINISTRATION OF PROPERTY TAX LAWS;  
20 POWERS AND DUTIES.]

21 Subdivision 1. [GENERAL SUPERVISION.] The commissioner  
22 shall have and exercise general supervision over the  
23 administration of the property tax laws, assessors, town,  
24 county, and city boards of review and equalization, and all  
25 other assessing officers in the performance of their duties, to  
26 the end that all assessments of property be made relatively just  
27 and equal in compliance with the laws of the state. [270.06(1)]

28 Subd. 2. [POWERS AND DUTIES.] The commissioner shall have  
29 and exercise the following powers and duties in administering  
30 the property tax laws.

31 (a) Confer with, advise, and give the necessary  
32 instructions and directions to local assessors and local boards  
33 of review throughout the state as to their duties under the laws  
34 of the state. [270.06(2)]

35 (b) Direct proceedings, actions, and prosecutions to be  
36 instituted to enforce the laws relating to the liability and

1 punishment of public officers and officers and agents of  
2 corporations for failure or negligence to comply with the  
3 provisions of the property tax laws, and cause complaints to be  
4 made against local assessors, members of boards of equalization,  
5 members of boards of review, or any other assessing or taxing  
6 officer, to the proper authority, for their removal from office  
7 for misconduct or negligence of duty. [270.06(3)]

8 (c) Require county attorneys to assist in the commencement  
9 of prosecutions in actions or proceedings for removal,  
10 forfeiture, and punishment, for violation of the property tax  
11 laws in their respective districts or counties. [270.06(4)]

12 (d) Require town, city, county, and other public officers  
13 to report information as to the assessment of property, and such  
14 other information as may be needful in the work of the  
15 commissioner, in such form as the commissioner may prescribe.  
16 [270.06(5)]

17 (e) Transmit to the governor, on or before the third Monday  
18 in December of each even-numbered year, and to each member of  
19 the legislature, on or before November 15 of each even-numbered  
20 year, the report of the department for the preceding years,  
21 showing all the taxable property subject to the property tax  
22 laws and the value of the same, in tabulated form. [270.06(12)]

23 (f) Inquire into the methods of assessment and taxation and  
24 ascertain whether the assessors faithfully discharge their  
25 duties. [270.06(13)]

26 [EFFECTIVE DATE.] This section is effective August 1, 2005.

27 Sec. 93. [270C.86] [POWER TO ABATE; CORRECTION OF ERRORS.]

28 Subdivision 1. [POWERS OF COMMISSIONER; APPLICATION FOR

29 ABATEMENT; ORDERS.] (a) Except for matters delegated to the  
30 various boards of county commissioners under section 375.192,  
31 and except as otherwise provided by law, the commissioner shall  
32 have power to grant such reduction or abatement of net tax  
33 capacities, taxes imposed by the property tax laws, or special  
34 assessments, and of any costs, penalties, or interest thereon as  
35 the commissioner may deem just and equitable, and to order the  
36 refundment, in whole or in part, of any taxes or special

1 assessments, and costs, penalties, or interest thereon which  
2 have been erroneously or unjustly paid. Application therefor  
3 shall be submitted with a statement of facts in the case and the  
4 favorable recommendation of the county board or of the board of  
5 abatement of any city where any such board exists, and the  
6 county auditor of the county wherein such tax was levied or  
7 paid. No reduction, abatement, or refundment of any special  
8 assessments made or levied by any municipality for local  
9 improvements shall be made unless it is also approved by the  
10 board of review or similar taxing authority of such municipality.

11 (b) The commissioner shall forward to the county auditor a  
12 copy of the order made by the commissioner in all cases in which  
13 the approval of the county board is required. [270.07, subd.  
14 1(c)]

15 (c) An appeal may not be taken to the Tax Court from any  
16 order of the commissioner made in the exercise of the  
17 discretionary authority granted in paragraph (a) with respect to  
18 the reduction or abatement of real or personal property taxes in  
19 response to an application for an abatement, reduction, or  
20 refund of taxes, net tax capacities, costs, penalties, or  
21 interest. [270.07, subd. 1(f)]

22 Subd. 2. [EXAMINATION OF APPLICATION; REDUCTIONS;  
23 APPEALS.] (a) The commissioner shall examine all applications  
24 submitted by a county board pursuant to section 375.192,  
25 subdivision 3. If the applicant has previously submitted a  
26 claim for property tax relief pursuant to chapter 290A based on  
27 the property taxes payable prior to receiving the abatement, the  
28 commissioner may approve the application in an amount reduced by  
29 the relief provided pursuant to chapter 290A.

30 (b) An appeal may be taken to the Tax Court from an order  
31 of the commissioner made pursuant to this subdivision. [270.07,  
32 subd. 1a]

33 Subd. 3. [CORRECTION OF ERRORS.] On application of the  
34 county auditor with the approval of the county board, the  
35 commissioner may order the correction of any administrative and  
36 clerical errors in the assessment, levy, and extension of taxes

1 under the property tax laws, other than valuation. [270.07,  
2 subd. 2]

3 [EFFECTIVE DATE.] This section is effective August 1, 2005.

4 Sec. 94. [270C.87] [REVISION OF MINNESOTA ASSESSORS'  
5 MANUAL.]

6 In accordance with the provisions of section 270C.06, the  
7 commissioner shall periodically revise the Minnesota assessors'  
8 manual. [270.068]

9 [EFFECTIVE DATE.] This section is effective August 1, 2005.

10 Sec. 95. [270C.88] [ORDERS; DECISIONS.]

11 Subdivision 1. [IN WRITING.] Any order or decision of the  
12 commissioner increasing or decreasing any tax, assessment, or  
13 other obligation by a sum exceeding \$1,000 on real or personal  
14 property, or the net tax capacity thereof, or other obligation  
15 relating thereto, the result of which is to increase or decrease  
16 the total amount payable under the property tax laws, including  
17 penalties and interest, by a sum exceeding \$1,000, must bear the  
18 written signature or facsimile signature of the commissioner or  
19 the commissioner's delegate. Written approval of the  
20 commissioner or a delegate shall not be required with respect to  
21 orders reducing net tax capacity of property by reason of its  
22 classification as a homestead.

23 Subd. 2. [ONLY OFFICIAL ACTIONS OF COUNTY BOARD OR OTHER  
24 AGENCY ACTED UPON.] No action requiring the recommendation or  
25 approval of any county board or other public agency shall be  
26 taken by the commissioner, or any other employees or agents of  
27 the department, unless such recommendation or approval shall  
28 have been made upon official action by such county board or  
29 other agency, entered upon the minutes or record of its  
30 proceedings as a public record, showing the names of the  
31 taxpayers and other persons concerned and the amounts involved,  
32 and so certified by the recording officer of such board or  
33 agency. [270.10]

34 [EFFECTIVE DATE.] This section is effective August 1, 2005.

35 Sec. 96. [270C.89] [COUNTY ASSESSOR'S REPORTS OF  
36 ASSESSMENT FILED WITH COMMISSIONER.]

1        Subdivision 1. [INITIAL REPORT.] Each county assessor  
2 shall file by April 1 with the commissioner a copy of the  
3 abstract that will be acted upon by the local and county boards  
4 of review. The abstract must list the real and personal property  
5 in the county itemized by assessment districts. The assessor of  
6 each county in the state shall file with the commissioner,  
7 within ten working days following final action of the local  
8 board of review or equalization and within five days following  
9 final action of the county board of equalization, any changes  
10 made by the local or county board. The information must be  
11 filed in the manner prescribed by the commissioner. It must be  
12 accompanied by a printed or typewritten copy of the proceedings  
13 of the appropriate board. [270.11, subd. 2]

14        Subd. 2. [FINAL REPORT.] The final abstract of assessments  
15 after adjustments by the State Board of Equalization and  
16 inclusion of any omitted property shall be submitted to the  
17 commissioner on or before September 1 of each calendar year.  
18 The final abstract must separately report the captured tax  
19 capacity of tax increment financing districts under section  
20 469.177, subdivision 2, the metropolitan revenue contribution  
21 value under section 473F.07, and the value subject to the power  
22 line credit under section 273.42. [270.11, subd. 2]

23        [EFFECTIVE DATE.] This section is effective August 1, 2005.  
24        Sec. 97. [270C.90] [COUNTY AUDITOR TO CALCULATE TAX RATE.]  
25        The county auditor shall calculate the tax rate necessary  
26 to raise the required amount of the various taxes on the net tax  
27 capacity of all property as returned by the commissioner and the  
28 State Board of Equalization. [270.14]

29        [EFFECTIVE DATE.] This section is effective August 1, 2005.  
30        Sec. 98. [270C.91] [RECORD OF PROCEEDINGS CHANGING NET TAX  
31 CAPACITY; DUTIES OF COUNTY AUDITOR.]

32        A record of all proceedings of the commissioner affecting  
33 any change in the net tax capacity of any property, as revised  
34 by the State Board of Equalization, shall be kept by the  
35 commissioner and a copy thereof, duly certified, shall be mailed  
36 each year to the auditor of each county wherein such property is



1 situated, on or before June 30 or 30 days after submission of  
2 the abstract required by section 270C.89, whichever is later.  
3 This record shall specify the amounts or amount, or both, added  
4 to or deducted from the net tax capacity of the real property of  
5 each of the several towns and cities, and of the real property  
6 not in towns or cities, also the percent or amount of both,  
7 added to or deducted from the several classes of personal  
8 property in each of the towns and cities, and also the amount  
9 added to or deducted from the assessment of any person. The  
10 county auditor shall add to or deduct from such tract or lot, or  
11 portion thereof, of any real property in the county the required  
12 percent or amount, or both, on the net tax capacity thereof as  
13 it stood after equalized by the county board, adding in each  
14 case a fractional sum of 50 cents or more, and deducting in each  
15 case any fractional sum of less than 50 cents, so that no net  
16 tax capacity of any separate tract or lot shall contain any  
17 fraction of a dollar; and add to, or deduct from, the several  
18 classes of personal property in the county the required percent  
19 or amount, or both, on the net tax capacity thereof as it stood  
20 after equalized by the county board, adding or deducting in  
21 manner aforesaid any fractional sum so that no net tax capacity  
22 of any separate class of personal property shall contain a  
23 fraction of a dollar, and add to or deduct from assessment of  
24 any person, as they stood after equalization by the county  
25 board, the required amounts to agree with the assessments as  
26 returned by the commissioner. [270.13]

27 [EFFECTIVE DATE.] This section is effective August 1, 2005.

28 Sec. 99. [270C.92] [IMPROPER OR NEGLIGENT ADMINISTRATION  
29 OF PROPERTY TAX LAWS.]

30 Subdivision 1. [EXAMINATION OF COMPLAINTS;  
31 PROCEEDINGS.] The commissioner shall receive complaints and  
32 examine all cases where it is alleged that property subject to  
33 taxation has not been assessed or has been fraudulently or for  
34 any reason improperly or unequally assessed, or the law in any  
35 manner evaded or violated, and cause to be instituted such  
36 proceedings as will remedy improper or negligent administration

1 of the property tax laws. [270.11, subd. 5]

2 Subd. 2. [CHANGE OF MARKET VALUES.] In administering the  
3 property tax laws, the commissioner shall raise or lower the  
4 market value of any real or personal property, including the  
5 power to raise or lower the market value of the real or personal  
6 property of any person; provided, that before any such  
7 assessment against the property of any person is so raised,  
8 notice of an intention to raise such market value and of the  
9 time and place at which a hearing thereon will be held shall be  
10 given to such person, by mail, addressed to the person at the  
11 place of residence listed upon the assessment book, at least  
12 five days before the day of such hearing.

13 All relevant and material evidence concerning the market  
14 value of the real or personal property shall be submitted at the  
15 hearing, and the hearing shall not be a "contested case" within  
16 the meaning of section 14.02, subdivision 3. The person  
17 notified of the hearing, or any other person having an interest  
18 in the property, may present evidence and argument bearing upon  
19 the market value of the property. [270.11, subd. 6]

20 Subd. 3. [APPEARANCES BEFORE THE COMMISSIONER.] A property  
21 owner, other than a public utility or mining company, for which  
22 the original assessments are determined by the commissioner, may  
23 not appear before the commissioner for the purposes provided in  
24 subdivision 1 or 2 unless a timely appearance in person, by  
25 counsel, or by written communication has been made before the  
26 county board of equalization as provided in section 274.13, to  
27 appeal the assessment of the property, or that the property  
28 owner can establish not receiving notice of market value at  
29 least five days before the local board of review meeting.

30 The commissioner may refuse to hear an appeal that is  
31 within the jurisdiction of the Small Claims Division of the Tax  
32 Court as stated in section 271.21, subdivision 2. The property  
33 owner shall be notified by the commissioner of the right to  
34 appeal to the Small Claims Division whenever an appeal to the  
35 commissioner is denied. [270.11, subd. 7]

36 [EFFECTIVE DATE.] This section is effective August 1, 2005.

1       Sec. 100. [270C.921] [MUNICIPALITY MAY BE PARTY TO TAX  
2 HEARING.]

3       Any city, town, school district, or county (all of which  
4 governmental subdivisions shall be embraced in the word  
5 "municipality" as used in sections 270C.921 to 270C.928) may  
6 appear at and become a party to any proceedings before the  
7 commissioner under section 270C.92 held for the purpose of  
8 equalizing or assessing any real or personal property in the  
9 municipality, or reducing the net tax capacity of any such  
10 property. For that purpose the municipality may employ counsel  
11 and disburse money for other expenses in connection with the  
12 proceedings, on duly itemized, verified claims, which shall be  
13 audited and allowed as now provided by law for the allowance of  
14 claims against a municipality. It shall be the duty of the  
15 commissioner, at the time of a hearing, to grant the  
16 municipality, at its request, any further reasonable time as may  
17 be necessary for the municipality to prepare for further  
18 hearing. Before granting any reduction in net tax capacity  
19 exceeding \$100,000, it shall be the duty of the commissioner,  
20 when any taxpayer or property owner has applied to the  
21 commissioner after June 30, 1983, for a reduction of the net tax  
22 capacity of any real or personal property in an amount exceeding  
23 \$100,000, to give written notice to the officials of the  
24 municipality where the property is located and to permit the  
25 municipality to have reasonable opportunity to be heard at any  
26 proceedings concerning such reduction. [270.19]

27       Sec. 101. [270C.922] [MUNICIPALITY MAY REQUEST TAX  
28 HEARING.]

29       Any municipality may, at any time within ten days after the  
30 final adjournment of the county board of equalization of the  
31 county in which the municipality is located or within ten days  
32 after the filing with the auditor of such county of any order of  
33 the commissioner reducing the net tax capacity of any property  
34 in the municipality, file a written request with the  
35 commissioner for a hearing under section 270C.92 upon the  
36 equalization or assessment of any property within the

1 municipality, specifying the property and the name and address  
2 of the owner thereof, as they appear from the assessment books.  
3 The commissioner shall then order a hearing and mail a notice  
4 stating the time and place of the hearing to the municipality  
5 and to the owner of the property. It shall be the duty of the  
6 commissioner, at the time of a hearing, to grant the  
7 municipality, at its request, such further reasonable time as  
8 may be necessary for the municipality to prepare for further  
9 hearing. [270.20]

10 [EFFECTIVE DATE.] This section is effective August 1, 2005.

11 Sec. 102. [270C.923] [WITNESSES SUMMONED.]

12 In any hearing before the commissioner under section  
13 270C.92, the commissioner shall, upon the request of a  
14 municipality or any other party to the proceedings, issue  
15 subpoenas and summon witnesses to appear and give testimony, and  
16 to produce books, records, papers, and documents. For the  
17 purpose of preparing for and participating in a hearing the  
18 municipality shall have access to, and use of, all the data,  
19 records, and files of the commissioner pertaining to the  
20 property in question. Upon demand of any party a record shall  
21 be kept by the commissioner of all evidence offered or received  
22 at a hearing, the cost thereof to be paid by the party making  
23 such demand. [270.21]

24 [EFFECTIVE DATE.] This section is effective August 1, 2005.

25 Sec. 103. [270C.924] [FINDINGS OF FACT AND ORDER;  
26 APPEALS.]

27 Subdivision 1. [FINDINGS OF FACT.] For hearings held under  
28 section 270C.92, the commissioner shall determine the  
29 controversy upon the evidence produced at the hearing and shall  
30 make and file written findings of fact and an order determining  
31 the controversy. In the equalization and determination of net  
32 tax capacities, the findings and net tax capacities as given by  
33 the assessor of the local assessment district shall be  
34 considered as prima facie correct. Copies of the order and  
35 findings shall be mailed to all parties appearing at the hearing  
36 and to the auditor of the county in which the property is

1 located.

2 Subd. 2. [APPEAL BY MUNICIPALITY.] Any municipality which  
3 has appeared in the proceedings, and which is aggrieved by the  
4 order of the commissioner reducing the net tax capacity of any  
5 of the property, or failing to increase the net tax capacity,  
6 may have the order of the commissioner reviewed by appeal to the  
7 Court of Appeals, on either of the following grounds: (1) that  
8 the determination of the commissioner was not in accordance with  
9 the property tax laws, or that the commissioner committed any  
10 other error of law; or (2) that the findings of fact and  
11 determination of net tax capacity were unwarranted by or were  
12 contrary to the weight of the evidence.

13 Subd. 3. [APPEAL BY PROPERTY OWNER.] Any owner of property  
14 who has appeared in the proceedings and who is aggrieved by the  
15 order of the commissioner raising the net tax capacity of the  
16 property, or failing to reduce the net tax capacity, may have  
17 the order of the commissioner reviewed on appeal to the Court of  
18 Appeals in like manner and upon the same grounds as provided for  
19 review on the appeal of any municipality. [270.22]

20 [EFFECTIVE DATE.] This section is effective August 1, 2005.

21 Sec. 104. [270C.925] [NOTICE OF APPEAL.]

22 To secure review of a determination made by the  
23 commissioner under section 270C.924, the municipality shall,  
24 within 30 days after mailing of notice of the determination,  
25 serve upon the commissioner a notice of appeal to the Court of  
26 Appeals from the order of the commissioner and file the  
27 original, with proof of service, with the clerk of the appellate  
28 courts, paying the filing fee provided by law for appeals in  
29 civil actions. The filing of the notice of appeal shall vest  
30 the court with jurisdiction and the appeal shall be heard and  
31 disposed of as in other civil cases.

32 The court shall reverse or affirm the order of the  
33 commissioner or remand the cause to the commissioner for a new  
34 hearing or further proceedings or for other disposition, with  
35 further directions as the court deems proper. [270.23]

36 [EFFECTIVE DATE.] This section is effective August 1, 2005.

1 Sec. 105. [270C.926] [APPEAL DOES NOT STAY COLLECTION.]

2 The institution of any appeal under sections 270C.924 and  
3 270C.925 from the order of the commissioner does not stay any  
4 proceedings for the assessment or collection of taxes against  
5 the property involved therein. Notwithstanding such appeal, the  
6 commissioner shall file with the auditor of the county in which  
7 such property is situated an order confirming, increasing,  
8 decreasing, or determining the net tax capacity thereof, and the  
9 county auditor shall extend and levy against such property, or  
10 the owner thereof, the taxes thereupon for such year according  
11 to such assessment, and all subsequent proceedings for the  
12 determination of the taxes and the collection thereof shall be  
13 taken as if no appeal from such order were pending. When the  
14 matter is finally determined on review a properly authenticated  
15 copy of the findings, order, or judgment shall be filed with the  
16 auditor of the county in which the land or property referred to  
17 in the proceedings is situated. If such order or judgment  
18 lowers the net tax capacity of the land or property referred to  
19 in the proceedings, the commissioner, upon petition of the  
20 owner, approved by the county board, shall abate so much of the  
21 taxes against such property as is attributable to the excessive  
22 net tax capacity thereof. If such tax has been paid, the county  
23 auditor, upon petition of the owner, approved by the county  
24 board and the commissioner, shall refund so much of such payment  
25 as is attributable to such excess net tax capacity. Upon such  
26 refund being made the county auditor shall charge the same to  
27 the state and the various governmental subdivisions thereof that  
28 participated in such excessive payment, in proportion to their  
29 respective shares therein, and deduct the same in the next tax  
30 apportionment. [270.24]

31 [EFFECTIVE DATE.] This section is effective August 1, 2005.

32 Sec. 106. [270C.927] [INCREASE IN NET TAX CAPACITY;  
33 ADDITIONAL TAXES.]

34 If the final order and judgment in a hearing before the  
35 commissioner under section 270C.92, or any appeal thereof,  
36 result in raising the net tax capacity of the property affected

1 by the proceedings, the county officers shall, for the next  
2 ensuing year, in addition to the regular taxes levied for such  
3 ensuing year, levy, extend, and spread against such property, if  
4 real property, or against the owner thereof, if personal  
5 property, a tax equal to the difference between the taxes  
6 actually levied and extended against such property, or owner,  
7 for the year in question and the taxes which should have been  
8 levied or extended against such property, or owner, at the  
9 increased net tax capacity as finally determined. [270.25]

10 [EFFECTIVE DATE.] This section is effective August 1, 2005.

11 Sec. 107. [270C.928] [PROCEEDINGS TO DETERMINE NET TAX  
12 CAPACITY.]

13 The proceedings provided in sections 270C.92 to 270C.927  
14 are for determining the net tax capacity upon the basis of which  
15 taxes are spread against property, or its owner, in the first  
16 instance. The order of the commissioner, or the final order for  
17 judgment of the Court of Appeals on it, shall not be a bar to  
18 any defense against the taxes interposed at the time of the  
19 proceedings for judgment on them. All defenses which may be set  
20 up against the proceedings for judgment upon the taxes may be  
21 asserted notwithstanding the determination of the commissioner  
22 or the court. If the taxes are levied or extended pending  
23 review of the order of the commissioner by the court, a judgment  
24 entered upon the taxes in the tax delinquency proceedings shall  
25 not be a bar to the spreading of further taxes against the  
26 property for that year, in the event the net tax capacity of the  
27 property is raised as herein provided. In the proceedings for  
28 the collection of any taxes which include an additional levy  
29 because of the raising of the net tax capacity of any property,  
30 the owner may answer separately to the proceedings to obtain  
31 judgment for the excess levy. [270.26]

32 [EFFECTIVE DATE.] This section is effective August 1, 2005.

33 REASSESSMENT OF OMITTED OR UNDERVALUED PROPERTIES

34 Sec. 108. [270C.94] [PROPERTY OMITTED OR UNDERVALUED;  
35 REASSESSMENT; APPOINTMENT OF SPECIAL ASSESSOR.]

36 Subdivision 1. [PROPERTY OMITTED OR UNDERVALUED.] When it

1 shall be made to appear to the commissioner, by complaint or by  
2 the finding of a court or of the legislature, or either body of  
3 the legislature, or any committee of the legislature, or any  
4 city council or county board, that any considerable amount of  
5 property has been improperly omitted from the tax list or  
6 assessment roll of any district or county for any year, or, if  
7 assessed, that the same has been undervalued or overvalued, as  
8 compared with like property in the same county or in the state  
9 so that the assessment for such year in such district or county  
10 is grossly unfair and inequitable, whether or not the same has  
11 been equalized by the county board of equalization or the  
12 commissioner, the commissioner shall examine into the facts in  
13 the matter and, if satisfied that it would be for the best  
14 interests of the state that a reassessment of such property be  
15 made, the commissioner shall appoint a special assessor and such  
16 deputy assessors as may be necessary and cause a reassessment to  
17 be made of all or any of the real and personal property, or  
18 either, in any such district or county as the commissioner may  
19 deem best, to the end that all property in such district or  
20 county shall be assessed equitably as compared with like  
21 property in such district or county. [270.16, subd. 1]

22 Subd. 2. [SPECIAL ASSESSORS, DEPUTIES; REASSESSMENTS.] The  
23 commissioner shall appoint a special assessor and deputies and  
24 cause to be made, in any year, a reassessment of all or any real  
25 and personal property, or either, in any assessment district,  
26 when in the commissioner's judgment such reassessment is  
27 desirable or necessary, to the end that any and all property in  
28 such district shall be assessed equitably as compared with like  
29 property in the county wherein such district is situated.  
30 [270.11, subd. 3]

31 Subd. 3. [FAILURE TO APPRAISE.] When an assessor has  
32 failed to properly appraise at least one-quarter of the parcels  
33 of property in a district or county as provided in section  
34 273.01, the commissioner shall appoint a special assessor and  
35 deputy assessor as necessary and cause a reappraisal to be made  
36 of the property due for reassessment in accordance with law.



1 [270.16, subd. 2]

2 [EFFECTIVE DATE.] This section is effective August 1, 2005.

3 Sec. 109. [270C.95] [QUALIFICATION OF ASSESSORS;  
4 REASSESSMENT, HOW MADE.]

5 Every special assessor and deputy appointed under the  
6 provisions of section 270C.94 shall subscribe and file with the  
7 commissioner an oath to faithfully and fairly perform the duties  
8 of office. Such special assessor, assisted by deputies, shall  
9 thereupon proceed to carefully examine and reassess the property  
10 so to be reassessed and prepare duplicate lists of such  
11 reassessment in such form as the commissioner may prescribe,  
12 showing the property or person so reassessed, the amount of the  
13 original assessment thereof made in such year, and opposite the  
14 same the reassessment so made by such special assessor. The  
15 special assessor shall file both copies of such list with the  
16 commissioner; and the commissioner shall thereupon examine,  
17 equalize, and correct such reassessment so as to substantially  
18 conform with the assessment of like property throughout the  
19 state and transmit to the auditor of the county wherein such  
20 reassessment was so made one copy of such reassessment by the  
21 commissioner so corrected and equalized. Such list shall for  
22 all purposes supersede and be in place of the original  
23 assessment made for such year upon such property and the county  
24 auditor, upon receipt thereof, shall extend and levy against  
25 such property so reassessed the taxes thereon for such year  
26 according to such reassessment in the same manner as though such  
27 list was the original assessment list of such property. Any  
28 person feeling aggrieved by an assessment so made against the  
29 person, or upon any property at that time owned by the person,  
30 may appeal therefrom to the district court of the county in  
31 which such assessment is made. To render the appeal effective  
32 for any purpose, the appellant shall file a notice of the appeal  
33 with the auditor of such county within 30 days after the making  
34 of the assessment, which notice shall specify the ground upon  
35 which the appeal was taken, and no other or different service  
36 shall be required to perfect it. Upon the filing of the notice

1 the county auditor shall make and file in the office of the  
2 court administrator of the district court a certified copy of  
3 the notice and of the particular assessment appealed from and  
4 notify the county attorney of such county of the pendency of the  
5 appeal. Thereupon the district court shall be deemed to have  
6 acquired jurisdiction of the matter and proceed to hear and  
7 determine it in like manner as other tax matters are tried and  
8 determined in the district courts of this state. The county  
9 attorney of such county shall appear for and defend the  
10 interests of the state in such matter. [270.17]

11 [EFFECTIVE DATE.] This section is effective August 1, 2005.

12 Sec. 110. [270C.96] [REASSESSMENT; COMPENSATION;  
13 REIMBURSEMENT BY COUNTIES.]

14 The compensation of each special assessor and deputies,  
15 appointed under the provisions of section 270C.94 and the  
16 expenses as such, shall be fixed by the commissioner and paid  
17 out of money appropriated for operation of the department. The  
18 commissioner on August 1 shall notify the auditor of each  
19 affected county of the amount thereof paid on behalf of such  
20 county since August 1 of the preceding year, whereupon the  
21 county auditor shall levy a tax upon the taxable property in the  
22 assessment district or districts wherein such reassessment was  
23 made sufficient to pay the same. One-half of such tax shall be  
24 levied in the year in which the commissioner so notifies the  
25 county auditor and the remaining one-half shall be levied in the  
26 following year. The respective counties shall reimburse the  
27 state by paying one-half of the tax so assessed on or before  
28 July 1 and the remaining one-half on or before December 1 in the  
29 year in which the tax is payable by owner, whether or not the  
30 tax was collected by the county. The reimbursement shall be  
31 credited to the general fund. If any county fails to reimburse  
32 the state within the time specified herein, the commissioner is  
33 empowered to order withholding of state aids or distributions to  
34 such county equal to the amount delinquent. [270.18]

35 [EFFECTIVE DATE.] This section is effective August 1, 2005.

36 Sec. 111. [270C.97] [OMITTED PROPERTY.]

1 The commissioner shall require the county auditor to place  
2 upon the assessment rolls omitted property which may be  
3 discovered to have escaped assessment and taxation in previous  
4 years. [270.11, subd. 4]

5 [EFFECTIVE DATE.] This section is effective August 1, 2005.  
6 Sec. 112. [270C.98] [SENIOR ACCREDITATION.]

7 The legislature finds that the property tax system would be  
8 enhanced by requiring that every senior appraiser in the  
9 Property Tax Division of the department obtain senior  
10 accreditation from the State Board of Assessors. Every senior  
11 appraiser, including the department's regional representatives,  
12 and every county assessor within two years of the first  
13 appointment under section 273.061, must obtain senior  
14 accreditation from the state Board of Assessors. The board  
15 shall provide the necessary courses or training. If a  
16 department senior appraiser or regional representative fails to  
17 obtain or maintain senior accreditation, the failure shall be  
18 grounds for dismissal, disciplinary action, or corrective  
19 action. Except as provided in section 273.061, subdivision 2,  
20 paragraph (c), the commissioner must not approve the appointment  
21 of a county assessor who is not senior accredited by the State  
22 Board of Assessors. No employee hired by the commissioner as a  
23 senior appraiser or regional representative shall attain  
24 permanent status until the employee obtains senior accreditation.  
25 [270.485]

26 [EFFECTIVE DATE.] This section is effective August 1, 2005.  
27 Sec. 113. [270C.99] [CERTAIN TOWNSHIPS AND CITIES OPTION  
28 TO ELECT TO REINSTATE THE OFFICE OF ASSESSOR.]

29 Notwithstanding the provisions of section 273.05,  
30 subdivision 1, a city or township in which the office of  
31 assessor has been eliminated because of failure to fill a  
32 vacancy in the office within 90 days pursuant to section 273.05,  
33 subdivision 1, may elect, with the approval of the commissioner,  
34 to have the office of assessor reinstated by hiring a certified  
35 or accredited assessor. This section shall not apply to Ramsey  
36 county or to cities and townships located in counties which have

1 elected a county assessment system in accordance with section  
 2 273.055. [270.494]

3 [EFFECTIVE DATE.] This section is effective August 1, 2005.  
 4 Sec. 114. [RULES; EFFECT OF RECODIFICATION.]

5 Notwithstanding Minnesota Statutes, section 14.05,  
 6 subdivision 1, Minnesota Rules, chapters 8001, 8002, 8007, 8009,  
 7 8017, 8019, 8020, 8031, 8034, 8038, 8043, 8050, 8052, 8092,  
 8 8093, 8100, 8106, 8110, 8120, 8121, 8122, 8125, 8130, 8160,  
 9 8165, 8170, and 8175, shall continue under the authority granted  
 10 in Minnesota Statutes, section 270C.06. Furthermore, Minnesota  
 11 Statutes, section 14.125, does not apply, and the Department of  
 12 Revenue may subsequently amend or repeal these rules from time  
 13 to time without additional legislative authorization.

14 [EFFECTIVE DATE.] This section is effective August 1, 2005.  
 15 Sec. 115. [PURPOSE AND EFFECT.]

16 Subdivision 1. [PURPOSE.] It is the intent of the  
 17 legislature to simplify Minnesota's tax laws by consolidating  
 18 and recodifying tax administration and compliance provisions now  
 19 contained in Minnesota Statutes, chapter 270, and several other  
 20 chapters of Minnesota Statutes. The provisions of this act may  
 21 not be used to determine the law in effect prior to the  
 22 effective dates in this act.

23 Subd. 2. [EFFECT.] Due to the complexity of the  
 24 recodification, prior provisions are repealed on the effective  
 25 date of the new provisions. The repealed provisions, however,  
 26 continue to remain in effect until superseded by the analogous  
 27 provision in the new law.

28 [EFFECTIVE DATE.] This section is effective August 1, 2005.  
 29 Sec. 116. [REVISOR INSTRUCTION.]

30 (a) To the extent practicable, the revisor shall publish  
 31 the statutory derivations of the laws repealed and recodified in  
 32 this article in Laws of Minnesota.

33 (b) The revisor shall correct cross-references in Minnesota  
 34 Statutes and Minnesota Rules to sections that are repealed and  
 35 recodified by this article.

36 (c) Notwithstanding any law to the contrary, if a provision

1 of a section of Minnesota Statutes repealed by this article is  
 2 amended or repealed during the same legislative session, the  
 3 amendment or repealer shall supersede the provisions of this  
 4 article, and the revisor shall codify the amendment or repealer  
 5 consistent with the recodification of the affected section by  
 6 this article. In addition, the revisor shall code new sections  
 7 or subdivisions enacted during the legislative session  
 8 consistent with the recodification.

9 [EFFECTIVE DATE.] This section is effective August 1, 2005.

10 Sec. 117. [REPEALER.]

11 Minnesota Statutes 2004, sections 270.01; 270.02; 270.021;  
 12 270.022; 270.04; 270.05; 270.052; 270.058; 270.059; 270.06;  
 13 270.0601; 270.0602; 270.0603; 270.0604; 270.0605; 270.061;  
 14 270.062; 270.063; 270.064; 270.065; 270.066; 270.0665; 270.067;  
 15 270.068; 270.0681; 270.0682; 270.069; 270.07; 270.084; 270.09;  
 16 270.10; 270.101; 270.102; 270.11, subdivisions 2, 3, 4, 5, 6,  
 17 and 7; 270.13; 270.14; 270.15; 270.16; 270.17; 270.18; 270.19;  
 18 270.20; 270.21; 270.22; 270.23; 270.24; 270.25; 270.26; 270.27;  
 19 270.271; 270.272; 270.273; 270.274; 270.275; 270.276; 270.277;  
 20 270.278; 270.30; 270.485; 270.494; 270.60; 270.65; 270.652;  
 21 270.66; 270.67; 270.68; 270.69; 270.691; 270.70; 270.7001;  
 22 270.7002; 270.701; 270.702; 270.703; 270.704; 270.705; 270.706;  
 23 270.707; 270.708; 270.709; 270.71; 270.72; 270.721; 270.73;  
 24 270.74; 270.75; 270.76; 270.771; 270.78; 270.79; 287.39;  
 25 289A.07; 289A.13; 289A.31, subdivisions 3, 4, and 6; 289A.36;  
 26 289A.37, subdivisions 1, 3, 4, and 5; 289A.38, subdivision 13;  
 27 289A.43; 289A.65; 290.48, subdivisions 3 and 4; 290.92,  
 28 subdivisions 6b, 22, and 23; 290.97; 296A.20; 296A.201; 296A.25;  
 29 297A.86; 297A.93; 297D.14; 297E.08; 297E.09; 297E.12,  
 30 subdivision 10; 297E.15; 297F.15, subdivisions 1, 2, 3, 4, 5, 6,  
 31 7, and 8; 297F.16; 297F.22; 297G.14, subdivisions 1, 2, 3, 4, 5,  
 32 6, 7, and 8; 297G.15; 297G.21; 297I.45; 297I.50; 297I.55; and  
 33 297I.95, are repealed.

34 [EFFECTIVE DATE.] This section is effective August 1, 2005.

35 ARTICLE 2

36 CONFORMING PROVISIONS

1 Section 1. Minnesota Statutes 2004, section 16D.08,  
2 subdivision 2, is amended to read:

3 Subd. 2. [POWERS.] (a) In addition to the collection  
4 remedies available to private collection agencies in this state,  
5 the commissioner, with legal assistance from the attorney  
6 general, may utilize any statutory authority granted to a  
7 referring agency for purposes of collecting debt owed to that  
8 referring agency. The commissioner may also use the tax  
9 collection remedies in sections ~~270.067-270.667-270.677~~  
10 ~~subdivisions-2-and-47-270.697-270.707-270.7001-to-270.727-and~~  
11 ~~290.927-subdivision-23~~ 270C.03, subdivision 1, clause (8),  
12 270C.31, 270C.32, 270C.52, subdivisions 2 and 3, 270C.63,  
13 270C.65, and 270C.67 to 270C.72. A debtor may take advantage of  
14 any administrative or appeal rights contained in the listed  
15 sections. For administrative and appeal rights for nontax  
16 debts, references to administrative appeals or to the taxpayer  
17 rights advocate shall be construed to be references to the case  
18 reviewer, references to Tax Court shall be construed to mean  
19 district court, and offers in compromise shall be submitted to  
20 the referring agency. A debtor who qualifies for cancellation  
21 of collection costs under section 16D.11, subdivision 3, clause  
22 (1), can apply to the commissioner for reduction or release of a  
23 continuous wage levy, if the debtor establishes that the debtor  
24 needs all or a portion of the wages being levied upon to pay for  
25 essential living expenses, such as food, clothing, shelter,  
26 medical care, or expenses necessary for maintaining employment.  
27 The commissioner's determination not to reduce or release a  
28 continuous wage levy is appealable to district court. The word  
29 "tax" or "taxes" when used in the tax collection statutes listed  
30 in this subdivision also means debts referred under this chapter.

31 (b) Before using the tax collection remedies listed in this  
32 subdivision, notice and demand for payment of the amount due  
33 must be given to the person liable for the payment or collection  
34 of the debt at least 30 days prior to the use of the remedies.  
35 The notice must be sent to the person's last known address and  
36 must include a brief statement that sets forth in simple and

1 nontechnical terms the amount and source of the debt, the nature  
2 of the available collection remedies, and remedies available to  
3 the debtor.

4 Sec. 2. Minnesota Statutes 2004, section 115B.49,  
5 subdivision 4, is amended to read:

6 Subd. 4. [REGISTRATION; FEES.] (a) The owner or operator  
7 of a dry cleaning facility shall register on or before October 1  
8 of each year with the commissioner of revenue in a manner  
9 prescribed by the commissioner of revenue and pay a registration  
10 fee for the facility. The amount of the fee is:

11 (1) \$500, for facilities with a full-time equivalence of  
12 fewer than five;

13 (2) \$1,000, for facilities with a full-time equivalence of  
14 five to ten; and

15 (3) \$1,500, for facilities with a full-time equivalence of  
16 more than ten.

17 (b) A person who sells dry cleaning solvents for use by dry  
18 cleaning facilities in the state shall collect and remit to the  
19 commissioner of revenue in a manner prescribed by the  
20 commissioner of revenue, on or before the 20th day of the month  
21 following the month in which the sales of dry cleaning solvents  
22 are made, a fee of:

23 (1) \$3.50 for each gallon of perchloroethylene sold for use  
24 by dry cleaning facilities in the state;

25 (2) 70 cents for each gallon of hydrocarbon-based dry  
26 cleaning solvent sold for use by dry cleaning facilities in the  
27 state; and

28 (3) 35 cents for each gallon of other nonaqueous solvents  
29 sold for use by dry cleaning facilities in the state.

30 (c) The audit, assessment, appeal, collection, enforcement,  
31 and administrative provisions of chapters 270C and 289A apply to  
32 the fee imposed by this subdivision. To enforce this  
33 subdivision, the commissioner of revenue may ~~examine-documents,~~  
34 ~~assess-and-collect-fees,-conduct-investigations,-issue~~  
35 ~~subpoenas,~~ grant extensions to file returns and pay fees, impose  
36 penalties and interest on the annual registration fee under

1 paragraph (a) and the monthly fee under paragraph (b), and abate  
2 penalties and interest, ~~and administer appeals,~~ in the manner  
3 provided in chapters ~~270~~ 270C and 289A. The penalties and  
4 interest imposed on taxes under chapter 297A apply to the fees  
5 imposed under this subdivision. Disclosure of data collected by  
6 the commissioner of revenue under this subdivision is governed  
7 by chapter 270B.

8 [EFFECTIVE DATE.] This section is effective August 1, 2005.

9 Sec. 3. Minnesota Statutes 2004, section 239.785,  
10 subdivision 4, is amended to read:

11 Subd. 4. [~~COMMISSIONER'S AUTHORITY~~ ADMINISTRATION AND  
12 ENFORCEMENT.] ~~The provisions of chapter 296A relating to the~~  
13 ~~commissioner's authority to~~ audit, ~~assess, and collect the tax~~  
14 ~~imposed by that chapter~~ assessment, appeal, collection, and  
15 administrative provisions of chapters 270C and 296A, that apply  
16 to the taxes imposed by chapter 296A, apply to the fee imposed  
17 by this section.

18 [EFFECTIVE DATE.] This section is effective August 1, 2005.

19 Sec. 4. Minnesota Statutes 2004, section 256.9657,  
20 subdivision 7, is amended to read:

21 Subd. 7. [COLLECTION; CIVIL PENALTIES.] The provisions of  
22 sections 270C.31, except subdivisions 5 and 7; 270C.32, except  
23 subdivisions 6 and 10; 270C.33; 270C.61, subdivision 2; and  
24 289A.35 to 289A.50 relating to the authority to audit, assess,  
25 collect, and pay refunds of other state taxes may be implemented  
26 by the commissioner of human services with respect to the tax,  
27 penalty, and interest imposed by this section. The commissioner  
28 of human services shall impose civil penalties for violation of  
29 this section as provided in section 289A.60, and the tax and  
30 penalties are subject to interest at the rate provided in  
31 section ~~270-75~~ 270C.40. The commissioner of human services  
32 shall have the power to abate penalties and interest when  
33 discrepancies occur resulting from, but not limited to,  
34 circumstances of error and mail delivery. The commissioner of  
35 human services shall bring appropriate civil actions to collect  
36 provider payments due under this section.



1 [EFFECTIVE DATE.] This section is effective August 1, 2005.

2 Sec. 5. Minnesota Statutes 2004, section 256.9792,  
3 subdivision 8, is amended to read:

4 Subd. 8. [REMEDIES.] (a) The commissioner of revenue is  
5 authorized to use the tax collection remedies in sections  
6 ~~270.067-clause-(7), 270.69-to-270.72,-and-290.92,-subdivision-23~~  
7 270C.32, subdivision 1, 270C.63, 270C.67, 270C.68, 270C.69,  
8 270C.70 to 270C.72, and 270C.728, and tax return information to  
9 collect arrearages.

10 (b) Liens arising under paragraph (a) shall be perfected  
11 under the provisions of section ~~270.69~~ 270C.63. The lien may be  
12 filed as long as the time period allowed by law for collecting  
13 the arrearages has not expired. The lien shall attach to all  
14 property of the debtor within the state, both real and personal  
15 under the provisions of section ~~270.69~~ 270C.63. The lien shall  
16 be enforced under the provisions in section ~~270.69~~ 270C.63  
17 relating to state tax liens.

18 [EFFECTIVE DATE.] This section is effective August 1, 2005.

19 Sec. 6. Minnesota Statutes 2004, section 273.11,  
20 subdivision 5, is amended to read:

21 Subd. 5. [BOARDS OF REVIEW AND EQUALIZATION.]  
22 Notwithstanding any other provision of law to the contrary, the  
23 limitation contained in subdivisions 1 and 1a shall also apply  
24 to the authority of the local board of review as provided in  
25 section 274.01, the county board of equalization as provided in  
26 section 274.13, the State Board of Equalization and the  
27 commissioner of revenue as provided in sections  
28 270.11, subdivision 1, 270.12, 270C.92, and ~~270.16~~ 270C.94.

29 [EFFECTIVE DATE.] This section is effective August 1, 2005.

30 Sec. 7. Minnesota Statutes 2004, section 287.37, is  
31 amended to read:

32 287.37 [INVESTIGATIONS AND ASSESSMENTS.]

33 The commissioner of revenue may investigate and examine  
34 persons and transactions that are subject to this chapter using  
35 the powers and authorities granted in chapters ~~270~~ 270C and 289A.  
36 ~~The-commissioner-may-issue-orders-of-assessment-under-chapter~~

1 ~~289A7-and-enforce-collection-of-unpaid-tax-or-penalty-amounts7~~  
 2 ~~including-interest7-under-the-authority-of-chapter-2707~~ The  
 3 audit, assessment, appeal, collection, enforcement, and  
 4 administrative provisions of chapters 270C and 289A apply to the  
 5 taxes imposed by this chapter. All tax amounts collected by the  
 6 commissioner must be apportioned under section 287.12. The  
 7 commissioner's expenses under this section are not expenses of  
 8 administration under section 287.33. All data and information  
 9 made available to the commissioner under this section is public  
 10 except for investigative data covered by section 270B.03,  
 11 subdivision 6.

12 [EFFECTIVE DATE.] This section is effective August 1, 2005.

13 Sec. 8. Minnesota Statutes 2004, section 289A.35, is  
 14 amended to read:

15 289A.35 ~~[ASSESSMENTS7-COMMISSIONER-FILED~~ ON RETURNS.]

16 ~~The-commissioner-has-the-authority-to-make-determinations7~~  
 17 ~~corrections7-and-assessments-with-respect-to-state-taxes7~~  
 18 ~~including-interest7-additions-to-taxes7-and-assessable~~  
 19 ~~penalties7~~ The commissioner may audit and adjust the taxpayer's  
 20 computation of federal taxable income, items of federal tax  
 21 preferences, or federal credit amounts to make them conform with  
 22 the provisions of chapter 290 or section 298.01. ~~If-a-taxpayer~~  
 23 ~~fails-to-file-a-required-return7-the-commissioner7-from~~  
 24 ~~information-in-the-commissioner's-possession-or-obtainable-by~~  
 25 ~~the-commissioner7-may-make-a-return-for-the-taxpayer7--The~~  
 26 ~~return-will-be-prima-facie-correct-and-valid7~~ If a return has  
 27 been filed, the commissioner shall enter the liability reported  
 28 on the return and may make any audit or investigation that is  
 29 considered necessary. ~~The-commissioner-may-use-statistical-or~~  
 30 ~~other-sampling-techniques-consistent-with-generally-accepted~~  
 31 ~~auditing-standards-in-examining-returns-or-records-and-making~~  
 32 ~~assessments7~~

33 [EFFECTIVE DATE.] This section is effective August 1, 2005.

34 Sec. 9. Minnesota Statutes 2004, section 289A.42,  
 35 subdivision 1, is amended to read:

36 Subdivision 1. [EXTENSION AGREEMENT.] If before the

1 expiration of time prescribed in sections 270C.58, subdivision  
 2 13, 289A.38, and 289A.40 for the assessment of tax or the filing  
 3 of a claim for refund, both the commissioner and the taxpayer  
 4 have consented in writing to the assessment or filing of a claim  
 5 for refund after that time, the tax may be assessed or the claim  
 6 for refund filed at any time before the expiration of the agreed  
 7 upon period. The period may be extended by later agreements in  
 8 writing before the expiration of the period previously agreed  
 9 upon. The taxpayer and the commissioner may also agree to  
 10 extend the period for collection of the tax.

11 Sec. 10. Minnesota Statutes 2004, section 289A.60,  
 12 subdivision 13, is amended to read:

13 Subd. 13. [PENALTIES FOR TAX RETURN PREPARERS.] (a) If an  
 14 understatement of liability with respect to a return or claim  
 15 for refund is due to a willful attempt in any manner to  
 16 understate the liability for a tax by a person who is a tax  
 17 return preparer with respect to the return or claim, the person  
 18 shall pay to the commissioner a penalty of \$500. If a part of a  
 19 property tax refund claim is excessive due to a willful attempt  
 20 in any manner to overstate the claim for relief allowed under  
 21 chapter 290A by a person who is a tax refund or return preparer,  
 22 the person shall pay to the commissioner a penalty of \$500 with  
 23 respect to the claim. These penalties may not be assessed  
 24 against the employer of a tax return preparer unless the  
 25 employer was actively involved in the willful attempt to  
 26 understate the liability for a tax or to overstate the claim for  
 27 refund. These penalties are income tax liabilities and may be  
 28 assessed at any time as provided in section 289A.38, subdivision  
 29 5.

30 (b) A civil action in the name of the state of Minnesota  
 31 may be commenced to enjoin any person who is a tax return  
 32 preparer doing business in this state ~~from-further-engaging-in~~  
 33 ~~any-conduct-described-in-paragraph-(c)----An-action-under-this~~  
 34 ~~paragraph-must-be-brought-by-the-attorney-general-in-the~~  
 35 ~~district-court-for-the-judicial-district-of-the-tax-return~~  
 36 ~~preparer's-residence-or-principal-place-of-business, or-in-which~~

1 the-taxpayer-with-respect-to-whose-tax-return-the-action-is  
2 brought-resides.--The-court-may-exercise-its-jurisdiction-over  
3 the-action-separate-and-apart-from-any-other-action-brought-by  
4 the-state-of-Minnesota-against-the-tax-return-preparer-or-any  
5 taxpayer as provided in section 270C.447.

6 (c) In-an-action-under-paragraph-(b),-if-the-court-finds  
7 that-a-tax-return-preparer-has:

8 (1)-engaged-in-any-conduct-subject-to-a-civil-penalty-under  
9 section-289A.60-or-a-criminal-penalty-under-section-289A.63;

10 (2)-misrepresented-the-preparer's-eligibility-to-practice  
11 before-the-Department-of-Revenue,-or-otherwise-misrepresented  
12 the-preparer's-experience-or-education-as-a-tax-return-preparer;

13 (3)-guaranteed-the-payment-of-any-tax-refund-or-the  
14 allowance-of-any-tax-credit,-or

15 (4)-engaged-in-any-other-fraudulent-or-deceptive-conduct  
16 that-substantially-interferes-with-the-proper-administration-of  
17 state-tax-law,-and-injunctive-relief-is-appropriate-to-prevent  
18 the-recurrence-of-that-conduct;

19 the-court-may-enjoin-the-person-from-further-engaging-in-that  
20 conduct.

21 (d)-If-the-court-finds-that-a-tax-return-preparer-has  
22 continually-or-repeatedly-engaged-in-conduct-described-in  
23 paragraph-(c),-and-that-an-injunction-prohibiting-that-conduct  
24 would-not-be-sufficient-to-prevent-the-person's-interference  
25 with-the-proper-administration-of-state-tax-laws,-the-court-may  
26 enjoin-the-person-from-acting-as-a-tax-return-preparer.--The  
27 court-may-not-enjoin-the-employer-of-a-tax-return-preparer-for  
28 conduct-described-in-paragraph-(c)-engaged-in-by-one-or-more-of  
29 the-employer's-employees-unless-the-employer-was-also-actively  
30 involved-in-that-conduct.

31 (e) For purposes of this subdivision, the term  
32 "understatement of liability" means an understatement of the net  
33 amount payable with respect to a tax imposed by state tax law,  
34 or an overstatement of the net amount creditable or refundable  
35 with respect to a tax. The determination of whether or not  
36 there is an understatement of liability must be made without

1 regard to any administrative or judicial action involving the  
2 taxpayer. For purposes of this subdivision, the amount  
3 determined for underpayment of estimated tax under either  
4 section 289A.25 or 289A.26 is not considered an understatement  
5 of liability.

6 ~~(f)~~ (d) For purposes of this subdivision, the term  
7 "overstatement of claim" means an overstatement of the net  
8 amount refundable with respect to a claim for property tax  
9 relief provided by chapter 290A. The determination of whether  
10 or not there is an overstatement of a claim must be made without  
11 regard to administrative or judicial action involving the  
12 claimant.

13 ~~(g)~~ (e) For purposes of this section, the term "tax refund  
14 or return preparer" means an individual who prepares for  
15 compensation, or who employs one or more individuals to prepare  
16 for compensation, a return of tax, or a claim for refund of  
17 tax. The preparation of a substantial part of a return or claim  
18 for refund is treated as if it were the preparation of the  
19 entire return or claim for refund. An individual is not  
20 considered a tax return preparer merely because the individual:

21 (1) gives typing, reproducing, or other mechanical  
22 assistance;

23 (2) prepares a return or claim for refund of the employer,  
24 or an officer or employee of the employer, by whom the  
25 individual is regularly and continuously employed;

26 (3) prepares a return or claim for refund of any person as  
27 a fiduciary for that person; or

28 (4) prepares a claim for refund for a taxpayer in response  
29 to a tax order issued to the taxpayer.

30 [EFFECTIVE DATE.] This section is effective August 1, 2005.

31 Sec. 11. Minnesota Statutes 2004, section 295.57,  
32 subdivision 1, is amended to read:

33 Subdivision 1. [APPLICATION OF OTHER CHAPTERS.] Unless  
34 specifically provided otherwise by sections 295.50 to 295.59,  
35 the enforcement, interest, appeal, criminal penalties, and  
36 refunds provisions in chapter 289A, the civil penalty provisions

1 applicable to withholding and sales taxes under section 289A.60,  
 2 ~~and collection-and-rulemaking-provisions-under-chapter-270~~ the  
 3 audit, assessment, appeal, collection, enforcement, and  
 4 administrative provisions of chapters 270C and 289A, apply to  
 5 taxes imposed under sections 295.50 to 295.59.

6 [EFFECTIVE DATE.] This section is effective August 1, 2005.

7 Sec. 12. Minnesota Statutes 2004, section 295.60,  
 8 subdivision 7, is amended to read:

9 Subd. 7. [APPLICATION OF OTHER CHAPTERS.] Unless  
 10 specifically provided otherwise by this section, the  
 11 ~~enforcement,~~ interest, ~~appeal,~~ criminal penalties, and refunds  
 12 provisions in chapter 289A, the civil penalty provisions  
 13 applicable to withholding and sales taxes under section 289A.60,  
 14 ~~and collection-and-rulemaking-provisions-under-chapter-270~~ the  
 15 audit, assessment, appeal, collection, enforcement, and  
 16 administrative provisions of chapters 270C and 289A, apply to  
 17 taxes imposed under this section.

18 [EFFECTIVE DATE.] This section is effective August 1, 2005.

19 Sec. 13. Minnesota Statutes 2004, section 297A.64,  
 20 subdivision 3, is amended to read:

21 Subd. 3. [ADMINISTRATION.] The retailer shall report and  
 22 pay the tax imposed in subdivision 1 to the commissioner of  
 23 revenue with the taxes imposed in this chapter. The tax imposed  
 24 in subdivision 1 and the fee imposed in subdivision 2 are  
 25 subject to the same interest, penalty, and other provisions  
 26 provided for sales and use taxes under this chapter and chapter  
 27 ~~289A and this chapter. The commissioner has the same powers to~~  
 28 ~~assess and collect the tax and fee that are given the~~  
 29 ~~commissioner in chapters 270 and 289A and this chapter to assess~~  
 30 ~~and collect sales and use tax.~~ The audit, assessment, appeal,  
 31 collection, enforcement, and administrative provisions of this  
 32 chapter and chapters 270C and 289A, that apply to sales and use  
 33 taxes, apply to the tax and fee.

34 [EFFECTIVE DATE.] This section is effective August 1, 2005.

35 Sec. 14. Minnesota Statutes 2004, section 297B.11, is  
 36 amended to read:

1 297B.11 [REGISTRAR AS AGENT OF COMMISSIONER OF REVENUE;  
2 POWERS.]

3 The state commissioner of revenue is charged with the  
4 administration of the sales tax on motor vehicles. The  
5 commissioner may prescribe all rules not inconsistent with the  
6 provisions of this chapter, necessary and advisable for the  
7 proper and efficient administration of the law. The collection  
8 of this sales tax on motor vehicles shall be carried out by the  
9 motor vehicle registrar who shall act as the agent of the  
10 commissioner and who shall be subject to all rules not  
11 inconsistent with the provisions of this chapter, that may be  
12 prescribed by the commissioner.

13 The provisions of chapters 270C, 289A, and 297A relating to  
14 the commissioner's authority to audit, assess, and collect the  
15 tax, and to issue refunds and to hear appeals, are applicable to  
16 the sales tax on motor vehicles. The commissioner may impose  
17 civil penalties as provided in chapters 289A and 297A, and the  
18 additional tax and penalties are subject to interest at the rate  
19 provided in section ~~270.75~~ 270C.40.

20 [EFFECTIVE DATE.] This section is effective August 1, 2005.

21 Sec. 15. Minnesota Statutes 2004, section 297H.10,  
22 subdivision 1, is amended to read:

23 Subdivision 1. [ADMINISTRATION AND ENFORCEMENT.] The  
24 audit, assessment, appeal, collection, refund, penalty,  
25 interest, enforcement, ~~collection-remedies, appeal,~~ and  
26 administrative provisions of chapters ~~270~~ 270C and 289A that are  
27 applicable to taxes imposed under by chapter 297A apply to this  
28 chapter.

29 [EFFECTIVE DATE.] This section is effective August 1, 2005.

30 Sec. 16. Minnesota Statutes 2004, section 297I.10, is  
31 amended by adding a subdivision to read:

32 Subd. 4. [COLLECTION AND ADMINISTRATION.] The commissioner  
33 shall administer the surcharge imposed by this section in the  
34 same manner as the taxes imposed by this chapter.

35 [EFFECTIVE DATE.] This section is effective August 1, 2005.

36 Sec. 17. [REVISOR'S INSTRUCTION.]

1 In each section of Minnesota Statutes referred to in column  
 2 A, the revisor of statutes shall delete the reference in column  
 3 B and insert the reference in column C.

4	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>
5	<u>13.4961, subd 2</u>	<u>270.062</u>	<u>270C.05</u>
6		<u>270.064</u>	<u>270C.055, subd 1</u>
7		<u>270.21</u>	<u>270C.923</u>
8	<u>16D.11, subd 2</u>	<u>270.06, clause (7)</u>	<u>270C.32</u>
9		<u>270.66</u>	<u>270C.65</u>
10	<u>16D.13, subd 2</u>	<u>270.75</u>	<u>270C.40</u>
11	<u>115C.09, subd 1</u>	<u>270.75</u>	<u>270C.40</u>
12	<u>126C.46</u>	<u>270.07</u>	<u>270C.86</u>
13	<u>126C.65, subd 4</u>	<u>270.13</u>	<u>270C.91</u>
14	<u>127A.49, subd 2</u>	<u>270.07</u>	<u>270C.86</u>
15	<u>144.1501, subd 5</u>	<u>270.75</u>	<u>270C.40</u>
16	<u>144.1502, subd 5</u>	<u>270.75</u>	<u>270C.40</u>
17	<u>239.785, subd 5</u>	<u>270.75</u>	<u>270C.40</u>
18	<u>256.9657, subd 7</u>	<u>270.75</u>	<u>270C.40</u>
19	<u>256B.064, subd 1c</u>	<u>270.75</u>	<u>270C.40</u>
20	<u>256B.431, subd 2d</u>	<u>270.75</u>	<u>270C.40</u>
21	<u>270.072, subd 6</u>	<u>270.65</u>	<u>270C.62</u>
22		<u>270.69</u>	<u>270C.63</u>
23	<u>270.075, subd 2</u>	<u>270.75</u>	<u>270C.40</u>
24	<u>270A.07, subd 5</u>	<u>270.76</u>	<u>270C.405</u>
25	<u>270B.03, subd 1</u>	<u>270.102 (twice)</u>	<u>270C.57 (twice)</u>
26		<u>289A.31, subd 3</u>	<u>270C.58, subd 1</u>
27	<u>270B.08</u>	<u>297A.86</u>	<u>270C.722</u>
28	<u>270B.085, subd 1</u>	<u>270.70</u>	<u>270C.67</u>
29	<u>270B.085, subd 2</u>	<u>270.69</u>	<u>270C.63</u>
30	<u>270B.07, subd 1</u>	<u>270.72</u>	<u>270C.72</u>
31	<u>270B.09</u>	<u>270.66 (twice)</u>	<u>270C.65 (twice)</u>
32		<u>290.97</u>	<u>270C.66</u>
33	<u>270B.12, subd 4</u>	<u>270.73</u>	<u>270C.725</u>
34	<u>270B.12, subd 7</u>	<u>270.72</u>	<u>270C.72</u>
35	<u>270B.12, subd 10</u>	<u>270.60</u>	<u>270C.19</u>
36	<u>271.06, subd 1</u>	<u>270.07, subd 1,</u>	<u>270C.86</u>



1		<u>para (a)</u>	
2	<u>271.09, subd 1</u>	<u>270.07, subd 1</u>	<u>270C.86</u>
3	<u>271.12</u>	<u>270.76</u>	<u>270C.405</u>
4	<u>272.115, subd 1</u>	<u>270.066</u>	<u>270C.306</u>
5	<u>273.124, subd 13</u>	<u>270.0681</u>	<u>270C.12</u>
6	<u>273.16</u>	<u>270.19 to 270.26</u>	<u>270C.921 to 270C.928</u>
7	<u>273.372</u>	<u>270.11, subd 6</u>	<u>270C.92, subd 2</u>
8	<u>273.41</u>	<u>270.75</u>	<u>270C.40</u>
9	<u>274.13, subd 1a</u>	<u>270.11, subds 5</u>	<u>270C.92, subds 1</u>
10		<u>and 6</u>	<u>and 2</u>
11	<u>274.16</u>	<u>270.11, subd 2</u>	<u>270C.89</u>
12	<u>275.025, subd 1</u>	<u>270.11, subd 2</u>	<u>270C.89</u>
13	<u>275.48</u>	<u>270.07</u>	<u>270C.86</u>
14	<u>277.20, subd 2</u>	<u>270.69</u>	<u>270C.63</u>
15	<u>277.21, subd 3</u>	<u>270.7001, 270.7002,</u>	<u>270C.68, 270C.69,</u>
16		<u>and 290.92, subd 23</u>	<u>and 270C.70</u>
17		<u>270.70 to 270.709</u>	<u>270C.67 to 270C.72</u>
18	<u>277.21, subd 13</u>	<u>270.701 to 270.709</u>	<u>270C.7101 to</u>
19			<u>270C.7109</u>
20		<u>270.708</u>	<u>270C.7108</u>
21	<u>279.01, subd 2</u>	<u>270.07</u>	<u>270C.86</u>
22	<u>279.03, subd 1a</u>	<u>270.75 (twice)</u>	<u>270C.40 (twice)</u>
23	<u>279.34</u>	<u>270.07</u>	<u>270C.86</u>
24	<u>287.12</u>	<u>270.771</u>	<u>270C.42</u>
25	<u>287.29, subd 1</u>	<u>270.771</u>	<u>270C.42</u>
26	<u>287.385, subd 1</u>	<u>270.75</u>	<u>270C.40</u>
27	<u>287.385, subd 5</u>	<u>270.75</u>	<u>270C.40</u>
28	<u>287.385, subd 6</u>	<u>270.75</u>	<u>270C.40</u>
29	<u>289A.08, subd 1</u>	<u>289A.38, subd 13</u>	<u>270C.58, subd 3</u>
30	<u>289A.19, subd 2</u>	<u>270.75</u>	<u>270C.40</u>
31	<u>289A.25, subd 2</u>	<u>270.75</u>	<u>270C.40</u>
32	<u>289A.26, subd 4</u>	<u>270.75</u>	<u>270C.40</u>
33	<u>289A.31, subd 1</u>	<u>289A.38, subd 13</u>	<u>270C.58, subd 3</u>
34	<u>289A.31, subd 3</u>	<u>289A.38, subd 13</u>	<u>270C.58, subd 3</u>
35	<u>289A.31, subd 5</u>	<u>270.101</u>	<u>270C.56</u>
36		<u>290.92, subd 22</u>	<u>270C.59</u>

1	<u>289A.31, subd. 7</u>	<u>270.101</u>	<u>270C.56</u>
2	<u>289A.38, subd 12</u>	<u>289A.31, subd 4</u>	<u>270C.58, subd 2</u>
3		<u>(twice)</u>	<u>(twice)</u>
4	<u>289A.40, subd 1</u>	<u>289A.37, subd 1</u>	<u>270C.33</u>
5		<u>289A.65</u>	<u>270C.35</u>
6		<u>289A.35</u>	<u>270C.33, subd 3</u>
7	<u>289A.50, subd 1</u>	<u>270.10, subd 1</u>	<u>270C.33</u>
8	<u>289A.50, subd 7</u>	<u>289A.65</u>	<u>270C.35</u>
9	<u>289A.50, subd 8</u>	<u>270.07, subd 5</u>	<u>270C.64</u>
10	<u>289A.55, subd 1</u>	<u>270.75</u>	<u>270C.40</u>
11	<u>289A.55, subd 7</u>	<u>270.75</u>	<u>270C.40</u>
12	<u>289A.55, subd 8</u>	<u>270.75</u>	<u>270C.40</u>
13	<u>289A.56, subd 1</u>	<u>270.76</u>	<u>270C.405</u>
14	<u>289A.60, subd 4</u>	<u>270.75</u>	<u>270C.40</u>
15	<u>289A.60, subd 5a</u>	<u>270.07, subds 1,</u>	
16		<u>para (e), and 6</u>	<u>270C.34</u>
17	<u>289A.60, subd 16</u>	<u>297A.86</u>	<u>270C.722</u>
18	<u>289A.60, subd 21</u>	<u>270.07, subd 6</u>	<u>270C.34, subd 2</u>
19	<u>289A.63, subd 3</u>	<u>297A.86</u>	<u>270C.722</u>
20	<u>290.05, subd 8</u>	<u>289A.65</u>	<u>270C.35</u>
21	<u>290.06, subd 23</u>	<u>270.76</u>	<u>270C.405</u>
22	<u>290.30</u>	<u>289A.31, subd 3</u>	<u>270C.58, subd 1</u>
23	<u>290.92, subd 4b</u>	<u>270.69</u>	<u>270C.63</u>
24		<u>270.70</u>	<u>270C.67</u>
25	<u>290.92, subd 30</u>	<u>289A.37 (twice)</u>	<u>270C.33 (twice)</u>
26		<u>289A.65 (twice)</u>	<u>270C.35 (twice)</u>
27	<u>290.9201, subd 7</u>	<u>270.06, para (16)</u>	<u>270C.02, subd 2,</u>
28			<u>para (b)</u>
29	<u>290B.04, subd 5</u>	<u>289A (twice)</u>	<u>270C (twice)</u>
30	<u>290B.07</u>	<u>270.75</u>	<u>270C.40</u>
31	<u>290C.08, subd 1</u>	<u>270.75</u>	<u>270C.40</u>
32	<u>295.55, subd 2</u>	<u>270.75</u>	<u>270C.40</u>
33	<u>295.55, subd 3</u>	<u>270.75</u>	<u>270C.40</u>
34	<u>295.57, subd 1</u>	<u>270</u>	<u>270C</u>
35	<u>295.60, subd 3</u>	<u>270.75</u>	<u>270C.40</u>
36	<u>295.60, subd 7</u>	<u>270</u>	<u>270C</u>

1	<u>296A.02, subd 2</u>	<u>section 270.06</u>	<u>chapter 270C</u>
2		<u>section</u>	<u>chapter</u>
3	<u>296A.13</u>	<u>270.101</u>	<u>270C.56</u>
4	<u>296A.21, subd 2</u>	<u>270.68</u>	<u>270C.61</u>
5	<u>296A.22, subd 1</u>	<u>270.75</u>	<u>270C.40</u>
6	<u>296A.22, subd 2</u>	<u>270</u>	<u>270C</u>
7	<u>296A.22, subd 3</u>	<u>270.75</u>	<u>270C.40</u>
8	<u>297A.72, subd 2</u>	<u>289A.07</u>	<u>270C.304</u>
9	<u>297A.75, subd 4</u>	<u>270.76</u>	<u>270C.405</u>
10	<u>297A.85</u>	<u>297A.86</u>	<u>270C.722</u>
11	<u>297A.92, subd 2</u>	<u>289A.37, subd 5</u>	<u>270C.33, subd 8</u>
12	<u>297D.12, subd 1</u>	<u>270.70</u>	<u>270C.36</u>
13		<u>270 (twice)</u>	<u>270C (twice)</u>
14	<u>297E.02, subd 4</u>	<u>270.76</u>	<u>270C.405</u>
15	<u>297E.02, subd 7</u>	<u>270.70</u>	<u>270C.36</u>
16		<u>270 (twice)</u>	<u>270C (twice)</u>
17	<u>297E.03, subd 7</u>	<u>270.70</u>	<u>270C.36</u>
18		<u>270 (twice)</u>	<u>270C (twice)</u>
19	<u>297E.03, subd 8</u>	<u>270.064</u>	<u>270C.055, subd 1</u>
20	<u>297E.11, subd 4</u>	<u>270.76</u>	<u>270C.405</u>
21	<u>297E.12, subd 6</u>	<u>270.07, subds 1,</u>	
22		<u>para (e), and 6</u>	<u>270C.34</u>
23	<u>297E.14, subd 1</u>	<u>270.75</u>	<u>270C.40</u>
24	<u>297E.14, subd 6</u>	<u>270.75</u>	<u>270C.40</u>
25	<u>297F.02, subd 2</u>	<u>section 270.06</u>	<u>chapter 270C</u>
26		<u>section</u>	<u>chapter</u>
27	<u>297F.04, subd 2</u>	<u>270.72</u>	<u>270C.72</u>
28	<u>297F.08, subd 4</u>	<u>270.60</u>	<u>270C.19</u>
29	<u>297F.09, subd 5</u>	<u>270.75</u>	<u>270C.40</u>
30	<u>297F.09, subd 9</u>	<u>270.75</u>	<u>270C.40</u>
31	<u>297F.18, subd 1</u>	<u>270.75</u>	<u>270C.40</u>
32	<u>297F.18, subd 6</u>	<u>270.75</u>	<u>270C.40</u>
33	<u>297F.185</u>	<u>297A.86</u>	<u>270C.722</u>
34	<u>297F.19, subd 6</u>	<u>270.07, subds 1,</u>	
35		<u>para (e), and 6</u>	<u>270C.34</u>
36	<u>297G.02, subd 3</u>	<u>section 270.06</u>	<u>chapter 270C</u>

	<u>section</u>	<u>chapter</u>
1		
2	<u>297G.09, subd 8</u>	<u>270.75</u>
3	<u>297G.17, subd 1</u>	<u>270.75</u>
4	<u>297G.17, subd 6</u>	<u>270.75</u>
5	<u>297G.18, subd 6</u>	<u>270.07, subds 1,</u>
6	<u>para (e), and 6</u>	<u>270C.34</u>
7	<u>297I.40, subd 4</u>	<u>270.75</u>
8	<u>297I.60, subd 2</u>	<u>297I.95</u>
9	<u>297I.80, subd 1</u>	<u>270.75</u>
10	<u>297I.80, subd 2</u>	<u>270.76</u>
11	<u>297I.85, subd 7</u>	<u>270.07, subd 6</u>
12	<u>299L.07, subd 8</u>	<u>270.72</u>
13	<u>325D.33, subd 8</u>	<u>270 (three times)</u>
14		<u>270.75 (three</u>
15		<u>times)</u>
16	<u>336.9-531</u>	<u>270.69, subd 2, para</u>
17		<u>(b), clause (2)</u>
18	<u>349.155, subd 3</u>	<u>270.72</u>
19	<u>349A.06, subd 2</u>	<u>270.72</u>
20	<u>357.18, subd 2</u>	<u>270.69, subd 2,</u>
21		<u>para (c)</u>
22	<u>559.21, subd 5</u>	<u>270.69, subd 7</u>
23	<u>469.171, subd 10</u>	<u>270.76</u>
24	<u>469.1734, subd 6</u>	<u>270.76</u>
25	<u>469.178, subd 7</u>	<u>270.75 (twice)</u>
26	<u>469.319, subd 4</u>	<u>270</u>
27		<u>270.75</u>
28	<u>469.340, subd 4</u>	<u>270</u>
29		<u>270.75</u>
30	<u>580.15</u>	<u>270.69, subd 7</u>
31	<u>588.21</u>	<u>289A.36, subd 3</u>

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COMMISSIONER GENERAL POWERS

Article 2 CONFORMING PROVISIONS..... page 123

# 2005 CHAPTER 270 RECODIFICATION

Bill Date: February 4, 2005  
Summary Date: April 1, 2005

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

## 2005 Department of Revenue Recodification Bill

**New Chapter 270C**

**(HF2228/SF1675)**

### Contents of Packet

1. Description of Recodification
2. Table of Contents of New Chapter 270C
3. Table of Highlighted Changes in Chapter 270 Recodification
4. Table of Contents of Chapter 270 After Recodification-What Stays in Chapter 270
5. Section by Section Bill Summary (staff)
6. Cross Reference Tables (staff)

# 2005 CHAPTER 270 RECODIFICATION

MINNESOTA • REVENUE

Appeals and Legal Services Division

600 North Robert Street

Saint Paul, Minnesota 55146-2220

Bill Date: February 4, 2005  
Summary Date: April 1, 2005

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The Department of Revenue is proposing a recodification of Chapter 270 to centralize and simplify the laws that govern the administration of the taxes and fees assessed and collected by the Department. The changes proposed in the recodification are generally technical and not substantive.

Originally enacted in 1907 and amended by almost every legislature since, Chapter 270 defines the basic duties and powers for administering the tax system in Minnesota. Chapter 270, however, is showing its age. Having been amended for a variety of purposes by different legislative bodies for almost a hundred years, Chapter 270 is very complicated and poorly organized.

The goal of the recodification is to improve the usability of the administrative provisions that are currently in Chapter 270 and other chapters, and that apply to the taxes and fees administered by the Department. Bringing together and logically arranging these administrative provisions will make them easier to locate and be used by all those who work with them including the Department, taxpayers, practitioners, the legislature and the courts.

# 2005 CHAPTER 270 RECODIFICATION

**MINNESOTA • REVENUE**

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

Bill Date: February 4, 2005  
Summary Date: April 1, 2005

## HIGHLIGHTED CHANGES

BILL SEC.	BILL PAGE	CURRENT LAW CITE	NEW CITE	TITLE/SUBJECT OF SECTION	ACTION TAKEN IN RECODIFICATION
<b>Article 1. Recodification</b>					
<b>Commissioner General Powers</b>					
7	7-8	270.06 (14) (2d clause)	270C.06	Rulemaking authority.	That the commissioner has authority to issue rules regarding property tax matters is clarified. Effective August 1, 2005.
8	8-9	270.0604	270C.07	Revenue notices.	The effect of revenue notices is clarified. The definition of "taxpayer" in this new chapter does not include property tax payers. Thus, it will now be clear that revenue notices are not issued to be relied on by property tax payers. Effective August 1, 2005.
<b>Tax Administration</b>					
22	19-20	289A.43	270C.25	Prohibition of suits to restrain assessment or collection.	Will apply to all taxes and fees administered by the Department. Effective August 1, 2005.
31	24-25	289A.07	270C.304	Electronically filed returns; signatures.	Will apply to all taxes and fees administered by the Department. Effective for returns filed on or after August 1, 2005.
34	25-26 26-30	270.06 (6), (7), (8), (9) & (17) 270.15, 270.0601, 289A.36, subds. 1-10, 296A.20, 297D.14, 297E.08, 297F.15, subds. 1 to 8, 297G.14, subds. 1 to 8, 297I.55	270C.31 270C.32	Examinations and investigations. Subpoenas. Limitation of Authority.	The provisions regarding examinations and investigations, including subpoenas, are made uniform and will apply to all taxes and fees administered by the Department. The authority to conduct examinations and investigations and to issue subpoenas will not apply to a matter that has been appealed to Tax Court. Currently, this limitation is only expressly applicable to these powers as set out in Chapter 270 and not those in Chapter 289A. Effective August 1, 2005.
36	30-33	289A.35, part, 289A.37, subds. 1, 3, 4 and 5, 270.67,	270C.33	Commissioner assessment procedures.	The provisions regarding assessments are made uniform and will apply to all taxes and fees administered by the



BILL SEC.	BILL PAGE	CURRENT LAW CITE	NEW CITE	TITLE/SUBJECT OF SECTION	ACTION TAKEN IN RECODIFICATION
		subd. 3, 270.10, subds. 1, 1a, 1(a), 5, 296A.201, 297E.09, 297F.16, 297G.15, 297I.45, 297I.50			Department. Effective for assessments made on or after August 1, 2005.
41	35-37	289A.65, 287.39, 289A.65, 296A.25, 297E.15, 297F.22, 297G.21, 297I.95	270C.35	Administrative review.	Will apply to all taxes and fees administered by the Department. Effective August 1, 2005.
42	37-39	270.274, subds. 1-3, 290.48, subds. 3-4, 270.70, subd. 2(b), 270.70, subd. 1 (second sentence), 290.92, subd. 6b, 297A.93	270C.36	Jeopardy assessment and collection.	Will apply to all taxes and fees administered by the Department. Effective for assessments made and collection actions taken on or after August 1, 2005.
44	40	New	270C.38, subd. 2	Sufficiency of notice.	Where no method of notification is provided for by law, mailing to the taxpayer's last known address is sufficient. Effective for notices issued on or after August 1, 2005.
52	46-48	270.79	270C.43	Refunds payable in installments.	Will apply to all taxes and fees administered by the Department. Effective for refunds payable on or after August 1, 2005.
55	52-54	289A.60, subd. 13(b), (c) and (d)	270C.447	Legal action to enjoin tax return preparers.	Will apply to all taxes and fees administered by the Department. Effective August 1, 2005.
<b>Collection</b>					
70	76	270.07, subd. 5	270C.64	Credit or overpayment to delinquent tax liabilities.	Will apply to all taxes and fees administered by the Department. Effective August 1, 2005.
69	70-76	270.69	270C.63	Lien for taxes.	
71	76-78	270.66, subds. 1, 2 and 3	270C.65	Right of setoff.	
73	78-83	270.70, subds. 1, 2(a), 3-7, 11-18	270C.67	Levy and distraint.	
74	83-84	270.7001	270C.68	Continuous levy.	
75	84-87	290.92, subd. 23	270C.69	Withholding by employer of delinquent taxes.	

BILL SEC.	BILL PAGE	CURRENT LAW CITE	NEW CITE	TITLE SUBJECT OF SECTION	ACTION TAKEN IN RECODIFICATION
76	87-88	270.7002	270C.70	Personal liability for failure to honor a levy.	
77-86	88-97	270.701 – 270.71	270C.7101- 270C.711	Acquisition and resale of seized property.	
87	98- 100	270.72	270C.72	Tax clearance; issuance of licenses.	
88	100- 101	270.721	270C.721	Revocation of certificate of authority to do business.	

# 2005 CHAPTER 270 RECODIFICATION

**MINNESOTA • REVENUE**

Appeals and Legal Services Division

600 North Robert Street

Saint Paul, Minnesota 55146-2220

Bill Date: February 4, 2005  
Summary Date: April 1, 2005

## NEW CHAPTER 270C TABLE OF CONTENTS

BILL SECTION	NEW CITE	TITLE/SUBJECT OF SECTION
<b>Article 1. Recodification</b>		
<b>Commissioner General Powers</b>		
1	270C.01	Definitions.
2	270C.02	Department of revenue; commissioner
3	270C.03	Powers and duties.
4	270C.04	Use of information.
5	270C.05	Access to criminal justice data.
6	270C.055	Criminal investigations, referral and information disclosure.
7	270C.06	Rulemaking authority.
8	270C.07	Revenue notices.
9	270C.08	Tax information bulletins.
10	270C.09	Opinion of Attorney General; effect.
11	270C.10	Ex-employees not to represent taxpayers; penalty.
12	270C.105	Basis for evaluation of Department of Revenue employees.
13	270C.11	Tax expenditure budget.
14	270C.12	Tax information sample data.
15	270C.13	Tax incidence reports.
16	270C.14	Authority to pay local taxes; appropriation.
17	270C.15	Revenue Department Service and Recovery Special Revenue Fund.
18	270C.16	Collection of delinquent liabilities; costs.
19	270C.17	Commissioner to collect certain local taxes.
20	270C.18	Setoff of political subdivision debts.
21	270C.19	Taxes and fees; refund and sharing agreements with Indians.
<b>Tax Administration</b>		
22	270C.25	Prohibition of suits to restrain assessment or collection.
23	270C.26	Penalty for filing certain documents against Department of Revenue employees.
24	270C.27	Civil damages for failure to release lien.
25	270C.275	Civil damages for certain unauthorized collection actions.
26	270C.28	Disclosure of rights of taxpayers.
27	270C.285	Procedures involving in-person taxpayer interviews.
28	270C.29	Notices to holders of powers of attorney.
29	270C.30	Returns; format, furnishing.
30	270C.302	Returns, other forms; where filed.
31	270C.304	Electronically filed returns; signatures.
32	270C.306	Commissioner may require social security or identifying numbers on forms.
33	270C.308	Prohibition of display of social security numbers.
34	270C.31	Examinations and Investigations.
35	270C.32	Subpoenas.
36	270C.33	Commissioner assessment procedures.
37	270C.34	Abatement of penalty, interest and additional tax charge.
38	270C.345	Determination of minimums and cancellation; additional tax, collection, refunds.
39	270C.346	Erroneous remittances.
40	270C.347	Rebate checks and warrants; authority to reissue; appropriation.
41	270C.35	Administrative review.

## Chapter 270 Recodification

BILL SECTION	NEW CITE	TITLE/SUBJECT OF SECTION
42	270C.36	Jeopardy assessment and collection.
43	270C.37	Taxpayer assistance orders; taxpayer's rights advocate.
44	270C.38	Notice of a determination or action of the commissioner of revenue.
45	270C.39	Due date on Saturday, Sunday or holiday.
46	270C.395	Timely mailing treated as timely filing and paying.
47	270C.40	Interest payable to commissioner.
48	270C.405	Interest on refunds.
49	270C.41	Agreement with Internal Revenue Service.
50	270C.42	Electronic payments.
51	270C.425	Financial transaction cards; payment of taxes; appropriation.
52	270C.43	Refunds payable in installments.
53	270C.44	Practice before the commissioner.
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		<b>Collection</b>
56	270C.50	Use of collection remedies.
57	270C.51	Allocation of payment.
58	270C.52	Settlement agreements, payment agreements and offers in compromise
59	270C.53	Collection, taxpayer inability to pay.
60	270C.54	Collection of financial institution fees.
61	270C.545	Federal tax refund offset fees; time limit for submitting claims for offset.
62	270C.56	Personal liability.
63	270C.57	Successor liability.
64	270C.58	Liability of transferees and fiduciaries.
65	270C.585	Transferee liability for estate tax.
66	270C.59	Liability of third parties paying or providing wages.
67	270C.61	Legal action; confession of judgment.
68	270C.62	Date of assessment; definition.
69	270C.63	Lien for taxes.
70	270C.64	Credit of overpayment to delinquent tax liability.
71	270C.65	Right of setoff.
72	270C.66	Contracts with state; withholding.
73	270C.67	Levy and distraint.
74	270C.68	Continuous levy.
75	270C.69	Withholding by employer of delinquent taxes.
76	270C.70	Personal liability for failure to honor a levy.
77	270C.7101	Sale of seized property.
78	270C.7102	Sale of perishable goods.
79	270C.7103	Redemption of property.
80	270C.7104	Certificate of sale.
81	270C.7105	Effect of Certificate of Sale.
82	270C.7106	Records of sale.
83	270C.7107	Expense of levy and sale.
84	270C.7108	Application of proceeds of levy.
85	270C.7109	Authority to release levy and return property.
86	270C.711	Acquisition and resale of seized property.
87	270C.72	Tax Clearance; issuance of licenses.
88	270C.721	Revocation of certificate of authority to do business.
89	270C.722	Revocation of sales tax permits.
90	270C.725	Posting of tax delinquency; sale of liquor or beer.
91	270C.728	Publication of names of delinquent taxpayers.

## Chapter 270 Recodification

BILL SECTION	NEW CITE	TITLE/SUBJECT OF SECTION
		<b>Oversight and Administration of Property Tax System</b>
92	270C.85	Administration of property tax laws; powers and duties.
93	270C.86	Power to abate; correction of errors.
94	270C.87	Revision of Minnesota Assessors' Manual.
95	270C.88	Orders; decisions.
96	270C.89	County assessor's reports of assessment filed with commissioner.
97	270C.90	County auditor to calculate tax rate.
98	270C.91	Record of proceedings changing gross tax capacity; duties of county auditor.
99	270C.92	Improper or negligent administration of property tax laws.
100	270C.921	Municipality may be party to tax hearing.
101	270C.922	Municipalities may request tax hearings.
102	270C.923	Witnesses summoned.
103	270C.924	Findings of fact; appeals.
104	270C.925	Notice of appeal.
105	270C.926	Appeal does not stay collection.
106	270C.927	Increase in net tax capacity; additional taxes.
107	270C.928	Proceedings to determine net tax capacity.
108	270C.94	Property omitted or undervalued; reassessment; appointment of special assessor.
109	270C.95	Qualification of assessors; reassessment, how made.
110	270C.96	Reassessment; compensation; reimbursement by counties.
111	270C.97	Omitted property.
112	270C.98	Senior accreditation.
113	270C.99	Certain townships and cities option to elect to reinstate the office of assessor.

# 2005 CHAPTER 270 RECODIFICATION

## MINNESOTA · REVENUE

Appeals and Legal Services Division

600 North Robert Street

Saint Paul, Minnesota 55146-2220

Bill Date: February 4, 2005  
Summary Date: April 1, 2005

### WHAT STAYS IN CHAPTER 270

270.03	Repealed, 1943 c 160 s 1
270.051	Repealed, 1984 c 502 art 14 s 20
270.071	Definitions.
270.072	Taxation and assessment of flight property.
270.073	Examinations and investigations.
270.074	Valuation of flight property; methods of apportionment; ratio of tax.
270.075	Tax levy.
270.076	Appeal.
270.077	Taxes credited to state airports fund.
270.078	Not to conflict with federal law.
270.079	Reciprocal arrangement with other states.
270.08	Repealed, 1990 c 480 art 2 s 18
270.083	Repealed, 2000 c 490 art 10 s 22
270.11, subd. 1	Powers; meetings. (State Board of Equalization). Subd. 1 stays in 270. Subds. 2-7 moved to 270C.)
270.12	State Board of Equalization; duties.
270.185	Repealed, 1992 c 513 art 4 s 60
270.31	Repealed, 1Sp2001 c 5 art 8 s 17
270.32	Repealed, 1Sp2001 c 5 art 8 s 17
270.33	Repealed, 1Sp2001 c 5 art 8 s 17
270.34	Repealed, 1Sp2001 c 5 art 8 s 17
270.35	Repealed, 1Sp2001 c 5 art 8 s 17
270.36	Repealed, 1Sp2001 c 5 art 8 s 17
270.37	Repealed, 1Sp2001 c 5 art 8 s 17
270.38	Repealed, 1Sp2001 c 5 art 8 s 17
270.39	Repealed, 1Sp2001 c 5 art 8 s 17
270.41	Board of Assessors.
270.42	Membership.
270.43	Compensation and expenses.
270.44	Charges for courses, examinations or materials.
270.45	Disposition of fees.
270.46	Training courses, establishment; other courses, regulation.
270.47	Rules.
270.48	Licensure of qualified persons.
270.49	Repealed, 1995 c 264 art 16 s 21
270.493	Repealed, 1995 c 264 art 16 s 21
270.50	Employment of licensed assessors.

270.51	Previously accredited assessors.
270.52	Costs of making assessments.
270.53	Existing contracts for assessment of property.
270.651	Repealed, 1990 c 480 art 1 s 45
270.77	Repealed, 1990 c 480 art 1 s 45
270.80	Definitions.
270.81	Taxation and assessment of railroad company property.
270.82	Reports of railroad companies.
270.83	Examinations and investigations.
270.84	Annual valuation of operating property.
270.85	Review of valuation.
270.86	Apportionment and equalization of valuation.
270.87	Certification to county assessors.
270.88	Proceedings and appeals.
270.89	Repealed, 1987 c 268 art 4 s 25
270.90	Repealed, 1984 c 593 s 46
270.91	Contamination tax.
270.92	Definitions.
270.93	Tax base; contamination value.
270.94	Exemptions.
270.95	Payment; administration.
270.96	Duties.
270.97	Deposit of revenues.
270.98	Local administrative costs.

# MINNESOTA REVENUE

## Department Chapter 270 Recodification Bill

April 5, 2005

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

Department of Revenue  
Analysis of S.F. 1675 (Pogemiller)/ H.F. 2228 (Abrams)

	<b>Fund Impact</b>			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
		(000's)		
General Fund	\$0	\$0	\$0	\$0

Effective August 1, 2005, for most of the provisions.

### EXPLANATION OF THE BILL

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

### REVENUE ANALYSIS DETAIL

The bill would have no impact on any state funds.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)

sf1675(hf2228)\_1/cc



# 2005 CHAPTER 270 RECODIFICATION BILL SUMMARY

MINNESOTA • REVENUE

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

Bill Date: February 4, 2005  
Summary Date: April 1, 2005

BILL SECTION	CURRENT LAW CITE	NEW CITE	TITLE/SUBJECT OF SECTION	ACTION TAKEN IN RECODIFICATION
<b>Article 1. Recodification</b>				
<p>The following changes are made throughout:</p> <p>1. New definitions are added to allow shorter references to subjects that are repeatedly referenced. New definitions for “commissioner,” “department,” “person,” and “return.”</p> <p>2. Using definitions for “commissioner” and “department,” all references to “commissioner of revenue” and “department of revenue” are shortened to “commissioner” and “department,” respectively.</p> <p>3. In order to harmonize and unify the provisions in the new chapter, new definitions are added for subjects that are labeled or referred to in various ways in existing law. New definitions for “law administered by the commissioner,” “property tax laws,” “state revenue laws,” “tax,” and “taxpayer.” Except as noted, no substantive change in law is made by the use of the newly defined words and phrases.</p> <p>Effective Dates: except as noted, all sections are effective August 1, 2005.</p>				
			<b>Commissioner General Powers</b>	
1			Definitions.	Provides an alphabetical list of definitions for words and phrases used throughout the chapter. New definitions for “law administered by the commissioner,” “property tax laws,” “state revenue laws,” “tax,” and “taxpayer” group together the taxes and fees imposed by laws that give authority to the commissioner to collect and administer the tax or fee, and differentiate those taxes and fees from the tax on property referred to in section 272.01, subd. 1 and other enumerated law. New definitions for the terms “tax” and “taxpayer,” which encompass both taxes and fees, extend and make uniform the commissioner’s authority over taxes <i>and</i> fees imposed by laws that give authority to the commissioner to collect and administer the tax or fee.
1		270C.01, subd. 1	Definitions.	“Applicability.” Definitions apply unless language or context requires otherwise and are limited to this chapter.
1		270C.01, subd. 2	Definitions.	“Commissioner” means the commissioner of revenue or a person to whom the commissioner has delegated functions.
1		270C.01, subd. 3	Definitions.	“Department” means the Department of Revenue.

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1		270C.01, subd. 4	Definitions.	"Electronic means" and "electronically" mean a method that is electronic, as defined in section 325L.02, paragraph (e), and that is prescribed by the commissioner.
1		270C.01, subd. 5	Definitions.	"Law administered by the commissioner" means a law or rule that vests or imposes a power, duty, responsibility or authority in the commissioner, except the following laws: (a) property tax laws (newly defined phrase), and (b) chapter 16D (Minnesota Collection Enterprise-statute that gives the commissioner authority to collect debts owed to the state and other defined delinquent liabilities.)
1		270C.01, subd. 6	Definitions.	"Person" includes individuals and other enumerated legal entities.
1		270C.01, subd. 7	Definitions.	"Property tax laws" means all laws and rules related to the administration of the tax on property referred to in section 272.01, subd. 1, and all laws related to the administration of the tax on wind energy production imposed under section 272.029, subd. 1.
1		270C.01, subd. 8	Definitions.	"Return" means a return, information return, or report, required by a law administered by the commissioner.
1		270C.01, subd. 9	Definitions.	"State revenue laws" means all laws administered by the commissioner and the property tax laws.
1		270C.01, subd. 10	Definitions.	"Tax" means a tax or fee imposed by a law administered by the commissioner.
1		270C.01, subd. 11	Definitions.	"Taxpayer" means a person subject to, or liable for, a tax or fee imposed by a law administered by the commissioner; a person required to file a return, information return, or report, with respect to, or to pay, or withhold or collect and remit, a tax or fee imposed by a law administered by the commissioner; a person required to obtain a license or a permit under a law administered by the commissioner; or a person required to keep records regarding a tax or fee imposed by a law administered by the commissioner.
2	270.01; 270.02, subd. 2	270C.02, subd. 1	Department of revenue; commissioner Commissioner; supervision of department and appointment.	Combines and streamlines sections defining commissioner's power to supervise and control the Department of Revenue and commissioner's appointment by governor.
2	270.02,	270C.02,	Organization, appointment of employees,	Rewritten to state that the commissioner's scope of

BILL SECTION	CURRENT LAW CITE	NEW CITE	TITLE/SUBJECT OF SECTION	ACTION TAKEN IN RECODIFICATION
	subd. 3; 270.06(17)	subd. 2	delegation of power.	authority to appoint employees and agents is to "carry out the duties, responsibilities, and authority entrusted to the commissioner." As previously written, authority was to "discharge functions of the department." Minor language changes for readability. Shortens reference to commissioner.
2	270.06 (18)	270C.02, subd. 3	Salaries.	Modernizes language by substituting "employees and agents" for outmoded reference to "help." Substitutes newly defined phrase "state revenue laws" for reference to "state tax laws." Substitutes reference to commissioner of employee relations for reference to commissioner of administration with regard to authority to approve salaries.
2	270.04	270C.02, subd. 4	Office and supplies furnished; expenses.	Modernizes language by substituting "employees and agents" for outmoded reference to "clerks." Shortens reference to commissioner. Deletes unnecessary reference to commissioner's secretary. Minor language changes for readability.
2	270.022	270C.02, subd. 5	Filing officers.	Deletes reference to officers of department because there are none. Shortens reference to department.
2	270.02, subd. 4	270C.02, subd. 6	Department seal.	Modernizes language by substituting "employees and agents" for obsolete reference to "members." Shortens reference to department.
3	270.06 (14) (1 <sup>st</sup> clause, part 1 of 2) [270.02, subd. 1, 270.05, 270.07, subd. 1(a) (2d clause), 270.07, subd. 1(b), 270.084]	270C.03, subd. 1(1)	Powers and duties.  (Administer and enforce the assessment and collection of taxes)	Substitutes newly defined term "taxes" for reference to "state taxes."
3	289A.35, 1st sentence	270C.03, subd. 1(2) and (3)	(Make determinations, corrections and assessments of taxes and use statistical or other sampling techniques.)	Uniform statement of commissioner's authority to make determinations, corrections and assessments for all taxes and fees imposed by a law administered by the commissioner, not just the taxes and fees currently governed by chapter 289A, including the use of statistical or other sampling techniques consistent with generally accepted auditing standards in auditing and making assessments.
3	270.06 (10)	270C.03, subd. 1(4)	(Investigate tax laws and make recommendations to legislature.)	Substitutes newly defined phrase "state revenue laws" for references to "assessment and taxing laws" and "assessment and taxation."

BILL SECTION	CURRENT LAW CITE	NEW CITE	TITLE/SUBJECT OF SECTION	ACTION TAKEN IN RECODIFICATION
3	270.06 (11)	270C.03, subd. 1(5)	(Confer with governor.)	Shortens reference to department.
3	270.06 (19)	270C.03, subd. 1(6)	(Exchange information and enter into agreements with U.S. Treasury (IRS) or another state.)	Substitutes newly defined phrase "state revenue laws" for reference to "tax laws."
3	270.06 (5)	270C.03, subd. 1(7)	(Require information from public officers.)	Separates and limits authority to "taxes" as newly defined. Authority regarding property tax laws appears in new section 270C.85, subd. 2(d) below. Substitutes reference to commissioner for reference to department. Deletes unnecessary reference to "blanks."
3	270.06 (20)	270C.03, subd. 1(8)	(Use unmarked vehicles.)	No language changes.
3	270.06 (21)	270C.03, subd. 1(9)	(General power to act as authorized by law.)	Adds reference to "authority" to make consistent with newly defined phrase "laws administered by the commissioner." Shortens reference to commissioner.
3	270.02, subd. 3a	270C.03, subd. 2	Mission; efficiency.	No language changes.
4	270.065	270C.04	Use of information.	Substitutes newly defined phrase "state revenue laws" for reference to "tax laws administered by the department." Shortens references to commissioner.
5	270.062	270C.05	Access to criminal justice data.	Simplifies language and updates reference to department's "criminal investigation unit" due to change in name of unit within the department.
6	270.064	270C.055, subd. 1	Criminal investigations, referral and information disclosure.	Brings together the provisions in Chapter 270 that provide for the referral of investigations and prosecutions of criminal violations. Subd. 1. [Requesting assistance.] Substitutes newly defined phrase "state revenue laws" for reference to "state tax laws."
6	270.68, subd. 1(c) 270.064	270C.055, subd. 2 and 270C.055, subd. 3	Criminal investigations, referral and information disclosure	Subd. 2. [Referral for prosecution.] Substitutes reference to "prosecuting authority of any county" to make the two subdivisions in this new section consistent. Subd. 3. [Authority to disclose information.] Cross references authority to disclose information for an investigation by a county prosecuting authority or the attorney general pursuant to chapter 270B regarding disclosure of tax data.
7	270.06 (14) (2d clause)	270C.06	Rulemaking authority.	Substitutes newly defined phrase "state revenue laws" for reference to "laws administered by the commissioner." Clarifies that the commissioner has authority to issue rules

BILL SECTION	CURRENT LAW CITE	NEW CITE	TITLE/SUBJECT OF SECTION	ACTION TAKEN IN RECODIFICATION
				regarding property tax matters. Shortens reference to commissioner.
8	270.0604	270C.07	Revenue notices.	Substitutes newly defined phrase "state revenue laws" for general reference to "laws" and substitutes "rules promulgated by commissioner" for general reference to "rules." Clarifies the effect of revenue notices. When this section was changed in 1994 to repeal the exclusion of its applicability to property tax laws, there was no enactment to address the effect of revenue notices on property tax payers. Because the definition of "taxpayer" in this new chapter does not include property tax payers, it will now be clear that revenue notices may not be relied on by property tax payers. The section is also clarified by adding that revenue notices, like tax information bulletins, are published for the information and guidance of local government officials among others. Substitutes "commissioner" for "department" in authorization to revoke or modify revenue notices to place both the authority to issue and the authority to revoke or modify in the commissioner. Shortens reference to commissioner.
9	270.0605	270C.08	Tax information bulletins.	Substitutes newly defined phrase "state revenue laws" for reference to "Minnesota tax laws." Shortens reference to commissioner.
10	270.09, 270.07, subd. 1(d)	270C.09	Opinion of Attorney General; effect.	Combines section 270.07, subd. 1(d) and 270.09 into a new section. Substitutes newly defined phrase "state revenue laws" for "functions of department . . . prescribed by law. " Shortens reference to commissioner.
11	270.021	270C.10	Ex-employees not to represent taxpayers; penalty.	Deletes obsolete references to officers and simplifies other language. Shortens references to department.
12	270.0602	270C.105	Basis for evaluation of Department of Revenue employees.	Shortens reference to department.
13	270.067	270C.11	Tax expenditure budget.	Shortens references to commissioner.
14	270.0681	270C.12	Tax information sample data.	Shortens reference to commissioner.
15	270.0682	270C.13	Tax incidence reports.	Shortens reference to commissioner. Minor language change for readability.
16	270.058	270C.14.	Authority to pay local taxes; appropriation.	Shortens references to commissioner and department.
17	270.059	270C.15	Revenue Department Service and	Substitutes newly defined phrase "state revenue laws" for

BILL SECTION	CURRENT LAW CITE	NEW CITE	TITLE/SUBJECT OF SECTION	ACTION TAKEN IN RECODIFICATION
			Recovery Special Revenue Fund.	reference to "tax law." Deletes modifying term "public" in referring to "government data" to clarify scope and applicability to costs of government data that is other than public. Shortens references to commissioner and department.
18	270.063, subd. 1	270C.16, subd. 1	Collection of delinquent liabilities; costs.	Subd. 1. [Appropriation.] Deletes modifying term "state" as newly defined term "tax" defines applicability.
18	270.063, subd. 2	270C.16, subd. 2		Subd. 2. [Prepayment.] Shortens references to commissioner.
19	270.069	270C.17	Commissioner to collect certain local taxes.	Makes minor language changes for better readability. Shortens reference to department.
20	270.66, subd. 4	270C.18	Setoff of political subdivision debts.	Makes necessary correction to internal cross reference by substituting "section" for "subdivision." Shortens references to commissioner.
21	270.60	270C.19	Taxes and fees; refund and sharing agreements with Indians.	Shortens references to commissioner and department.
			<b>Tax Administration</b>	
22	289A.43	270C.25	Prohibition of suits to restrain assessment or collection.	Language changes and reordering to improve readability. Extends the anti-injunction provisions to apply to all taxes and fees imposed by a law administered by the commissioner, not just the taxes and fees currently governed by chapter 289A.
23	270.278	270C.26	Penalty for filing certain documents against Department of Revenue employees.	Provides that civil penalty is collected and paid in the same manner as any tax collected by the commissioner, rather than limiting the reference to income tax. Shortens references to department and commissioner. Corrects internal cross reference.
24	270.275	270C.27	Civil damages for failure to release lien.	No language changes. Corrects internal cross reference.
25	270.276	270C.275	Civil damages for certain unauthorized collection actions.	Extends the provisions to apply to all taxes and fees collected by the Department. Deletes references to assessment and notice and demand, as they are not applicable to court ordered penalties. Clarifies that the penalty is "collected and paid" in the same manner that a tax is "collected by the commissioner." Shortens references to department and commissioner.
26	270.0603	270C.28	Disclosure of rights of taxpayers.	Deletes obsolete deadline to prepare a taxpayer rights statement and to transmit the statement to the chairs of the house and senate tax committees once prepared. Extends the provisions to apply to all taxes and fees imposed by a law administered by the commissioner. Shortens references to

BILL SECTION	CURRENT LAW CITE	NEW CITE	TITLE/SUBJECT OF SECTION	ACTION TAKEN IN RECODIFICATION
				commissioner and department.
27	270.272	270C.285	Procedures involving in-person taxpayer interviews.	In subd. 3, deletes "administrative" before "subpoena" to clarify that a taxpayer may also be required to accompany a representative when a judicial subpoena is issued. Subdivision 1(a) is rewritten to be more readable. Shortens references to department.
28	270.277	270C.29	Notices to holders of powers of attorney.	Shortens references to department.
29	270.07, subd. 1(a) (1st clause) 270.06 (15)	270C.30	Returns; format, furnishing.	Combines sections 270.06 (15) and 270.07, subd. 1(a), eliminates redundancies, and extended to apply to all "returns." "Return" is a newly defined term.
30	289A.13	270C.302	Returns, other forms; where filed.	Modifies language from section 289A.13 to also require that "other forms" be filed where the commissioner designates, and to apply to "all laws administered by the commissioner." "Laws administered by the commissioner" is a newly defined phrase.
31	289A.07	270C.304	Electronically filed returns; signatures.	Substitutes newly defined phrase "law administered by the commissioner" for the reference to "this chapter" and thus, extends application of the provision to all electronically filed returns. Under current law, this provision only applies to electronically filed returns for the taxes covered by chaptered 289A. Effective for returns filed on or after August 1, 2005.
32	270.066	270C.306	Commissioner may require social security or identifying numbers on forms.	Shortens reference to commissioner.
33	270.0665	270C.308	Prohibition of display of social security numbers.	Adds language to clarify that the prohibition on the display of social security numbers only applies to displays that are visible to third parties.
34	270.06 (6), (7), (8), (9) & (17) 270.0601, 270.15 289A.36, subds. 1, 2, 3, 4, 5, 6, 7, 8, 9, & 10		Examinations and investigations.  Subpoenas.	The provisions regarding examinations and investigations (auditing) and the issuance and use of subpoenas are consolidated and made uniform in their application to all taxes and fees imposed by a law administered by the commissioner.  Reorganized to cover the power to examine and investigate in one section and the power to issue and use subpoenas in a separate section.  With the consolidation of provisions, clarifies that the limitation of the commissioner's authority to investigate and

BILL SECTION	CURRENT LAW CITE	NEW CITE	TITLE/SUBJECT OF SECTION	ACTION TAKEN IN RECLASSIFICATION
				issue subpoenas, regarding a matter that has been appealed to Tax Court, applies to all taxes and fees imposed by a law administered by the commissioner.
34	270.06 (6), (7) & (9) 270.0601, 270.15 289A.36, subds. 1, 2 & 3, 296A.20, 297D.14, 297E.08, 297F.15, subds. 1 to 8, 297G.14, subds. 1 to 8, 297I.55	270C.31	Examinations and Investigations.	<p>Subd. 1. [Scope]: Combines “purpose” language found in the first half of section 289A.36, subd. 1, and the “in any matter which the commissioner may have authority to investigate or determine” language in second half of section 270.06 (9).</p> <p>Subd. 2. [Reasonable examinations or investigations of taxpayer.] Modifies the second half of section 289A.36, subd. 1, in combination with language from section 289A.36, subd. 3, clause (1), to refer to the more generic, inclusive, and up-to-date “inspect and copy the taxpayer’s relevant books, records, paper, documents and other data, in whatever form,” rather than to “pertinent books, records, papers, vouchers, computer printouts; accounts, and documents.” Authority to copy also found in section 270.06 (7).</p> <p>Subd. 3. [Access to records of other persons in connection with examination of taxpayer.] No language change from first half of section 289A.36, subd. 2.</p> <p>Subd. 4. [Examinations under oath.] No change from the authority found in sections 270.06 (17), 270.15, and 289A.36, subd. 3, clauses (1) and (2).</p> <p>Subd. 5. [Depositions.] No change from section 270.06 (9).</p> <p>Subd. 6. [Witness fees.] No change from last half of section 289A.36, subd. 3, clause (2).</p> <p>Subd. 7. [Limitation of authority.] No change in limitation found in section 270.0601 regarding a matter that has been appealed to Tax Court.</p>
35	270.06 (7), (8), & (17) 270.0601, 289A.36,	270C.32	Subpoenas.	Subd. 1. [Authority to issue subpoenas.] Combines language and authority from sections 289A.36, subds. 2 and 3, and 270.06 (7), as relates to subpoenas, and connects it to the prior section in chapter 270C on examinations and



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	subds. 2, 3, 4, 5, 6, 7, 8, 9, & 10, 296A.20, 297D.14, 297E.08, 297F.15, subds. 1 to 8, 297G.14, subds. 1 to 8, 297I.55			<p>investigations.</p> <p>Subd. 2. [Request by taxpayer for subpoena.] Modifies language from section 289A.36, subd. 6, to delete superfluous language regarding honoring a taxpayer's request for a subpoena if "on the taxpayer's behalf" and "in connection with the investigation or audit."</p> <p>Subd. 3. [Third party subpoena where taxpayer's identity is known.] No change from section 289A.36, subd. 4.</p> <p>Subd. 4. [Third party subpoena where taxpayer's identity is not known.] No change from language found in both sections 270.06 (8) and 289A.36, subd. 5.</p> <p>Subd. 5. [Access to records in connection with examination of businesses located outside the state.] No change from section 289A.36, subd. 9.</p> <p>Subd. 6. [Demand for court administrator's subpoena.] No change from language of section 270.06 (17) as relates to demanding a court administrator's subpoena.</p> <p>Subd. 7. [Enforcement of subpoenas.] Combines and reorganizes language according to venue as follows:</p> <p style="padding-left: 40px;">*paragraph (b), regarding the disobedience of a court administrator's subpoena, is from second half of section 270.06 (17);</p> <p style="padding-left: 40px;">*paragraph (c), regarding disobedience of a subpoena issued by the commissioner or an agent, is from second half of section 270.06 (17), and from section 289A.36, subd. 7, paragraph (a); and</p> <p style="padding-left: 40px;">*paragraph (d), regarding disobedience of a subpoena issued under subd. 5 above, is from section 289A.36, subd. 7, paragraph (b).</p> <p>Subd. 8. [Penalty for violating court order to comply with</p>

BILL SECTION	CURRENT LAW CITE	NEW CITE	TITLE/SUBJECT OF SECTION	ACTION TAKEN IN RECODIFICATION
				subpoena.] No change from section 289A.36, subd. 10.  Subd. 9. [Cost of production of records.] No change from section 289A.36, subd. 8.  Subd. 10. [Limitation of authority.] No change in limitation found in section 270.0601 regarding a matter that has been appealed to Tax Court.
36	270.10, subd. 1	270C.33, subd. 1	Commissioner assessment procedures.	Subd. 1. [Orders and decisions.] Substitutes requirement that all orders and decisions must "be entered into the records of the commissioner" for outdated reference to "filed in the offices of the department." Simplifies language.
36	270.10, subd. 1a, 289A.37, subd. 1(a)	270C.33, subd. 2	Commissioner assessment procedures.	Subd. 2. [Notices.] When a taxpayer is notified of an assessment, determination or order, the taxpayer must also be given a written notice that describes the taxpayer's appeal rights, explains the basis for the assessment, and list the amounts of tax, interest, additions to tax, and penalties due. An order is not invalid if minimum notice is given. Consolidates the provisions of 270.10, subd. 1a and the third sentence of 289A.37, subd. 1(a). Adopts 289A's requirements for contents of notices; eliminates 270.10 language regarding specification of "applicable law and other factors."
36	289A.35	270C.33, subd. 3	Commissioner assessment procedures.	Subd. 3. [Commissioner filed returns.] The provisions regarding assessments are made uniform and extended to apply to all taxes and fees imposed by a law administered by the commissioner, not just the taxes and fees currently governed by chapter 289A. Language is parallel to authority in 289A.35 to issue commissioner filed returns. No change, except for the addition of a cross reference to orders of assessment for situations where no return has been filed.
36	289A.37, subd. 1	270C.33, subd. 4 (a)(1)-(4)	Commissioner assessment procedures.	Subd. 4(a) (1)-(4). [Orders of assessment.] Rewritten and reorganized for clarity and readability. Orders regarding property tax matters are separated out and reenacted in section 270C.88 below. Clause (1) is the same as 289A.37, subd. 1(a), first sentence. Clause (2) is a technical rewrite of 289A.37, subd. 1(a), second sentence. Clause (3) is new. It provides that orders of assessment are issued when property

BILL SECTION	CURRENT LAW CITE	NEW CITE	TITLE/SUBJECT OF SECTION	ACTION TAKEN IN RECODIFICATION
				tax refund returns, or other types of refundable credit returns are adjusted. Clause (4) is also new. It provides for orders of assessment for tax types such as the mortgage, deed, and taconite production tax, which do not have a requirement to file a return that self assesses tax.
36	270.10, subd. 1	270C.33, subd. 4(b) and (c)	Commissioner assessment procedures.	Subd. 4(b) and (c). Orders must be in writing and must be signed by the commissioner or a delegate if the change in tax exceeds \$1,000. This language comes from 270.10, subd. 1 (the portion that deals with property tax is reenacted in section 270C.88, subd. 1 below). A cross reference to the Attorney General's authority to appeal an order on behalf of the state under chapter 271 is eliminated as unnecessary.
36	289A.37, subd. 1(a)	270C.33, subd. 4(d))	Commissioner assessment procedures.	Subd. 4(d). An order is final but subject to a taxpayer's appeal rights. Parallel to last sentence of 289A.37, subd. 1(a), except that the language is broadened to include all appeal rights (i.e., tax court) instead of just administrative appeals.
36	270.10, subd. 5, 289A.37, subd. 1(b)	270C.33, subd. 5	Commissioner assessment procedures.	Subd. 5. [Prohibition against collection during appeal period of an order.] Rewritten and reorganized for clarity and readability. Language comes from the provisions of 270.10, subd. 5, and 289A.37, subd. 1(b). The last sentence stating that the prohibition against collection does not apply to jeopardy situations is new, but is not a substantive change from existing law.
36	289A.37, subd. 3	270C.33, subd. 6	Commissioner assessment procedures.	Subd. 6. [Assessment presumed valid.] No language changes.
36	289A.37, subd. 4	270C.33, subd. 7	Commissioner assessment procedures.	Subd. 7. [Aggregate refund or assessment.] No language changes.
36	289A.37, subd. 5	270C.33, subd. 8	Commissioner assessment procedures.	Subd. 8. [Sufficiency of notice.] Substitutes "An assessment of tax made by the commissioner" for "An order of assessment" so it applies to both commissioner filed returns and orders of assessment.
36	270.67, subd. 3	270C.33, subd. 9	Commissioner assessment procedures.	Subd. 9. [Consent agreement.] Adds language to clarify that there is no administrative appeal, in addition to no appeal to Tax Court, from a determination consented to by a taxpayer.
36	[296A.201, 297E.09, 297F.16,	270C.33	Commissioner assessment procedures.	Effective for assessments made on or after August 1, 2005.

BILL SECTION	CURRENT LAW CITE	NEW CITE	TITLE/SUBJECT OF SECTION	ACTION TAKEN IN RECODIFICATION
	297G.15, 297I.45, 297I.50]			
37	270.07, subds. 1(e)  270.07, subds. 6(a), (b) and (c)	270C.34	Abatement of penalty, interest and additional tax charge.	Combines section 270.07, subd. 1, para. (e) with section 270.07, subd. 6, paras. (a), (b), and (c) and reorders the provisions to flow logically. Substitutes newly defined phrase "law administered by the commissioner" for reference to "law relating to taxation." Extends the provisions to apply to all taxes and fees imposed by a law administered by the commissioner. Corrects internal cross references.
38	270.07, subd. 3(a), (b), (c) and (d)	270C.345	Determination of minimums and cancellation; additional tax, collection, refunds.	Shortens reference to commissioner. Minor language changes for readability.
39	270.07, subd. 4	270C.346	Erroneous remittances.	Shortens references to commissioner.
40	270.07, subd. 3(f)	270C.347, subd. 1	Rebate checks and warrants; authority to reissue; appropriation.	Subd. 1. [Checks and warrants; authority to reissue.] Shortens reference to commissioner.
40	270.07, subd. 3a	270C.347, subd. 2	Appropriation.	Subd. 2. [Appropriation.] Corrects internal cross reference.
41	289A.65, 287.39, 289A.65, 296A.25, 297E.15, 297F.22, 297G.21, 297I.95	270C.35	Administrative review.	Extends the provisions of section 289A.65 to apply to all taxes and fees imposed by a law administered by the commissioner, not just the taxes and fees currently governed by chapter 289A. Preserves current scope regarding penalty and interest by specifying in subdivision 1 that it applies only to penalty and interest "imposed by a law administered by the commissioner."
42	290.48, subd. 4, 290.92, subd. 6b, 297A.93	270C.36	Jeopardy assessment and collection.	Consolidates the jeopardy assessment and collection provisions from the income, withholding, and sales tax laws into a uniform provision that applies to all taxes and fees imposed by a law administered by the commissioner. Makes the authority for jeopardy assessments consistent with the authority for jeopardy collections in situations where the tax is otherwise not yet due. Effective for assessments made and collection actions taken on or after August 1, 2005. Subd. 1. [Assessment.] New language in subdivision 1 clarifies that the mechanism for making a jeopardy

BILL SECTION	CURRENT LAW CITE	NEW CITE	TITLE/SUBJECT OF SECTION	ACTION TAKEN IN RECODIFICATION
				assessment is an order of assessment. The language regarding last known address in 290.48, subd. 4 is deleted because it duplicates the provision for sending notice of orders of assessment found in the assessment section above. Corrects internal cross references
42	270.70, subd. 2(b), 270.70, subd. 1, (second sentence), 290.48, subd. 3	270C.36, subd. 2	Jeopardy assessment and collection.	Subd. 2. [Collection.] To clarify applicability, repeats language that includes penalty, interest and costs in references to "tax" from section 270.70, subd. 1 in subdivision 2. Definition of the word "tax" found in the general levy provision at 270.70, subd. 1, (270C.67 below), is duplicated so that the two provisions are consistent. Minor language changes for readability. Corrects internal cross references.
42	270.274, subd. 1	270C.36, subd. 3	Jeopardy assessment and collection.	Subd. 3. [Administrative review.] Substitutes newly defined term "tax" for reference to "tax administered by the commissioner of revenue."
42	270.274, subd. 2	270C.36, subd. 4	Jeopardy assessment and collection.	Subd. 4. [Judicial review.] No language changes.
42	270.274, subd. 3	270C.36, subd. 5	Jeopardy assessment and collection.	Subd. 5. [Burden of proof.] No language changes.
42	297A.93 (b)	270C.36, subd. 6	Jeopardy assessment and collection.	Subd. 6. [Defenses.] Adds references to "demands" to cover jeopardy collection actions. Extends the provision to apply to all jeopardy assessments and demands, not just sales taxes.
43	270.273	270C.37	Taxpayer assistance orders; taxpayer's rights advocate.	Substitutes newly defined phrase "law administered by the commissioner" for "state tax laws."
44	New	270C.38, subd. 1	Notice of a determination or action of the commissioner of revenue.	Subd. 1. [Sufficiency of notice of a determination or action of the commissioner of revenue.] All new language. Defines sufficiency of notice of determination or action of the commissioner in those situations where the law does not provide how such notice must be provided. The method prescribed is similar to the method used in several tax statutes. ( <i>see e.g.</i> , section 289A.37, subd. 5 (orders of assessment)). Effective for notices issued on or after August 1, 2005.
44	270.061	270C.38, subd. 2	Notice of a determination or action of the commissioner of revenue.	Subd. 2. [Service of notice by mail.] Shortens reference to commissioner.
45	270.27	270C.39	Due date on Saturday, Sunday or holiday.	Shortens references to commissioner and department.
46	270.271	270C.395	Timely mailing treated as timely filing	No language changes.

BILL SECTION	CURRENT LAW CITE	NEW CITE	TITLE/SUBJECT OF SECTION	ACTION TAKEN IN RECODIFICATION
			and paying.	
47	270.75	270C.40	Interest payable to commissioner.	Deletes references tying determination to dates and rates from 1982 and 1983. Rewrites language to make determination contemporary. Deletes limiting reference to estimated "income" tax to reflect fact that estimated taxes of other than "income" taxes (such as minimum fee on corporations and partnerships) are made pursuant to chapter 289A. Simplifies language. Shortens reference to commissioner.
48	270.76	270C.405	Interest on refunds.	Shortens references to commissioner and department. Corrects internal cross references.
49	270.052	270C.41	Agreement with Internal Revenue Service.	Shortens references to department
50	270.771  270.78	270C.42	Electronic payments.	Subd. 1. [Payments required to be made electronically.] No language changes.  Subd. 2. [Penalty for failure to pay electronically.] Substitutes "taxes payable to the commissioner" for reference to "taxes administered by the commissioner." Shortens reference to commissioner. Corrects internal cross references.
51	270.74	270C.425	Financial transaction cards; payment of taxes; appropriation.	Shortens references to commissioner and department.
52	270.79	270C.43	Refunds payable in installments.	Substitutes newly defined phrase "law administered by the commissioner" for reference to "tax law" and extends application of the provision to all refunds resulting from a judicial determination. Effective for refunds payable on or after August 1, 2005.
53	270.06 (16)	270C.44	Practice before the commissioner.	Shortens reference to commissioner. Corrects internal cross reference.
54	270.30	270C.445	Tax preparation services.	Provides that the penalty imposed under this section is collected in the same manner as any tax collected by the commissioner, rather than limiting the reference to income tax. Corrects grammatical error in notice requirement by substituting that notices must state "This is a loan" instead of stating "This a loan."
55	289A.60, subd. 13 (b), (c) and (d)	270C.447	Legal action to enjoin tax return preparer.	Substitutes newly defined phrase "law administered by the commissioner" for references to "state tax laws." Corrects internal cross references. Is extended to apply to all taxes and fees imposed by a law administered by the

BILL SECTION	CURRENT LAW CITE	NEW CITE	TITLE/SUBJECT OF SECTION	ACTION TAKEN IN RECODIFICATION
				commissioner, not just the taxes and fees currently governed by chapter 289A.
			<b>Collection</b>	
56	270.06 (14) (1 <sup>st</sup> clause, part 2 of 2)	270C.50	Use of collection remedies.	Language changes made to clarify that in addition to the collection remedies provided in the "state revenue laws," the commissioner may use any remedy available to nongovernmental creditors "to collect taxes."
57	270.652, 297E.12, subd. 10	270C.51	Allocation of payment.	Shortens reference to commissioner.
58	270.67, subs. 1, 2, and 4	270C.52	Settlement agreements, payment agreements and offers in compromise	Substitutes newly defined term "tax" for "state tax administered by the commissioner." Substitutes "tax" for "taxable" to conform to new definition of "tax." Shortens references to commissioner and department. Deletes references to "officer" of the Department because there are none. Corrects internal cross references.
59	270.07, subd. 3(e)	270C.53	Collection, taxpayer inability to pay.	Shortens reference to commissioner.
60	270.063, subd. 3	270C.54	Collection of financial institution fees.	No language changes.
61	270.063, subd. 4	270C.545	Federal tax refund offset fees; time limit for submitting claims for offset.	No language changes.
62	270.101	270C.56	Personal liability.	No language changes. Corrects internal cross references.
63	270.102	270C.57	Successor liability.	No language changes. Corrects internal cross references.
64	289A.31, subd. 3 289A.31, subd. 4 289A.38, subd. 13	270C.58	Liability of transferees and fiduciaries.	No language changes.
65	289A.31, subd. 6	270C.585	Transferee liability for estate tax.	Changes reference to "this chapter" to "chapter 291," the estate tax chapter, to continue current applicability. Other minor language changes for readability. Corrects internal cross reference.
66	290.92, subd. 22	270C.59	Liability of third parties paying or providing wages.	No language changes. Corrects internal cross references.
67	270.68, 289A.36,	270C.61	Legal action; confession of judgment.	Adds language to subdivision 2 to allow an action to compel a court ordered return to be filed in the same manner as any

BILL SECTION	CURRENT LAW CITE	NEW CITE	TITLE/SUBJECT OF SECTION	ACTION TAKEN IN RECODIFICATION
	subd. 3(3), 270.15			other civil action, which is parallel to the authority in subdivision 1. Deletes "or report" from "return or report" to conform to new definition of "return." Shortens references to commissioner and department. Other minor language changes for readability. Corrects internal cross references.
68	270.65	270C.62	Date of assessment; definition.	Substitutes newly defined term "taxes" for "taxes administered by the commissioner" and thus, is extended to apply to all fees imposed by a law administered by the commissioner, not just taxes. Substitutes "assessed" for "determined." Effective for assessments made on or after August 1, 2005.
69	270.69	270C.63	Lien for taxes.	Substitutes newly defined term "tax" for "tax imposed by any chapter administered by the commissioner" and thus, is extended to apply to all fees imposed by a law administered by the commissioner, not just taxes. Shortens references to commissioner and department. Substitutes "agent of the commissioner" for "delegate." Changes "Secretary of State" from title case to lower case. Corrects internal cross references.
70	270.07, subd. 5	270C.64	Credit of overpayment to delinquent tax liability.	Shortens reference to commissioner.
71	270.66, subds. 1, 2 and 3	270C.65	Right of setoff.	Subdivision 1 is rewritten for readability. Substitutes newly defined term "tax" for reference to "state tax." Deletes "state tax" language modifying "delinquent returns" and term "state" modifying "tax liabilities" to conform to new definitions of "tax" and "return." Minor changes to subdivision 3 for readability. Is extended to apply to all fees imposed by a law administered by the commissioner, not just taxes.
72	290.97	270C.66	Contracts with state; withholding.	Substitutes reference to "commissioner" for references to "department."
73	270.70, subds. 1, 2(a), 3-7, 11- 18.	270C.67	Levy and distraint.	Deletes reference to repealed federal law in subdivision 1. Separates "writ of entry" provision into new subdivision. Shortens references to commissioner and department throughout. Eliminates redundant reference to "employee" from 270.70, subd. 16. Minor language changes for readability. Is extended to apply to all fees imposed by a law administered by the commissioner, not just taxes. Corrects internal cross references.
74	270.7001	270C.68	Continuous levy.	Limits reference to who must receive notice to newly



BILL SECTION	CURRENT LAW CITE	NEW CITE	TITLE/SUBJECT OF SECTION	ACTION TAKEN IN RECODIFICATION
				defined term "person" and deletes unnecessary references to "officer, political subdivision or agency of the state." Deletes reference to amount due for failure to withhold as obsolete; liability for failure to withhold is governed by later enacted 270.7002. Substitutes references to newly defined term "taxpayer" for references to "taxpayer, employee, or person" and "persons." Is extended to apply to all fees imposed by a law administered by the commissioner, not just taxes. Corrects internal cross references.
75	290.92, subd. 23	270C.69	Withholding by employer of delinquent taxes.	Substitutes newly defined term "taxes" for reference to "state taxes." Is extended to apply to all fees imposed by a law administered by the commissioner, not just taxes. Modernizes language by substituting "agent" for "employee." Substitutes references to "commissioner" for "department" and "Department of Revenue." Corrects internal cross references.
76	270.7002	270C.70	Personal liability for failure to honor a levy.	Is extended to apply to all fees imposed by a law administered by the commissioner, not just taxes. Corrects internal cross references.
77	270.701	270C.7101	Sale of seized property.	Substitutes references to "commissioner" for "department." Shortens reference to commissioner. Corrects internal cross reference. Effective for levies made on or after August 1, 2005.
78	270.702	270C.7102	Sale of perishable goods.	No language changes. Corrects internal cross reference. Effective for levies made on or after August 1, 2005.
79	270.703	270C.7103	Redemption of property.	No language changes. Corrects internal cross reference. Effective for levies made on or after August 1, 2005.
80	270.704	270C.7104	Certificate of sale.	No language changes. Corrects internal cross reference. Effective for levies made on or after August 1, 2005.
81	270.705	270C.7105	Effect of Certificate of Sale.	No language changes. Corrects internal cross references. Effective for levies made on or after August 1, 2005.
82	270.706	270C.7106	Records of sale.	Minor language change for readability. Shortens reference to department. Corrects internal cross reference. Effective for levies made on or after August 1, 2005.
83	270.707	270C.7107	Expense of levy and sale.	No language changes. Effective for levies made on or after August 1, 2005.
84	270.708	270C.7108	Application of proceeds of levy.	Substitutes newly defined term "tax" for reference to "tax administered by the commissioner." Shortens reference to commissioner. Substitutes "that" for "which." Corrects

BILL SECTION	CURRENT LAW CITE	NEW CITE	TITLE/SUBJECT OF SECTION	ACTION TAKEN IN REVISION/ MODIFICATION
				internal cross references. Effective for levies made on or after August 1, 2005.
85	270.709	270C.7109	Authority to release levy and return property.	No language changes. Corrects internal cross references. Effective for levies made on or after August 1, 2005.
86	270.71	270C.711	Acquisition and resale of seized property.	Is extended to apply to all fees imposed by a law administered by the commissioner, not just taxes. Shortens reference to department.
87	270.72	270C.72	Tax Clearance; issuance of licenses.	A section specific definition of "taxes" is deleted in favor of newly defined term "tax." Scope of provision is maintained by limiting taxes to those "payable to the commissioner" and specifying treatment of penalties and interest consistent with effect of deleted definition. Is extended to apply to all fees imposed by a law administered by the commissioner, not just taxes.
88	270.721	270C.721	Revocation of certificate of authority to do business.	To clarify scope, uses newly defined terms and substitutes "a law administered by the commissioner that imposes a tax" for reference to "any tax laws administered by the commissioner." Is extended to apply to all fees imposed by a law administered by the commissioner, not just taxes. Other minor language changes are for uniformity
89	297A.86	270C.722	Revocation of sales tax permits.	Cross references to the sales tax chapter and applicable sections are added.
90	270.73	270C.725	Posting of tax delinquency; sale of liquor or beer.	The phrase "specified in this subdivision" after "taxes" is added to correct internal cross reference. Shortens references to commissioner.
91	270.691	270C.728	Publication of names of delinquent taxpayers.	Substitutes newly defined terms "tax" for reference to "taxes or fees administered by the commissioner" and other references to "taxes or fees." Shortens references to commissioner and department. Corrects internal cross reference.
			<b>Oversight and Administration of Property Tax System</b>	
92	270.06 (1)	270C.85	Administration of property tax laws; powers and duties.	Powers and Duties. Brings together the provisions that establish the commissioner's powers and duties relative to the oversight and administration of the taxes imposed under the "property tax laws." "Property tax laws" is a newly defined phrase that includes the laws related to the administration of: the property tax referred to in 272.01, subd. 1; and, the tax on wind energy production under 272.029, subd. 1. These powers and duties include: (1)

BILL SECTION	CURRENT LAW CITE	NEW CITE	TITLE/SUBJECT OF SECTION	ACTION TAKEN IN RECODIFICATION
				oversee the administration of the property tax; (2) advise local assessors and local boards as to their duties; (3) direct proceedings and prosecutions as necessary for failure or negligence to comply with the property tax laws and cause complaints to be made against assessing or taxing officers for removal from office for misconduct or negligence; (4) require county attorneys to assist in prosecutions or proceedings related to violations of the property tax laws; (5) require public officers to report assessment information; (6) prepare a biennial report for the governor and the legislature showing the value of all taxable property in the state; and (7) inquire into the methods of assessment and taxation and ascertain whether assessors are discharging their duties. Subd. 1. [General supervision.] Substitutes newly defined phrase "property tax laws" for reference to "assessment and taxation laws of the state." Shortens reference to commissioner.
92	270.06 (2)	270C.85, subd. 2(a)	Administration of property tax laws; powers and duties.	Subd. 2. [Powers and duties.] No language changes.
92	270.06 (3)	270C.85, subd. 2(b)	Administration of property tax laws; powers and duties.	Substitutes newly defined phrase "property tax laws" for reference to "laws of this state governing returns of assessment and taxation of property."
92	270.06 (4)	270C.85, subd. 2(c)	Administration of property tax laws; powers and duties.	Substitutes newly defined phrase "property tax laws" for reference to "laws of this state governing returns of assessment and taxation of property."
92	270.06 (5)	270C.85, subd. 2(d)	Administration of property tax laws; powers and duties.	Limits the commissioner's authority to information regarding "assessment of property." Authority regarding "taxes" as newly defined appears in new section 270C.xx above. Substitutes reference to commissioner for reference to department. Deletes unnecessary reference to "blanks."
92	270.06 (12)	270C.85, subd. 2(e)	Administration of property tax laws; powers and duties.	Maintains current applicability by specifying taxable property as that "subject to the property tax laws."
92	270.06 (13)	270C.85, subd. 2(f)	Administration of property tax laws; powers and duties.	Eliminates outmoded modifying language.
93	270.07, subd. 1(a) (excerpt)	270C.86, subd. 1(a)	Power to abate; correction of errors.	Subd. 1. [Powers of commissioner; application for abatement; orders.] Brings together and logically orders the commissioner's authorities and duties regarding: (1) property tax abatements, and (2) correcting administrative or clerical errors in the extension of property tax to individual

BILL SECTION	CURRENT LAW CITE	NEW CITE	TITLE/SUBJECT OF SECTION	ACTION TAKEN IN RECODIFICATION
				properties. Clarifies scope by specifying "net tax capacities or taxes" as those imposed by the "property tax laws" and adding specific references to "special assessments." Deletes outmoded reference to gross earnings taxes.
93	270.07, subd. 1(c)	270C.86, subd. 1(b)	Power to abate; correction of errors.	No language changes.
93	270.07, subd. 1(f)	270C.86, subd. 1(c)	Power to abate; correction of errors.	Maintains current applicability by substituting reference to "an" application and deleting reference to a "taxpayer's" application. New definition of "taxpayer" would otherwise exclude property tax payers. Shortens reference to commissioner.
93	270.07, subd. 1a.	270C.86, subd. 2(a) and (b)	Power to abate; correction of errors.	Subd. 2. [Examination of application; reductions; appeals.] No language changes.
93	270.07, subd. 2	270C.86, subd. 3	Power to abate; correction of errors.	Subd. 3. [Correction of errors.] Maintains current applicability by specifying assessment, levy and extension as that "under the property tax laws" and deleting reference to "ad valorem taxes."
94	270.068	270C.87	Revision of Minnesota Assessors' Manual.	Updates language related to the commissioner's duty to provide and revise the Minnesota assessor's manual by striking a reference to the original 1986 version. Corrects internal cross reference.
95	270.10, subd. 1 (excerpt)	270C.88, subd. 1	Orders; decisions.	Subd. 1. [In writing.] Separates and updates language related to property tax orders and decisions of the commissioner. Strikes obsolete language, and language dealing with non-property tax orders and decisions. (Authority regarding non-property tax orders is reenacted in 270C.33 above.)
95	270.10, subd. 2	270C.88, subd. 2	Orders; decisions.	Subd. 2. [Only official actions of county board or other agency acted upon.] Shortens reference to commissioner. Substitutes reference to department employees and agents for outmoded reference to "members" of the department.
96	270.11, subd. 2	270C.89	County assessor's reports of assessment filed with commissioner.	Subd. 1. [Initial report.] Subd. 2. [Final report.] Shortens references to commissioner.
97	270.14	270C.90	County auditor to calculate tax rate.	Adds reference to state board of equalization to clarify that tax base includes adjustments made by the state board of equalization. Shortens reference to commissioner.
98	270.13	270C.91	Record of proceedings changing gross tax	Substitutes reference to "net tax capacity" for each reference

BILL SECTION	CURRENT LAW CITE	NEW CITE	TITLE/SUBJECT OF SECTION	ACTION TAKEN IN RECODIFICATION
			capacity; duties of county auditor.	to "gross tax capacity" consistent with global language updates required in 1988. <i>See</i> Minn. Laws 1988, ch. 719, art. 5, sec. 84. Substitutes references to newly defined term "person" for references to "individuals, copartnerships, associations, or corporations." Shortens reference to commissioner. Corrects internal cross reference.
99	270.11, subd. 5	270C.92, subd. 1	Improper or negligent administration of property tax laws.	Subd. 1. [Examination of complaints; proceedings.] Substitutes newly defined phrase "property tax laws" for "taxing of the state." Simplifies language.
99	270.11, subd. 6	270C.92, subd. 2	Improper or negligent administration of property tax laws.	Subd. 2. [Change of market value.] Clarifies scope by specifying authority as "in the administration of the property tax laws." Substitutes references to newly defined term "person" for references to "individuals, copartnership, company, association, or corporation." Shortens reference to commissioner.
99	270.11, subd. 7	270C.92, subd. 3	Improper or negligent administration of property tax laws.	Subd. 3. [Appearances before the commissioner.] Corrects internal cross references. Shortens reference to commissioner.
100	270.19	270C.921	Municipality may be party to tax hearing.	Adds cross reference to section 270C.92 to specify what proceedings the provision applies to. Adds cross reference to section 270C.921 to 270C.928 to specify what sections the defined term "municipality" applies to. Simplifies language. Shortens reference to commissioner.
101	270.20	270C.922	Municipalities may request tax hearings.	Adds cross reference to hearing "under section 270C.92" to specify what proceedings the provision applies to. Simplifies language. Shortens reference to commissioner.
102	270.21	270C.923	Witnesses summoned.	Adds cross reference to section 270C.92 to specify what proceedings the provision applies to. Shortens reference to commissioner. Shortens reference to commissioner. Other minor language changes to improve readability.
103	270.22	270C.924	Findings of fact; appeals.	Divides the provisions into 3 subdivisions to improve readability. Adds cross reference to "hearing before the commissioner held under section 270C.92" to specify what proceedings the provisions apply to. Substitutes newly defined phrase "property tax laws" for reference to "laws relating to the assessment of property." Shortens references to commissioner.
104	270.23	270C.925	Notice of appeal.	Adds cross reference to "determination made by the commissioner under section 270C.924" to specify what proceedings the provision applies to and eliminates

BILL SECTION	CURRENT LAW CITE	NEW CITE	TITLE/SUBJECT OF SECTION	ACTION TAKEN IN RECODIFICATION
				redundant references to commissioner. Shortens references to commissioner.
105	270.24	270C.926	Appeal does not stay collection.	Adds cross reference to sections 270C.924 and 270C.925 to specify what proceedings the provisions apply to. Shortens references to commissioner. Minor language changes for readability.
106	270.25	270C.927	Increase in net tax capacity; additional taxes.	Adds cross reference to "in a hearing before the commissioner under section 270C.92, or any appeal thereof" to specify what proceedings the provision applies to.
107	270.26	270C.928	Proceedings to determine net tax capacity.	Adds cross reference to section 270C.92 to 270C.927 to specify what proceedings the provision applies to. Simplifies language. Shortens reference to commissioner.
108	270.16, subd. 1	270C.94, subd. 1	Property omitted or undervalued; reassessment; appointment of special assessor.	Subd. 1. [Property omitted or undervalued.] Shortens references to commissioner. Simplifies language.
108	270.11, subd. 3	270C.94, subd. 2	Property omitted or undervalued; reassessment; appointment of special assessor.	Subd. 2. [Special assessors, deputies; reassessments.] Shortens reference to commissioner.
108	270.16, subds. 2	270C.94, subd. 3	Property omitted or undervalued; reassessment; appointment of special assessor.	Subd. 3. [Failure to appraise.] Shortens references to commissioner.
109	270.17	270C.95	Qualification of assessors; reassessment, how made.	Shortens reference to commissioner. Simplifies language.
110	270.18	270C.96	Reassessment; compensation; reimbursement by counties.	Corrects internal cross reference. Shortens references to commissioner and department.
111	270.11, subd. 4	270C.97	Omitted property.	Simplifies language.
112	270.485	270C.98	Senior accreditation.	Shortens reference to department.
113	270.494	270C.99	Certain townships and cities option to elect to reinstate the office of assessor.	No language changes.
114			Rules; effect of recodification.	Preserves existing rules and rulemaking authority.
115			Purpose and effect.	
116			Revisor instructions.	
117			Repealer.	
<b>Article 2. Conforming Provisions</b>				
				Corrects cross-references to this chapter found in other law.

# COMMITTEE REPORT - NO AMENDMENTS

Committee on TAXES

S. F. No. 1075

Resolution

Re-referred (from another committee)

**Committee recommendation:**

do pass.

do pass and be placed on the Consent Calendar.

do pass and be re-referred to the Committee on \_\_\_\_\_

**No recommendation:**

(be re-referred to the Committee on \_\_\_\_\_ )

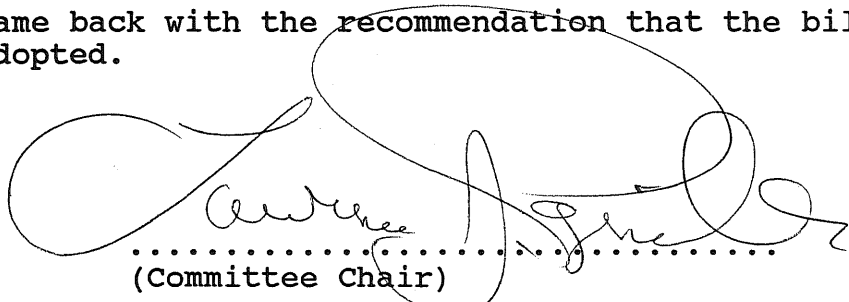
OR  (be reported to the Senate) .

April 7, 2005 (date of committee recommendation)

1 Senator Pogemiller from the Committee on Taxes, to which  
2 was referred

3 S.F. No. 1675: A bill for an act relating to taxation;  
4 recodifying and clarifying the powers of the commissioner of  
5 revenue; recodifying a criminal penalty; appropriating money;  
6 amending Minnesota Statutes 2004, sections 16D.08, subdivision  
7 2; 115B.49, subdivision 4; 239.785, subdivision 4; 256.9657,  
8 subdivision 7; 256.9792, subdivision 8; 273.11, subdivision 5;  
9 287.37; 289A.35; 289A.42, subdivision 1; 289A.60, subdivision  
10 13; 295.57, subdivision 1; 295.60, subdivision 7; 297A.64,  
11 subdivision 3; 297B.11; 297H.10, subdivision 1; 297I.10, by  
12 adding a subdivision; proposing coding for new law as Minnesota  
13 Statutes, chapter 270C; repealing Minnesota Statutes 2004,  
14 sections 270.01; 270.02; 270.021; 270.022; 270.04; 270.05;  
15 270.052; 270.058; 270.059; 270.06; 270.0601; 270.0602; 270.0603;  
16 270.0604; 270.0605; 270.061; 270.062; 270.063; 270.064; 270.065;  
17 270.066; 270.0665; 270.067; 270.068; 270.0681; 270.0682;  
18 270.069; 270.07; 270.084; 270.09; 270.10; 270.101; 270.102;  
19 270.11, subdivisions 2, 3, 4, 5, 6, 7; 270.13; 270.14; 270.15;  
20 270.16; 270.17; 270.18; 270.19; 270.20; 270.21; 270.22; 270.23;  
21 270.24; 270.25; 270.26; 270.27; 270.271; 270.272; 270.273;  
22 270.274; 270.275; 270.276; 270.277; 270.278; 270.30; 270.485;  
23 270.494; 270.60; 270.65; 270.652; 270.66; 270.67; 270.68;  
24 270.69; 270.691; 270.70; 270.7001; 270.7002; 270.701; 270.702;  
25 270.703; 270.704; 270.705; 270.706; 270.707; 270.708; 270.709;  
26 270.71; 270.72; 270.721; 270.73; 270.74; 270.75; 270.76;  
27 270.771; 270.78; 270.79; 287.39; 289A.07; 289A.13; 289A.31,  
28 subdivisions 3, 4, 6; 289A.36; 289A.37, subdivisions 1, 3, 4, 5;  
29 289A.38, subdivision 13; 289A.43; 289A.65; 290.48, subdivisions  
30 3, 4; 290.92, subdivisions 6b, 22, 23; 290.97; 296A.20;  
31 296A.201; 296A.25; 297A.86; 297A.93; 297D.14; 297E.08; 297E.09;  
32 297E.12, subdivision 10; 297E.15; 297F.15, subdivisions 1, 2, 3,  
33 4, 5, 6, 7, 8; 297F.16; 297F.22; 297G.14, subdivisions 1, 2, 3,  
34 4, 5, 6, 7, 8; 297G.15; 297G.21; 297I.45; 297I.50; 297I.55;  
35 297I.95.

36 Reports the same back with the recommendation that the bill  
37 do pass. Report adopted.

38  
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40   
41 .....  
42 (Committee Chair)

43 April 7, 2005.....  
44 (Date of Committee recommendation)



Agenda #2

Senators Rosen, Ruud, Vickerman, Skoe and Langseth introduced--  
S.F. No. 1312: Referred to the Committee on Taxes.

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A bill for an act

relating to local government aids; changing the aid  
formula for certain cities; amending Minnesota  
Statutes 2004, section 477A.011, subdivision 34.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2004, section 477A.011,  
subdivision 34, is amended to read:

Subd. 34. [CITY REVENUE NEED.] (a) For a city with a  
population equal to or greater than 2,500, "city revenue need"  
is the sum of (1) 5.0734098 times the pre-1940 housing  
percentage; plus (2) 19.141678 times the population decline  
percentage; plus (3) 2504.06334 times the road accidents factor;  
plus (4) 355.0547; minus (5) the metropolitan area factor; minus  
(6) 49.10638 times the household size.

(b) For a city with a population less than 2,500, "city  
revenue need" is the sum of (1) 2.387 times the pre-1940 housing  
percentage; plus (2) 2.67591 times the commercial industrial  
percentage; plus (3) 3.16042 times the population decline  
percentage; plus (4) 1.206 times the transformed population;  
minus (5) 62.772.

(c) For a city with a population of 2,500 or more and a  
population in one of the most recently available five years that  
was less than 2,500, "city revenue need" is the sum of (1) its  
city revenue need calculated under paragraph (a) multiplied by  
its transition factor; plus (2) its city revenue need calculated

1 under the formula in paragraph (b) multiplied by the difference  
2 between one and its transition factor. For purposes of this  
3 paragraph, a city's "transition factor" is equal to 0.2  
4 multiplied by the number of years that the city's population  
5 estimate has been 2,500 or more. This provision only applies  
6 for aids payable in calendar years 2006 to 2008 to cities with a  
7 2002 population of less than 2,500. It applies to any city for  
8 aids payable in 2009 and thereafter.

9 (d) The city revenue need cannot be less than zero.

10 ~~(d)~~ (e) For calendar year 2005 and subsequent years, the  
11 city revenue need for a city, as determined in paragraphs (a)  
12 to ~~(c)~~ (d), is multiplied by the ratio of the annual implicit  
13 price deflator for government consumption expenditures and gross  
14 investment for state and local governments as prepared by the  
15 United States Department of Commerce, for the most recently  
16 available year to the 2003 implicit price deflator for state and  
17 local government purchases.

18 [EFFECTIVE DATE.] This section is effective beginning with  
19 aids payable in 2006.

# MINNESOTA REVENUE

## PROPERTY TAX Local Government Aid - Formula Modification

February 10, 2005

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

Department of Revenue  
Analysis of H.F. 835 (Cornish)/ S.F. 1312 (Ruud)

	<b>Fund Impact</b>			
	<b>F.Y. 2006</b>	<b>F.Y. 2007</b>	<b>F.Y. 2008</b>	<b>F.Y. 2009</b>
		(000's)		
General Fund	\$0	\$0	\$0	\$0

Effective beginning with aids payable in 2006.

### EXPLANATION OF THE BILL

For determining local government aid, the bill creates a third revenue need formula for cities with a current population of 2,500 or more and a population in one of the most recently available five years that was less than 2,500. Current law provides one revenue need formula for cities with population of 2,500 or more and another revenue need formula for cities less than 2,500. The new revenue need calculation creates a transition factor to prorate the application of the current law formulas. The transition factor is equal to 0.2 multiplied by the number of years that the city's population estimate has been 2,500 or more. The new revenue need formula for eligible cities is equal to the sum of:

- (1) the transition factor multiplied by the revenue need formula for cities with population of 2,500 or more, plus
- (2) the difference between one and the transition factor multiplied by the revenue need formula for cities with population less than 2,500.

For aids payable in 2006 to 2008, this provision applies only to cities with a 2002 population of less than 2,500. It applies to any city for aids payable in 2009 and thereafter.

### REVENUE ANALYSIS DETAIL

- There is no state cost associated with this change to the city revenue need formula because total aid is set to a fixed appropriation level. A change in the revenue need factor affects the distribution of aid among cities.
- There are four cities with a 2002 population less than 2,500 and a 2003 population of 2,500 or more: Lake Crystal, Wells, Rush City, and Cohasset.

**Number of Taxpayers:** 853 cities eligible to receive local government aid.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)

# 2005 Minnesota State and Local Tax Incidence Presentation

- Analysis for 2002
- Trends 1990 - 2002
- Estimates for 2007

**Senate Tax Committee**  
**April 7, 2005**

**MINNESOTA · REVENUE**

A full copy of the study can be found on our website at  
[http://www.taxes.state.mn.us/taxes/legal\\_policy/research\\_reports/research\\_reports.shtml](http://www.taxes.state.mn.us/taxes/legal_policy/research_reports/research_reports.shtml)

Agenda #3

# Report Includes

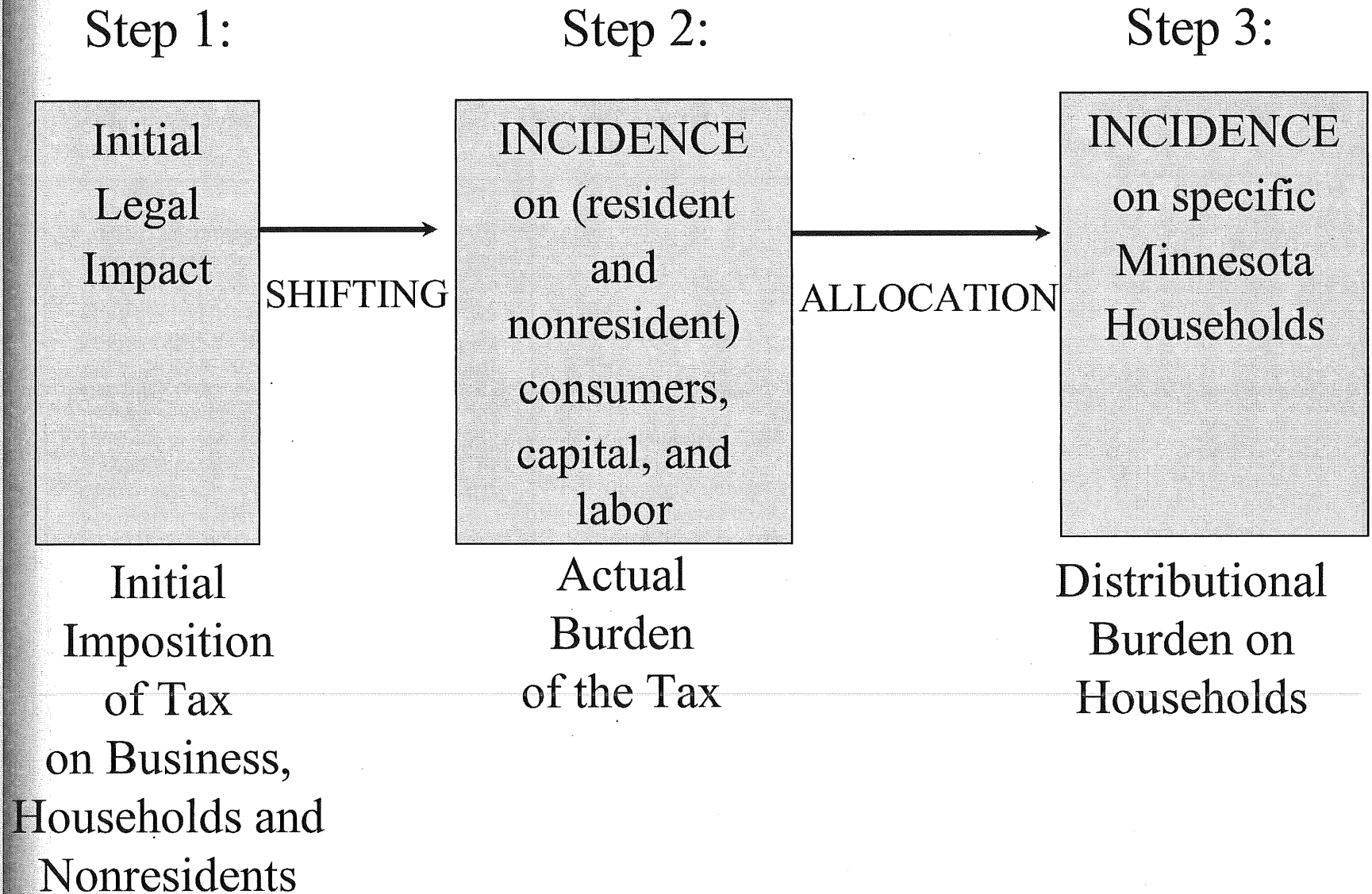
- Base Updated for 2002
- Estimates for 2007
- Industry Detail
- Effective Tax Rates by Industry
- Minnesota and Exported Tax Amounts
- Distributional Analysis by Tax Type

# Minnesota State and Local Tax Collections in 2002 (\$ Millions)

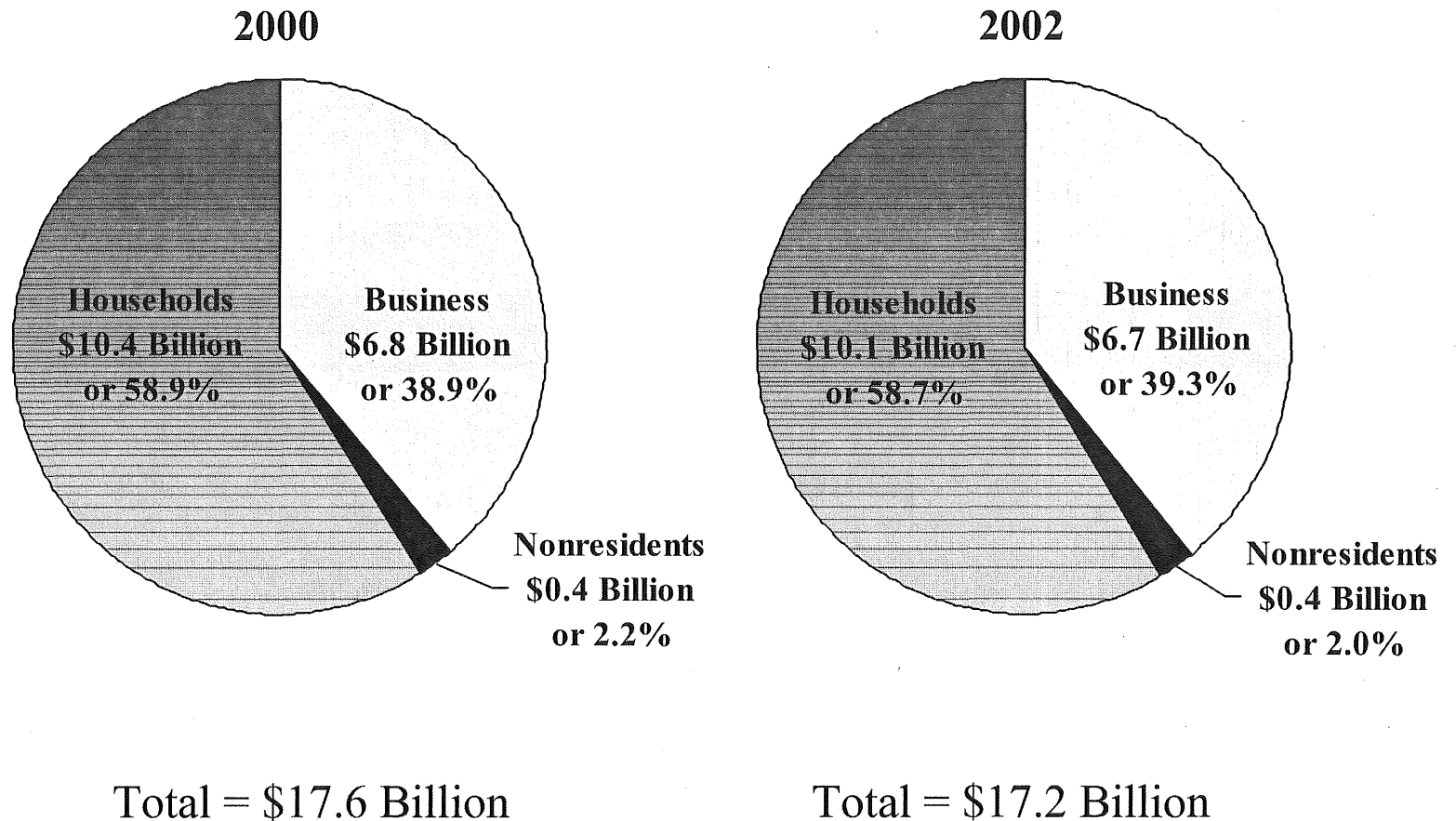
State		Local		Total State and Local
<b>Included</b>		<b>Included</b>		<b>Included</b>
Individual income tax	\$5,408	Gross property taxes (after credits)		
Corporate franchise tax	560	Homestead property taxes	\$1,936	
Estate tax	97	Property taxes on second home	84	
General sales and use tax	3,829	Rental property taxes (residential)	416	
Motor vehicle sales tax	609	Other business property taxes		
Motor fuels excise taxes	632	(including farming and taconite)	<u>1,634</u>	
Alcoholic beverage excise taxes	61			
Cigarette & tobacco excise taxes	178	Subtotal	\$4,071	
Insurance premiums tax	202			
Gambling taxes	57	Sales taxes	114	
MinnesotaCare taxes	191	Gross earnings taxes	45	
Motor vehicle registration tax	483			
Mortgage and deed taxes	263			
Waste taxes	56			
State property taxes	585			
Property tax refunds	<u>-268</u>			
Total	\$12,945	Total	\$4,229	\$17,174
<b>Omitted</b>		<b>Omitted</b>		<b>Omitted</b>
Controlled substances tax		Tree growth tax		
Airflight property tax		Auxiliary forest tax		
Aircraft registration tax		Contamination tax		
Rural electric cooperatives tax		Severed mineral interests tax		
Metropolitan solid waste landfill fee		Unmined taconite tax		
		Local gambling tax		
Total	\$19	Total	\$4	\$28
<b>Total Tax Collections</b>	<b>\$12,964</b>	<b>Total Tax Collections</b>	<b>\$4,233</b>	<b>Total Tax Collections</b> <b>\$17,197</b>

Based on Nov. 2004 Economic Forecast, MN Department of Finance

# Estimating Tax Incidence



# Step 1: Tax Imposed on Business, Households and Nonresidents





# Step 1: Tax Imposed on Business, (Cont.) Households and Nonresidents

## 2002 State and Local (\$ Millions)

Tax Type	Households	Percent	Business	Percent	Nonresidents	Percent
Individual Income	\$5,229	52%	-	-	\$178	51%
Corporate Income	-	-	\$560	8%	-	-
Sales	2,415	24%	1,988	29%	150	43%
Property (Net)	1,758	17%	2,608	39%	22	6%
Other	679	7%	1,587	24%	-	-
<b>Total</b>	<b>\$10,081</b>	<b>100%</b>	<b>\$6,743</b>	<b>100%</b>	<b>\$350</b>	<b>100%</b>

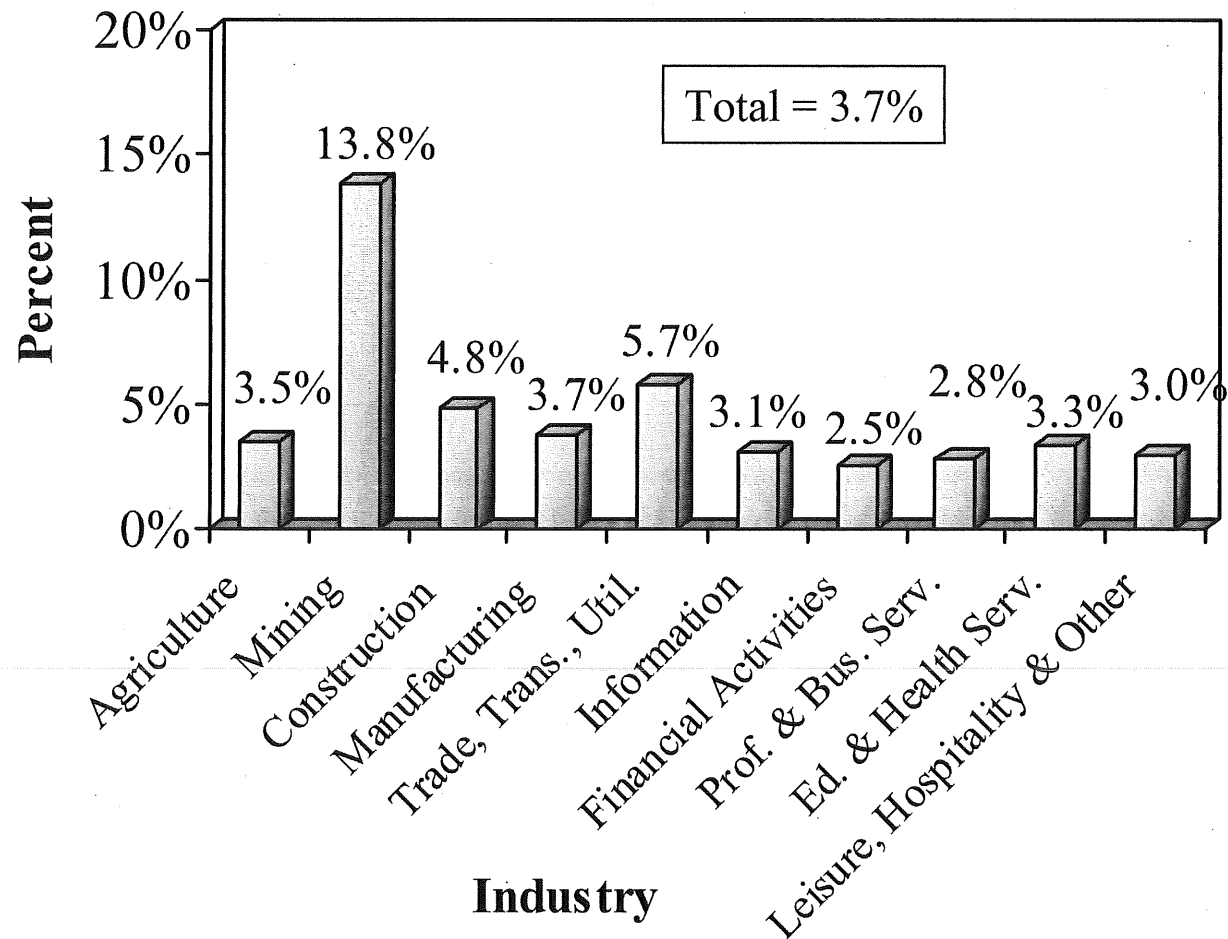
# Step 1: Tax Imposed on Business, (Cont.) Households and Nonresidents

## 2002 State and Local Business Taxes by Industry (\$ Millions)

Industry	Tax	Percent
Agriculture	\$277	4%
Mining	71	1%
Construction	479	7%
Manufacturing	791	12%
Trade, Transportation, Utilities	2,122	32%
Information	227	3%
Financial Activities	1,044	16%
Professional and Business Services	692	10%
Educational and Health Services	557	8%
Leisure, Hospitality and Other	338	5%
<b>Total Private</b>	<b>\$6,598</b>	<b>100%</b>

# Step 1: Tax Imposed on Business, (Cont.) Households and Nonresidents

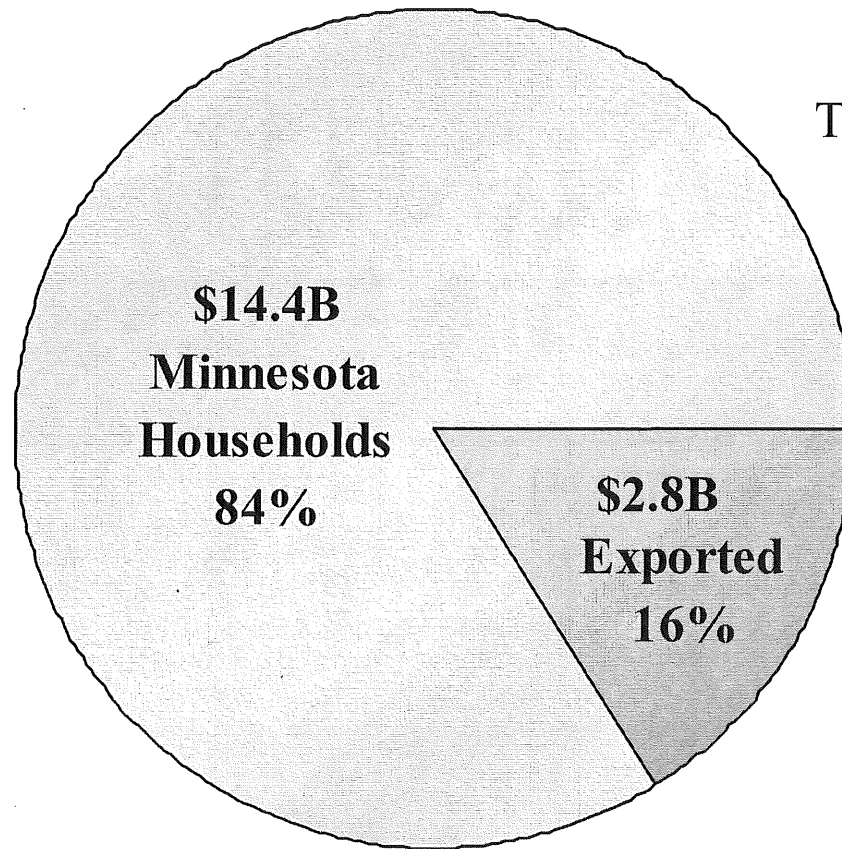
## Effective Tax Rates by Industry Taxes as a Percent of GSP - 2002



Based on Nov. 2004 Economic Forecast, MN Department of Finance

## Step 2: State and Local Tax Incidence after Shifting

**2002**



Total = \$17.2 Billion

## Step 2: State and Local Tax Incidence (Cont.) After Shifting

**2002**  
**(\$ Millions)**

<b>Tax Type</b>	<b>Minnesota Households</b>	<b>Percent</b>	<b>Exported</b>	<b>Percent</b>
Individual Income	\$5,229	36%	\$178	6%
Corporate Income	297	2%	263	10%
Sales	3,659	25%	779	28%
Property (Net)	3,181	22%	1,208	44%
Other	2,046	14%	334	12%
<b>Total</b>	<b>\$14,412</b>	<b>100%</b>	<b>\$2,762</b>	<b>100%</b>

# Step 3: Distributional Incidence by Minnesota Households

## Basis for Distributional Analysis

- Population Decile - Each decile = 10% of Minnesota households.
- Income Range - The beginning and ending income level associated with each decile.
- Household Income by Decile - Total income estimated for each 10% of Minnesota's household.

### Calendar Year 2002

Population Decile	Income Range	Number of Households	Household Income		Total Tax	
			\$'s Thousands	Percent*	\$'s Thousands	Percent*
First	\$8,354 & under	234,007	\$1,235,590	1.0%	\$224,628	1.6%
Second	\$8,355 - \$14,065	234,007	2,610,954	2.0%	275,307	1.9%
Third	\$14,066 - \$20,714	234,007	4,077,633	3.2%	410,613	2.8%
Fourth	\$20,715 - \$27,703	234,007	5,684,091	4.5%	625,419	4.3%
Fifth	\$27,704 - \$35,683	234,007	7,369,943	5.8%	839,596	5.8%
Sixth	\$35,684 - \$45,436	234,007	9,435,329	7.4%	1,127,018	7.8%
Seventh	\$45,437 - \$57,589	234,007	11,996,892	9.4%	1,440,840	10.0%
Eighth	\$57,590 - \$74,189	234,007	15,304,686	12.0%	1,808,250	12.5%
Ninth	\$74,190 - \$102,426	234,007	20,167,679	15.8%	2,354,894	16.3%
Tenth	\$102,427 & over	234,007	49,428,632	38.8%	5,305,799	36.8%
<b>TOTALS</b>		<b>2,340,070</b>	<b>\$127,311,429</b>	<b>100.0%</b>	<b>\$14,412,365</b>	<b>100.0%</b>

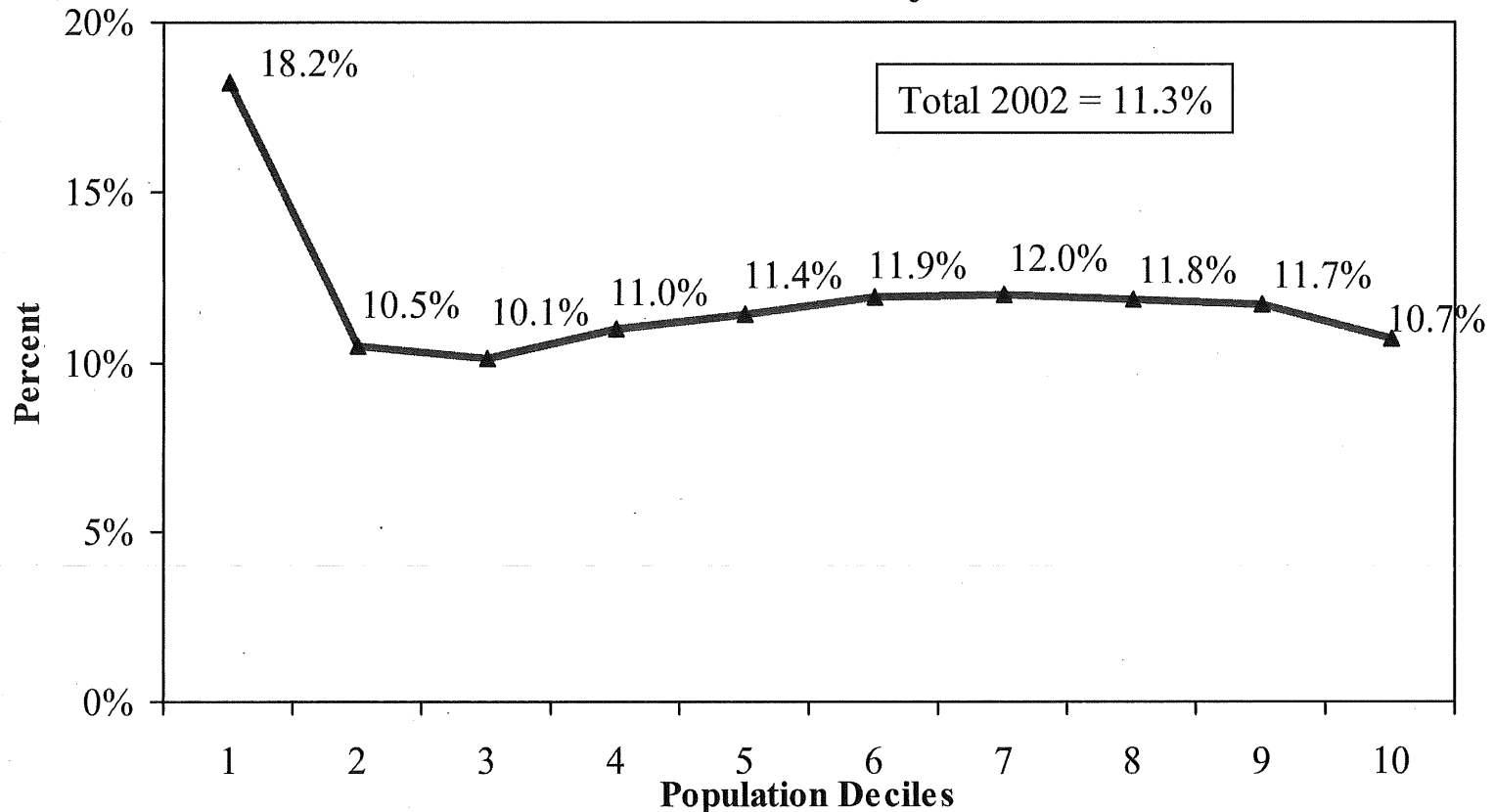
\*Percents are rounded.

Based on Nov. 2004 Economic Forecast, MN Department of Finance

## Step 3: Distributional Incidence by (Cont.) Minnesota Households

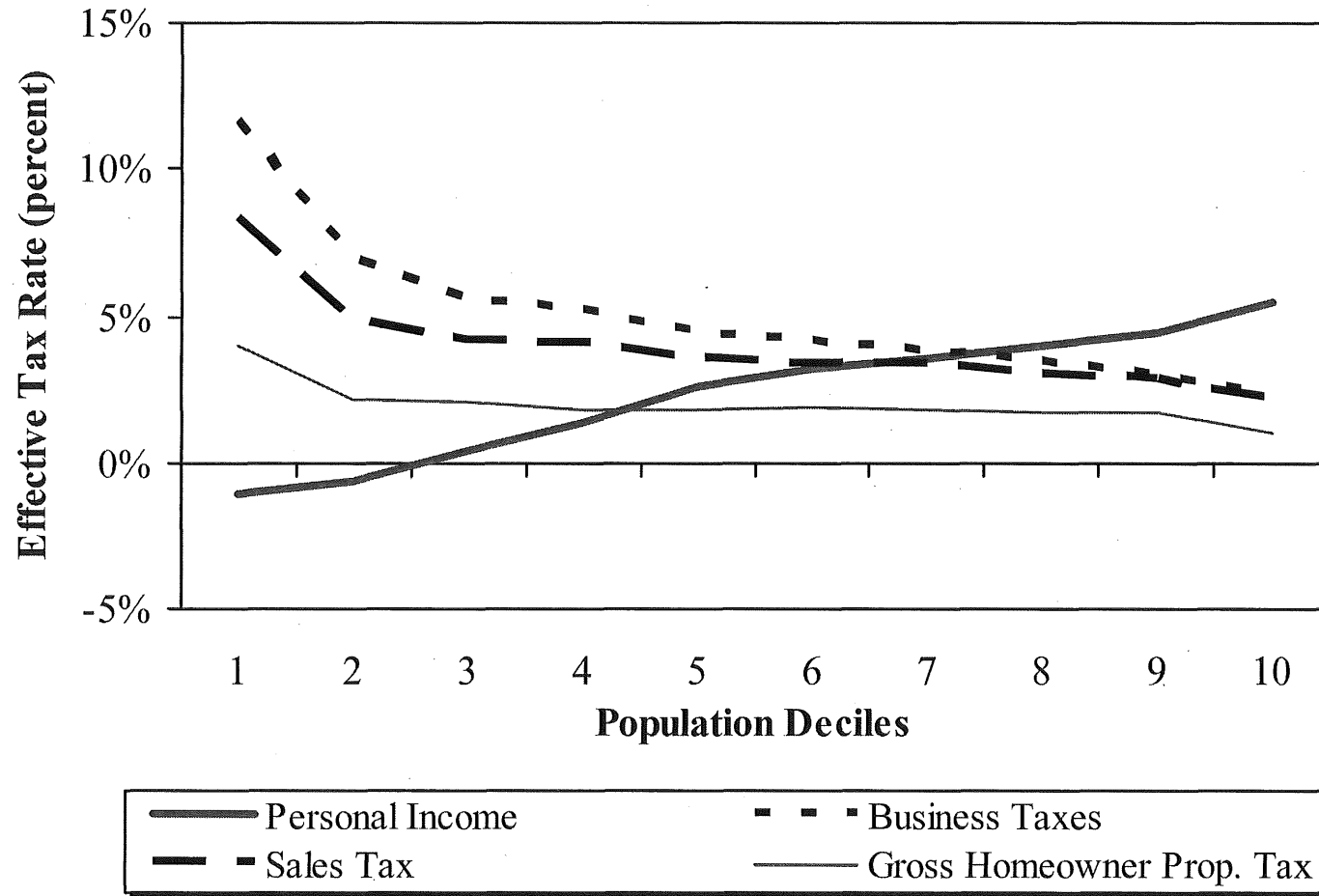
Final Step: The distributional incidence of each tax is estimated by decile and effective tax rates are calculated.

### Total Effective Tax Rate by Decile for 2002



# Step 3: Distributional Incidence by (Cont.) Minnesota Households

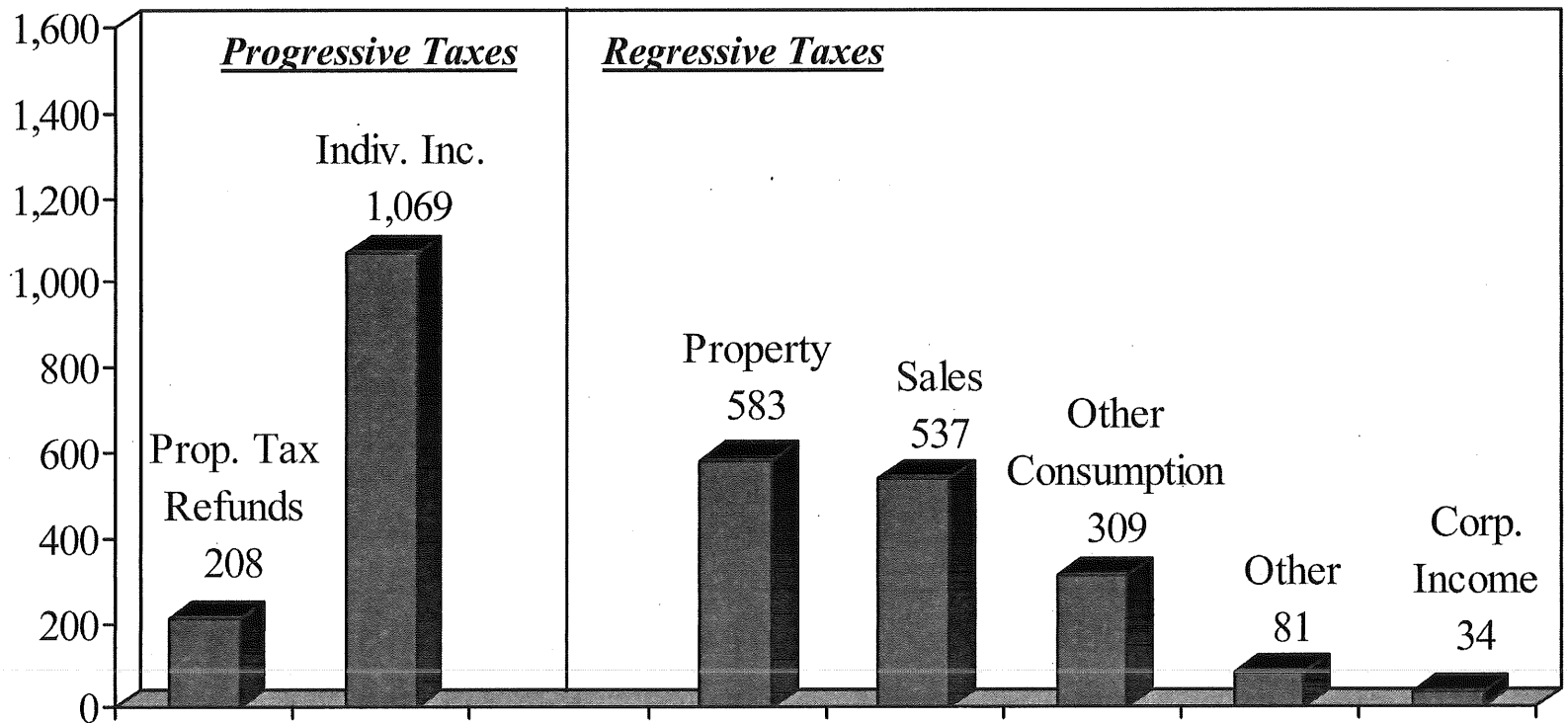
## Effective Tax Rates for 2002 by Population Decile





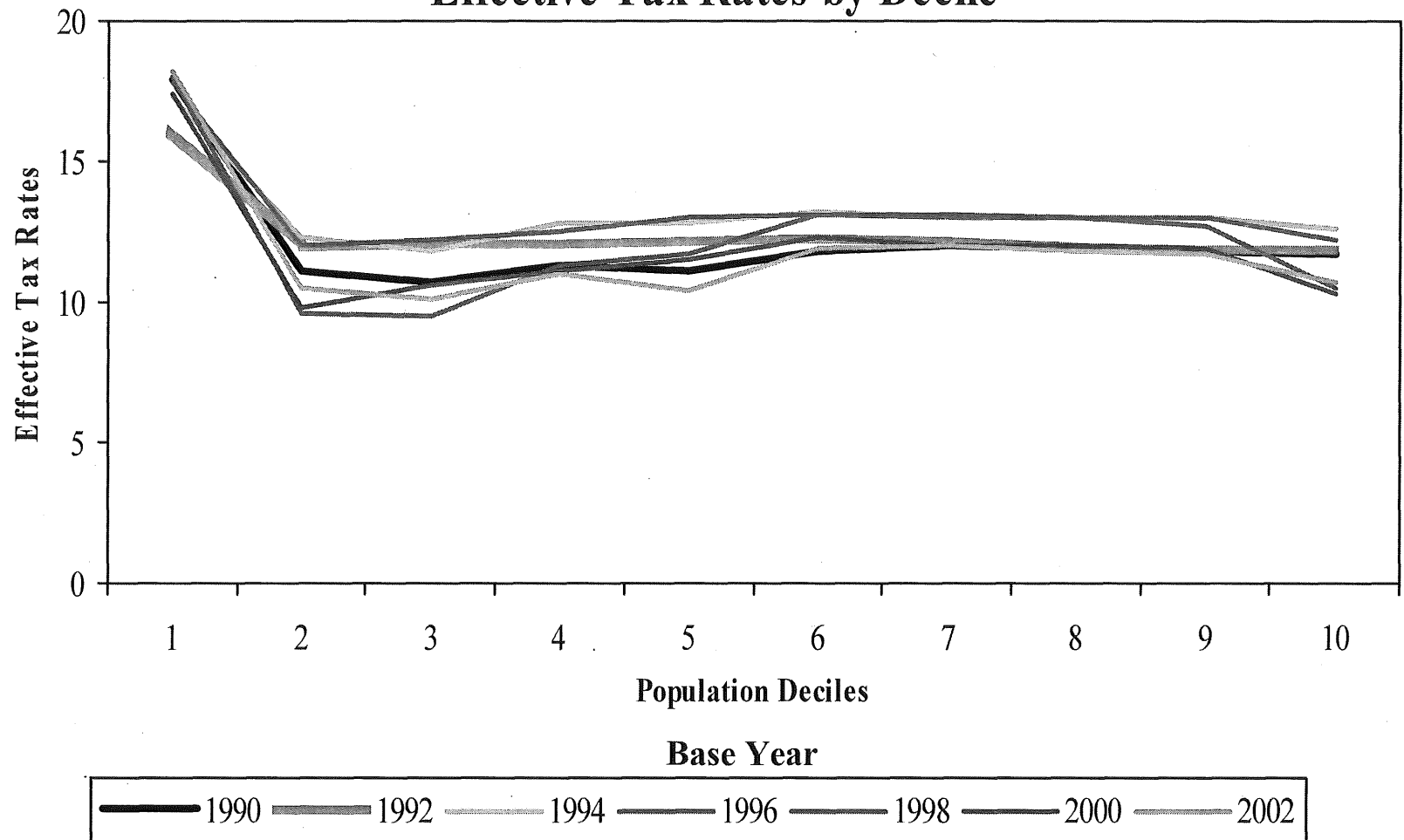
# Progressive/Regressive Taxes

## Contribution to Minnesota's Relative Proportional Tax System - 2002



# Step 3: Distributional Incidence by (Cont.) Minnesota Households

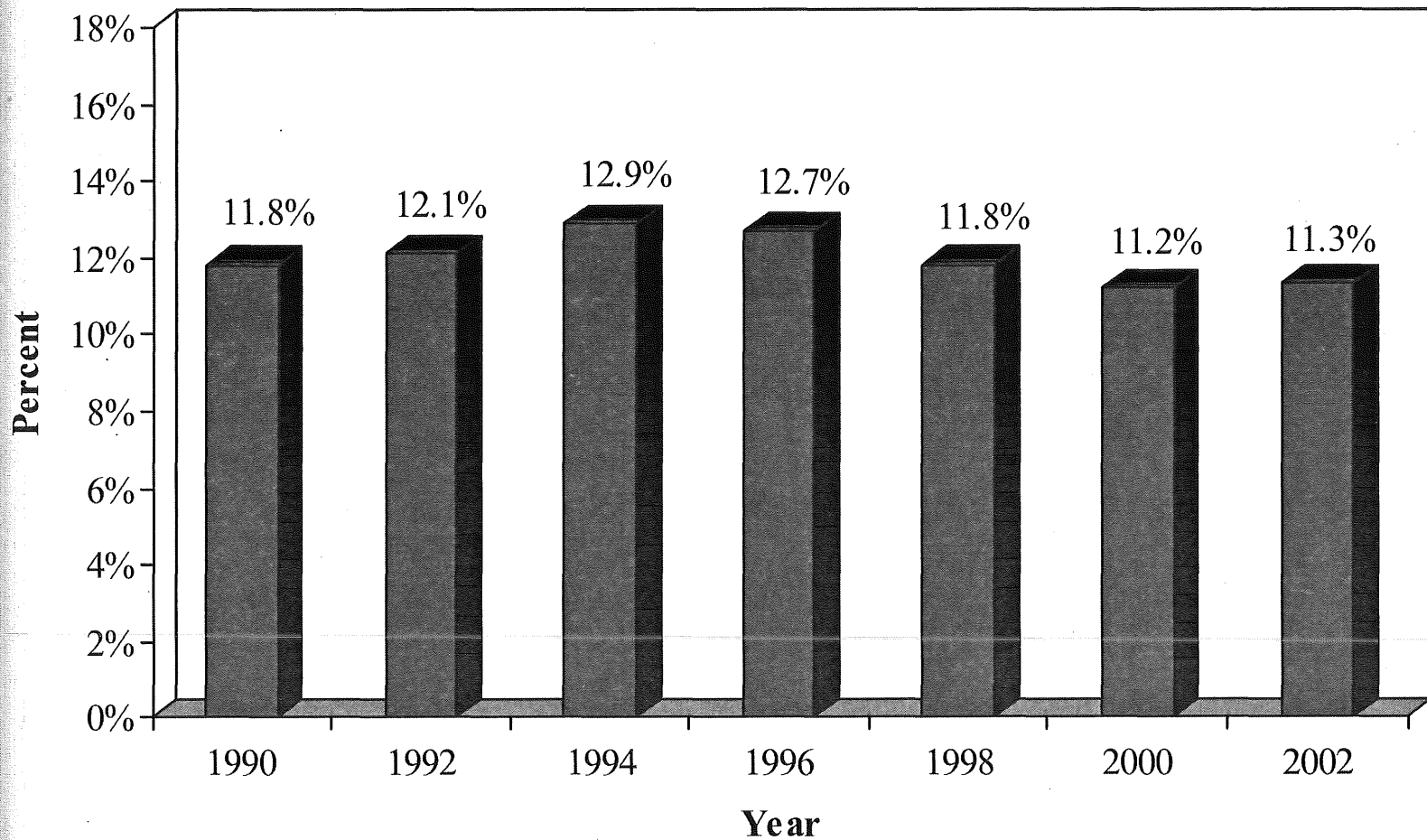
## History of Tax Incidence Effective Tax Rates by Decile



Based on Nov. 2004 Economic Forecast, MN Department of Finance

# Step 3: Distributional Incidence by (Cont.) Minnesota Households

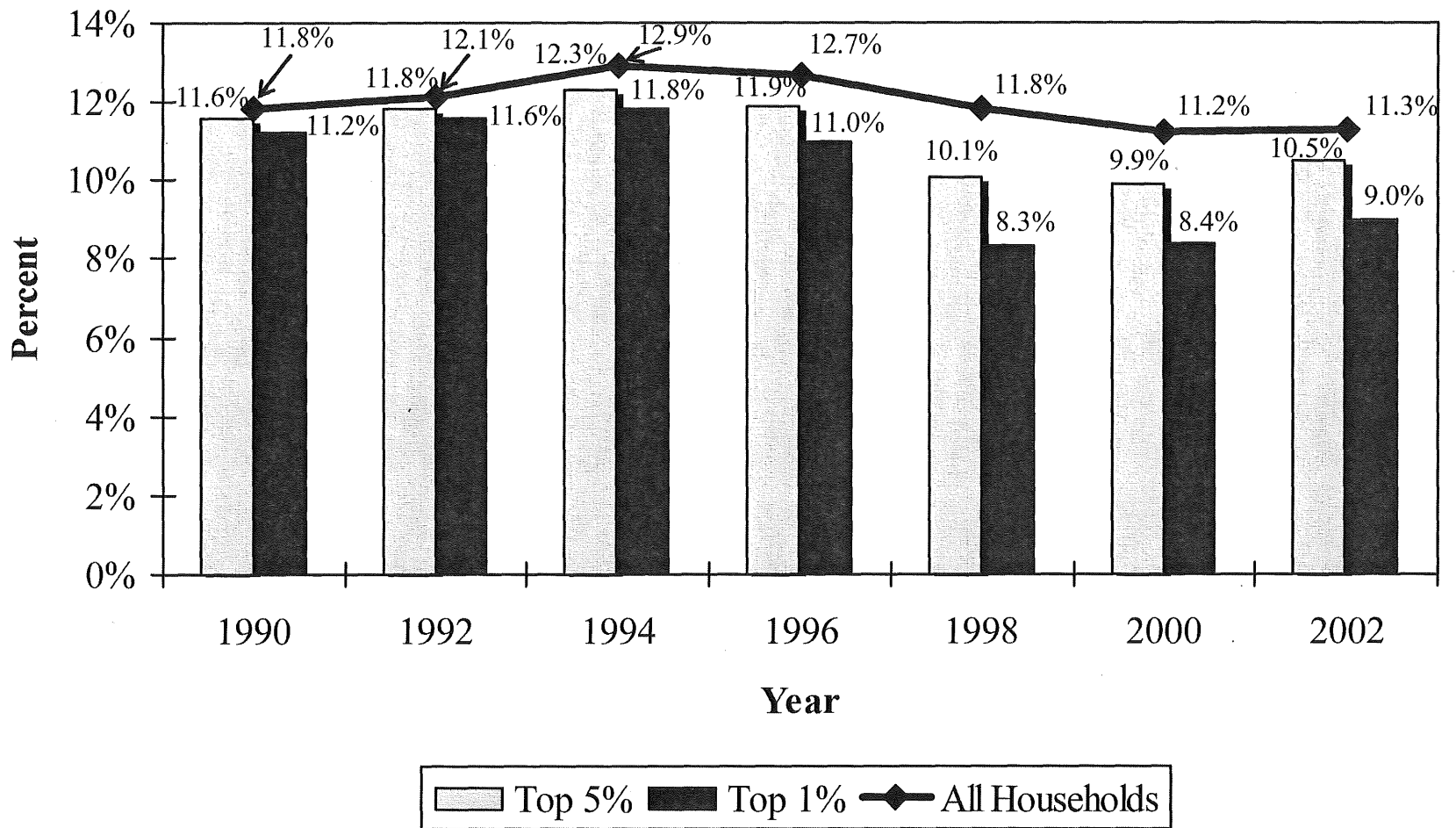
## History of Effective Tax Rates



Based on Nov. 2004 Economic Forecast, MN Department of Finance

# History of Effective Tax Rates

## Top 5% and Top 1% of Minnesota Households



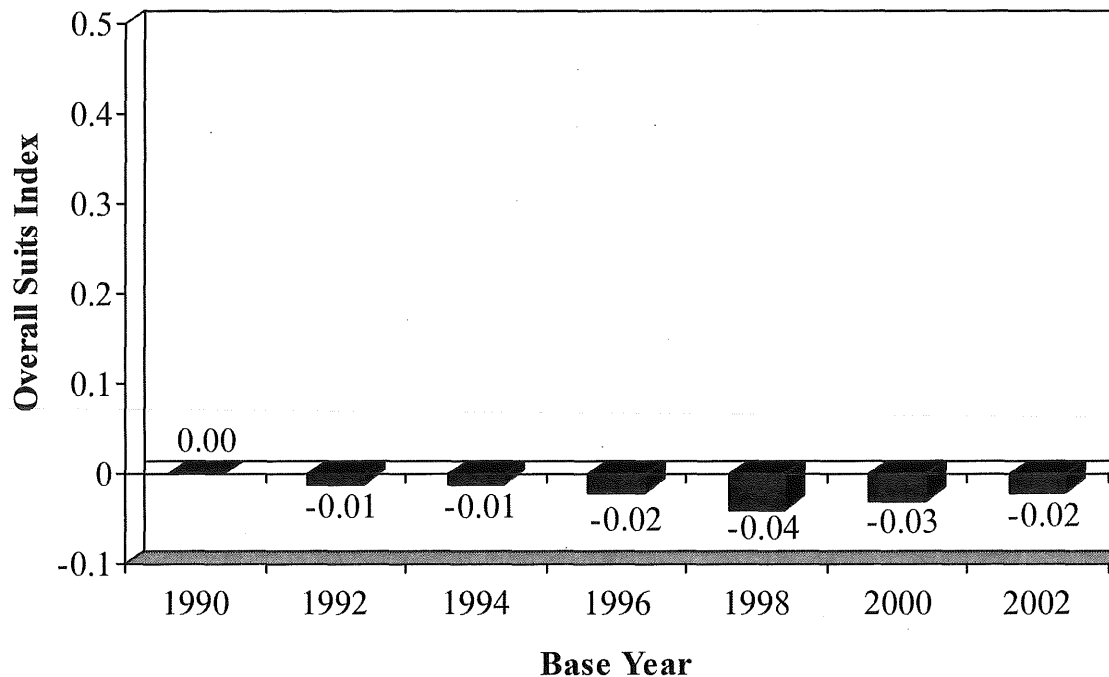
Based on Nov. 2004 Economic Forecast, MN Department of Finance

# Step 3: Distributional Incidence by (Cont.) Minnesota Households

Suits Index - A convenient way of comparing the degree of regressivity, progressivity or proportionality of a tax

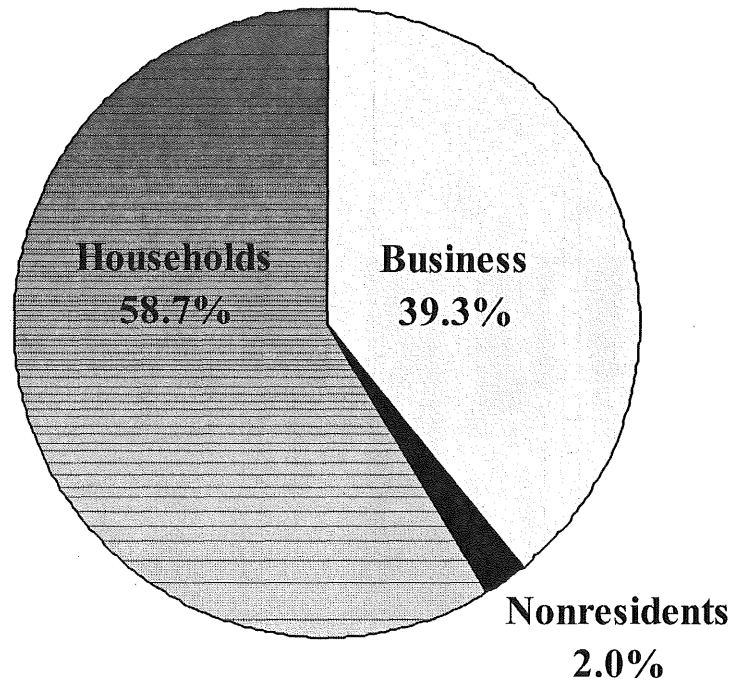
-1	0	+1
Perfectively Regressive All Paid by Lowest Income Group	Proportional	Perfectively Progressive All Paid by Highest Income Group

## History of Suits Index



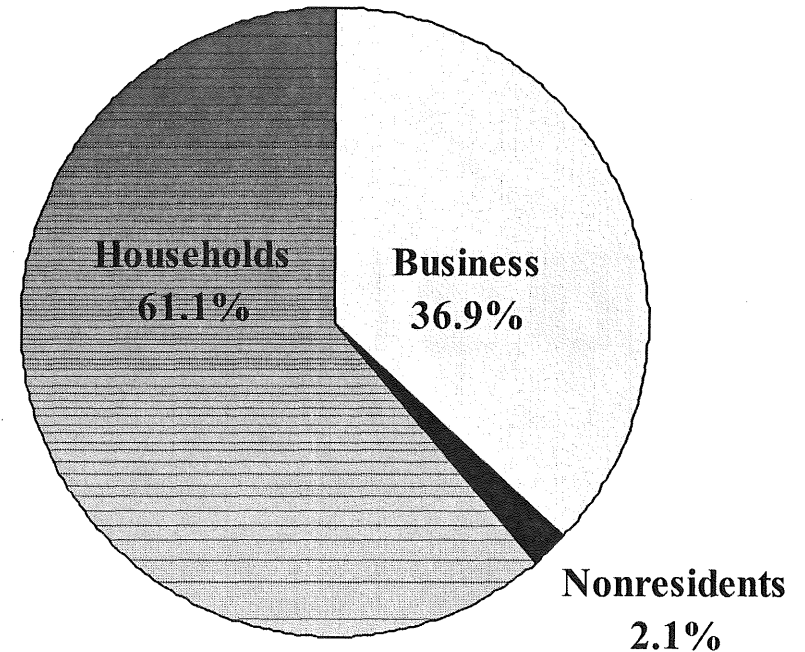
# Initial Burden

2002



Total \$17.2 Billion

2007



Total \$21.9 Billion

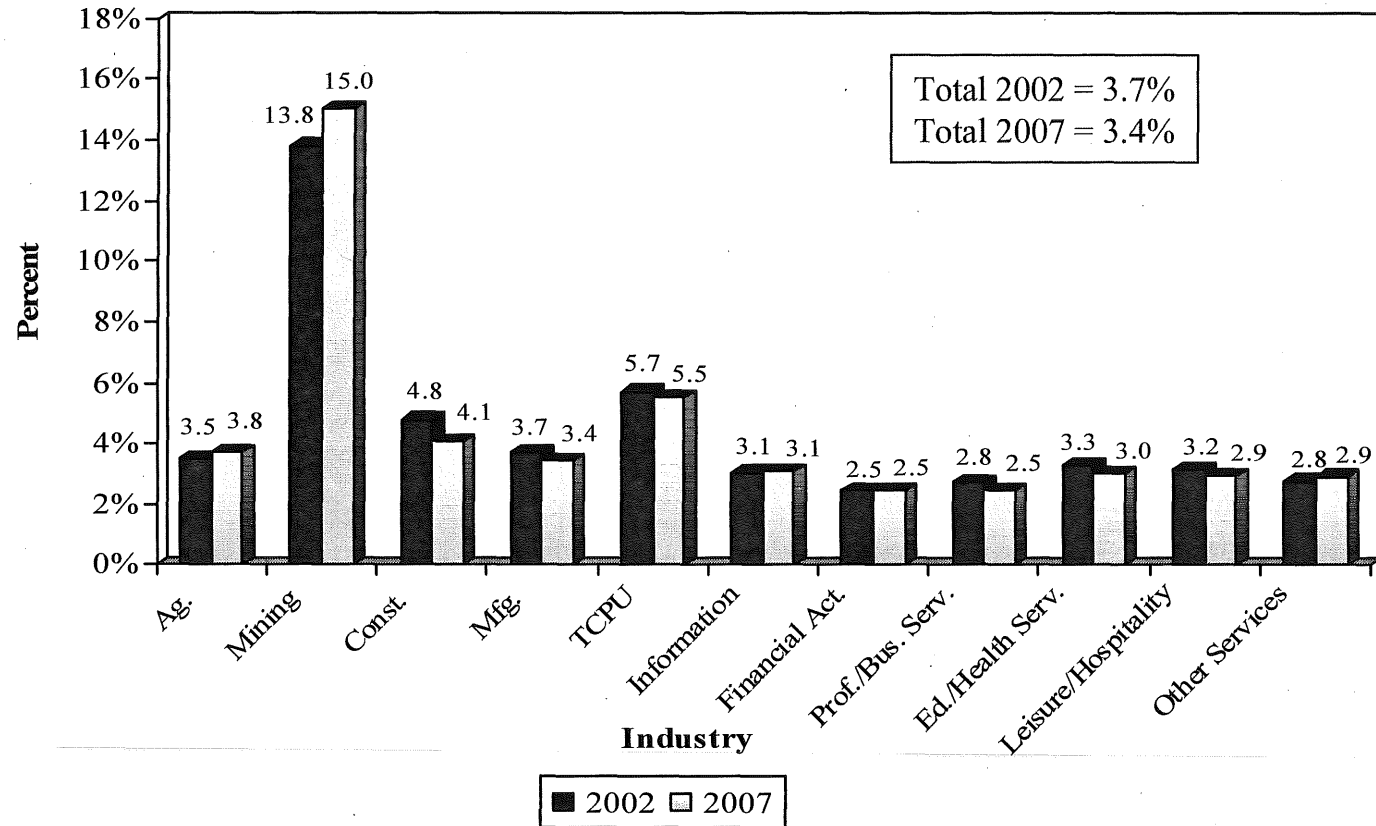
Main reasons for shift to households:

- State levy limited to inflation
- Property tax reflects rapid growth in residential market values.

# Change in Business Taxes by Industry

## Taxes as a Percent of Gross State Product

Effective Tax Rates for 2002 and 2007

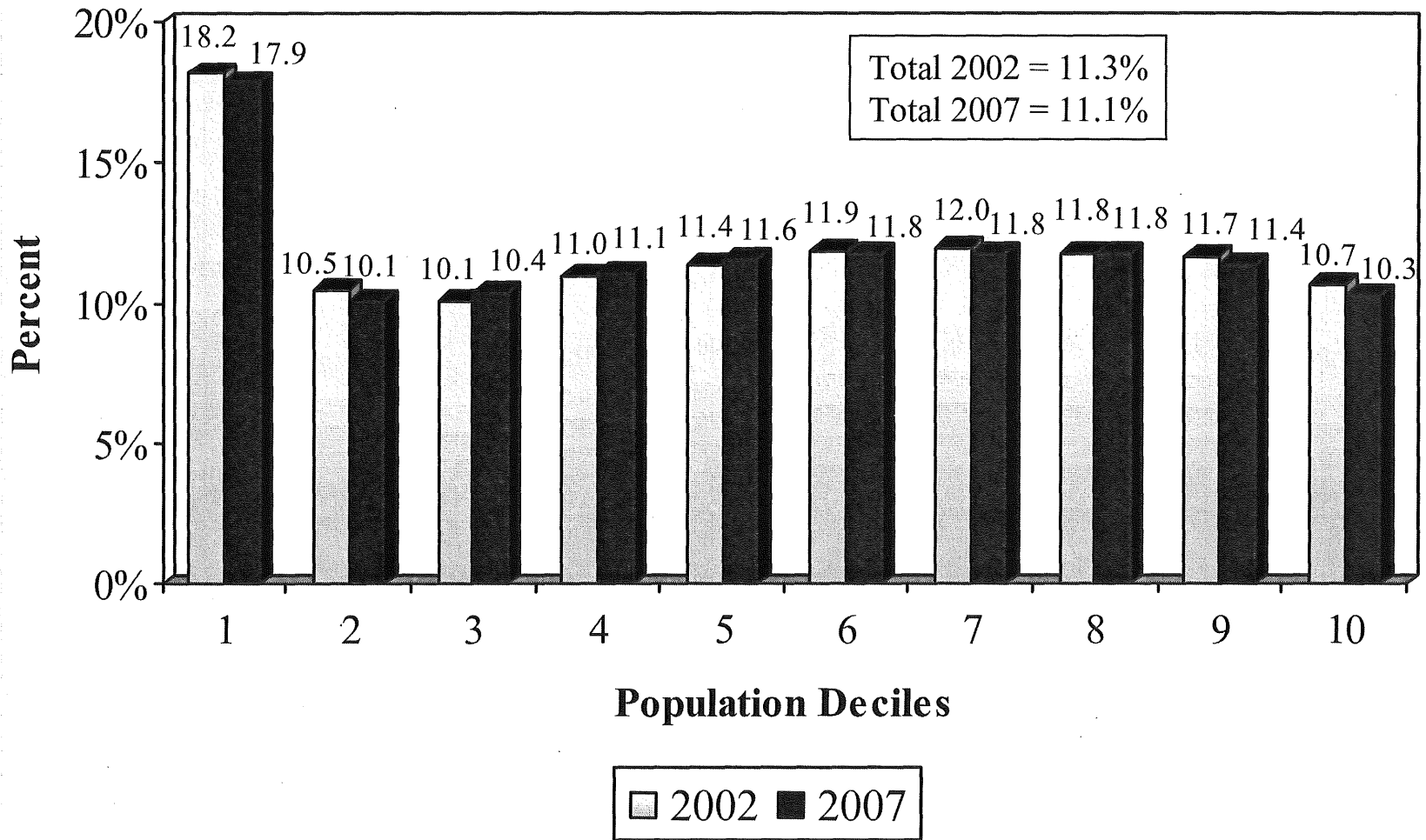


Reasons for change:

- Property tax state levy inflation only.
- Economic growth in direction of largely untaxed services.

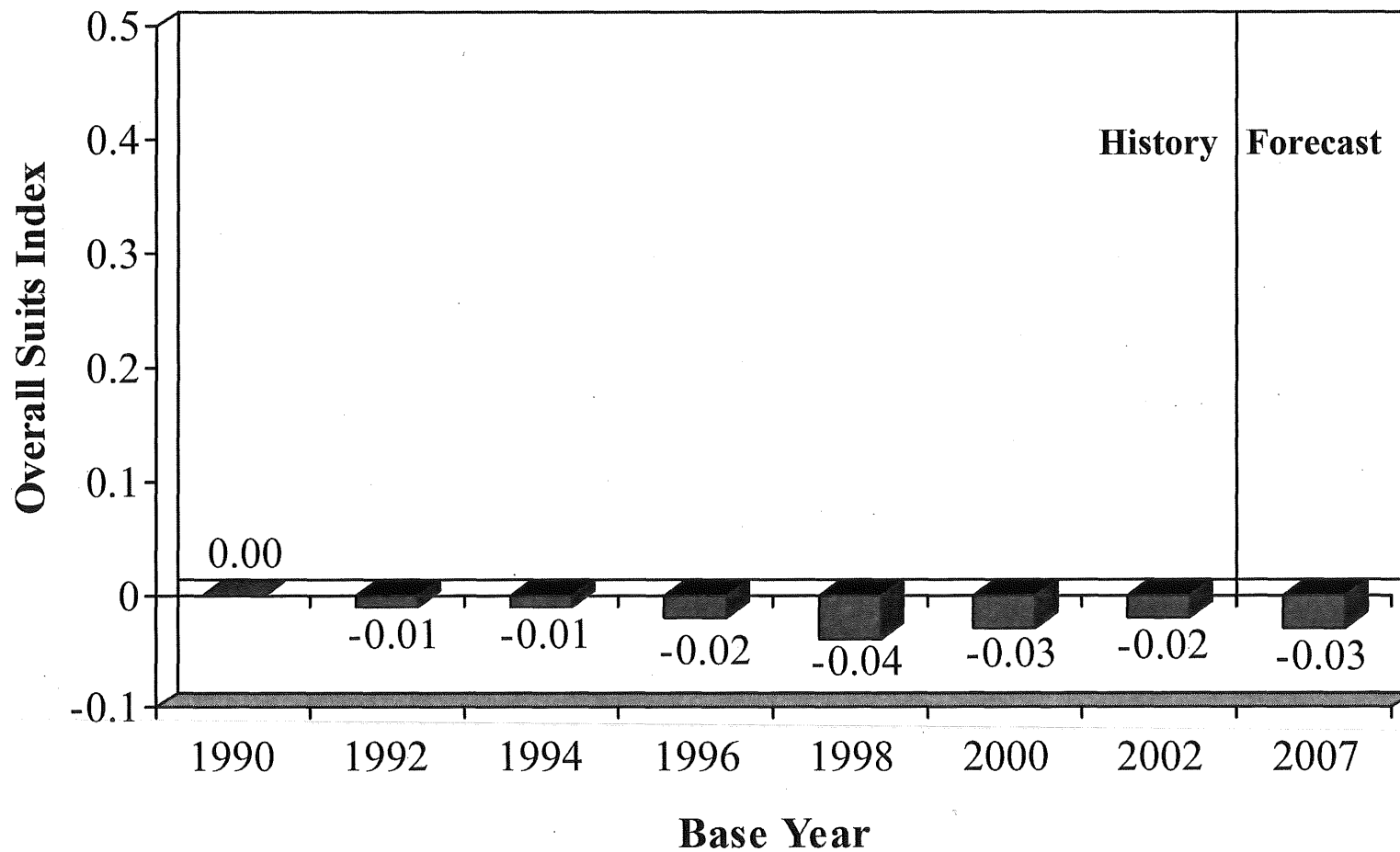
# Distributional Impacts

## Effective Tax Rates for 2002 and 2007





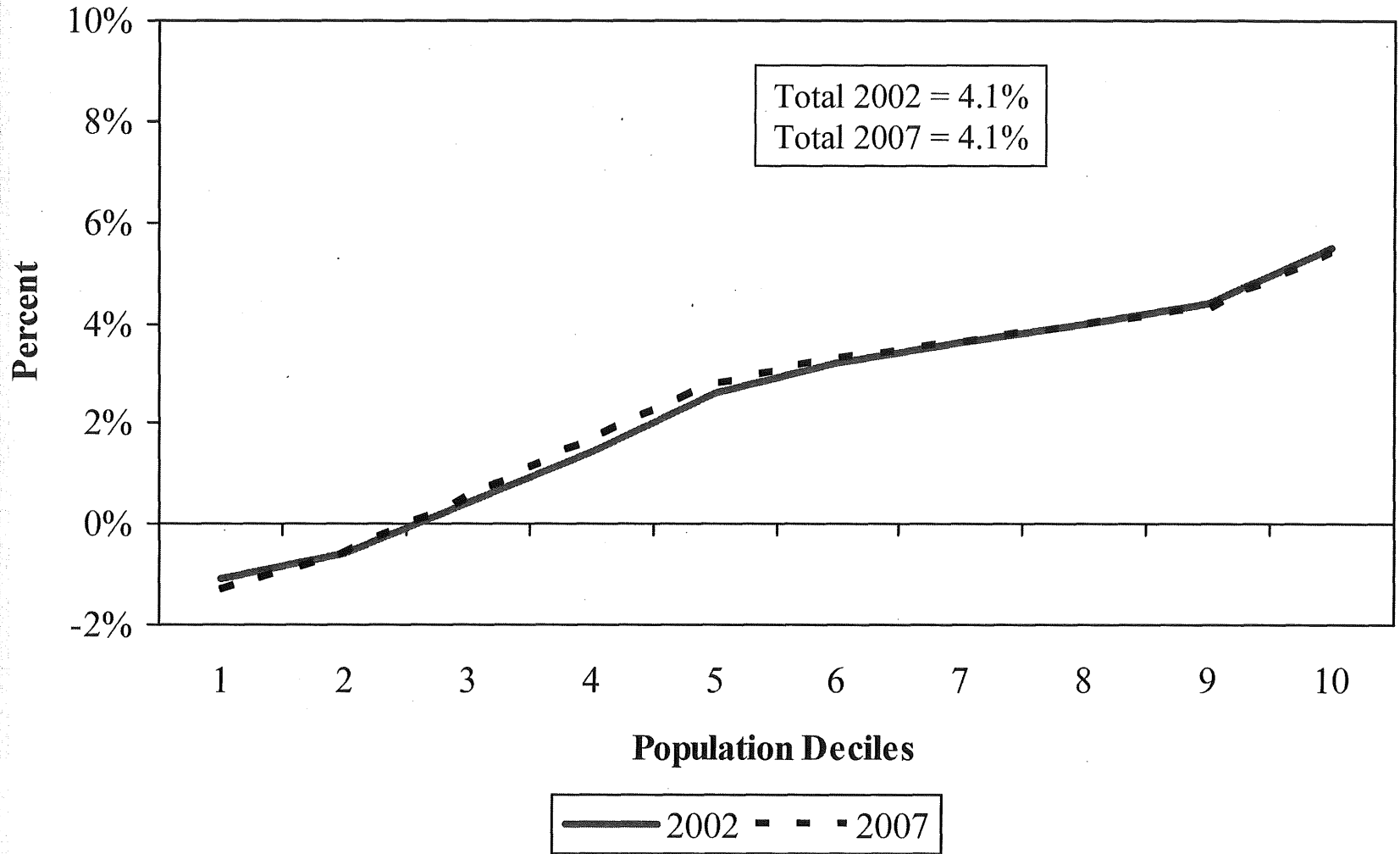
# History and Projection of Suits Index



Based on Nov. 2004 Economic Forecast, MN Department of Finance

# Individual Income Tax

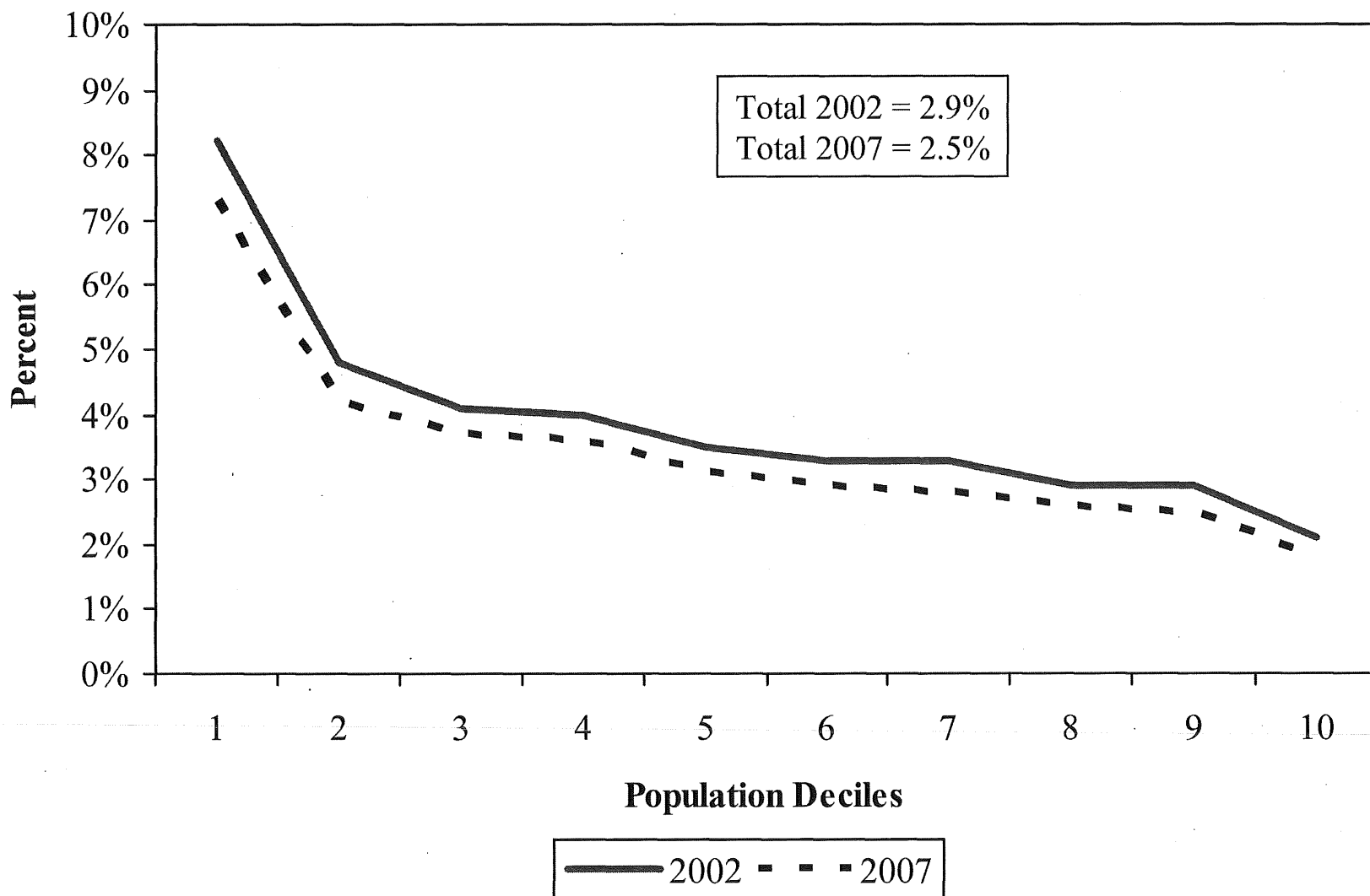
## Effective Tax Rates for 2002 and 2007



Based on Nov. 2004 Economic Forecast, MN Department of Finance

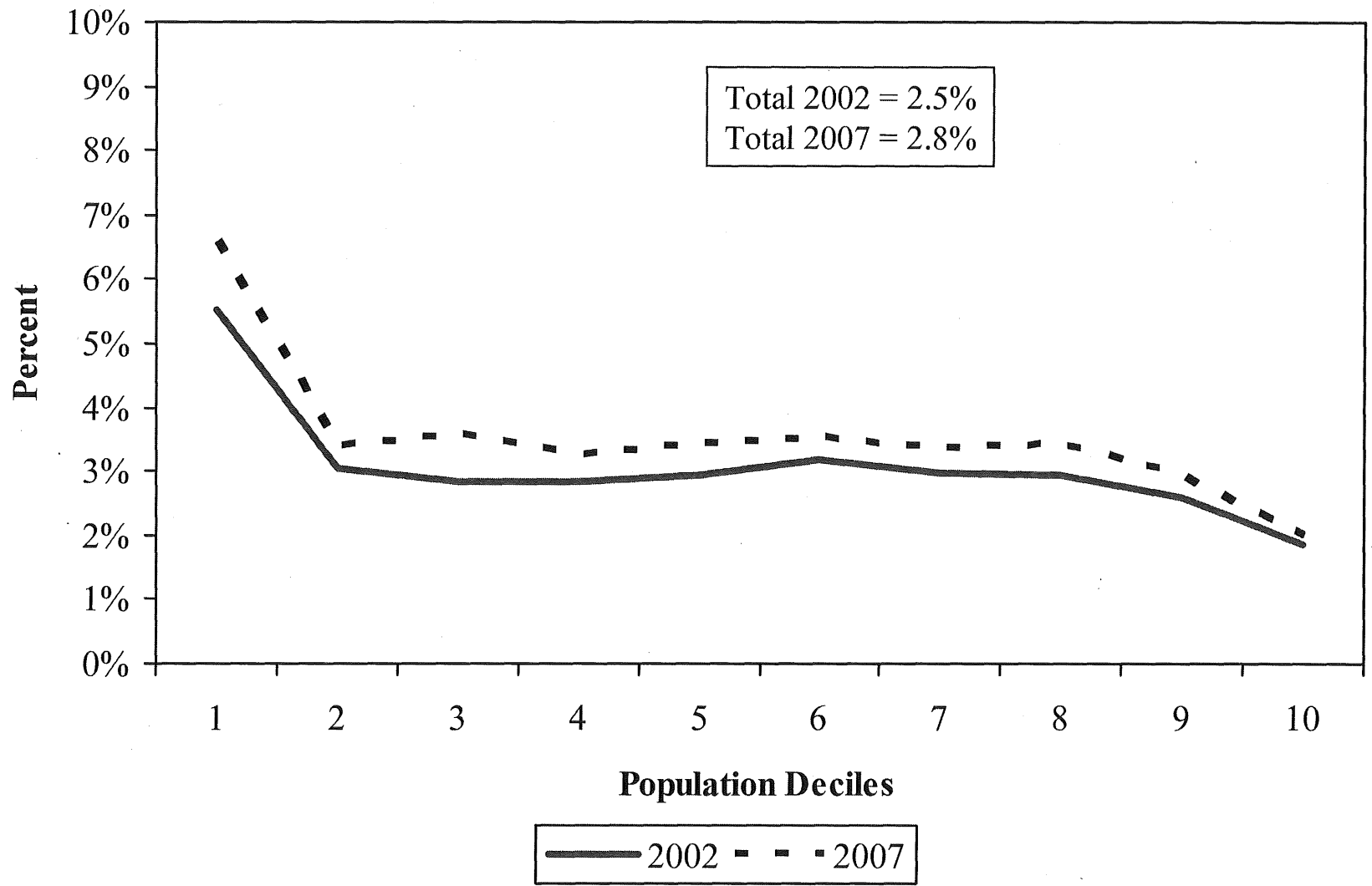
# Sales Tax, State Only

## Effective Tax Rates for 2002 and 2007



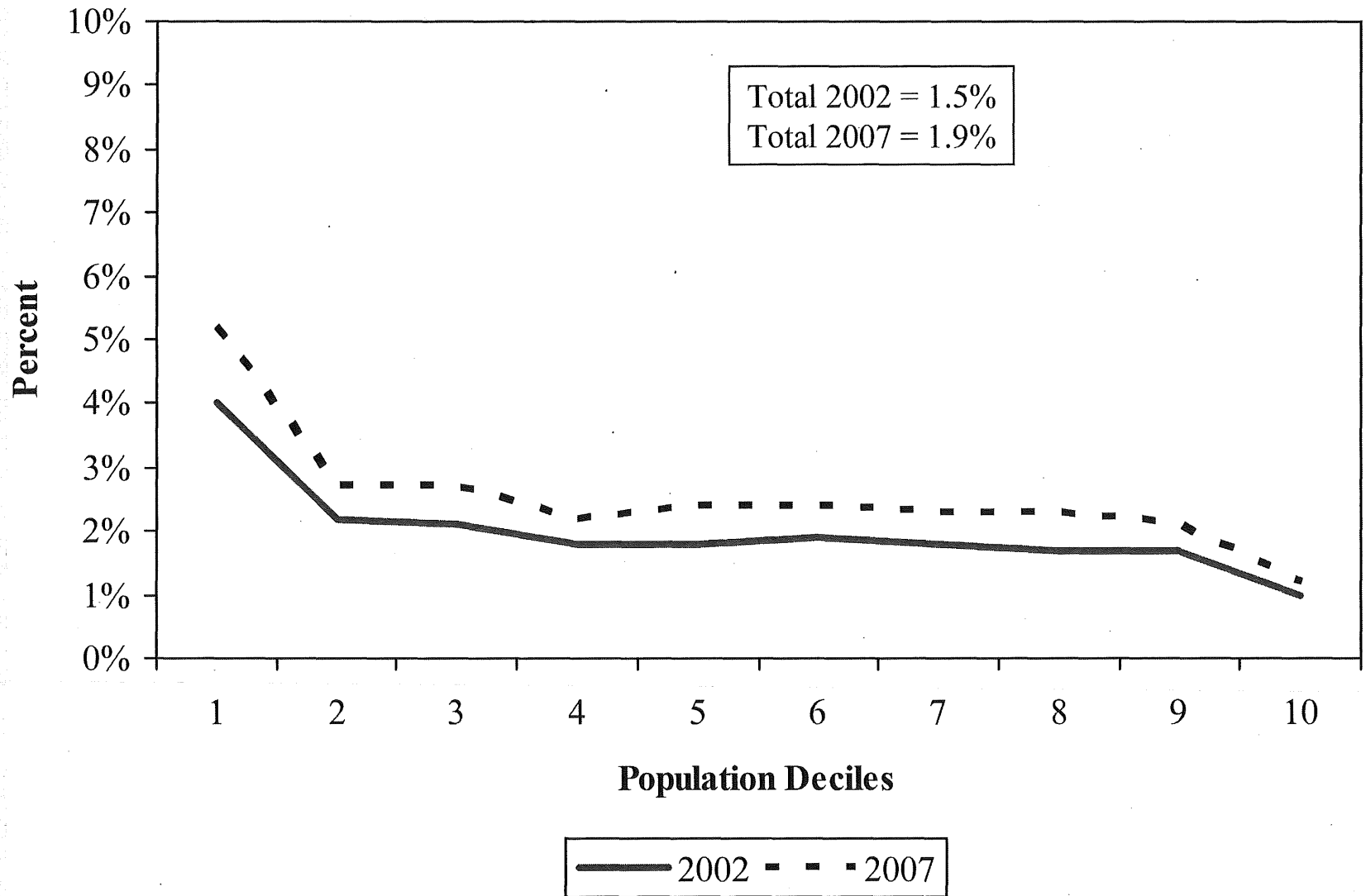
# Total Property Tax Less PTR

## Effective Tax Rates for 2002 and 2007



# Homeowners Property Tax - Gross

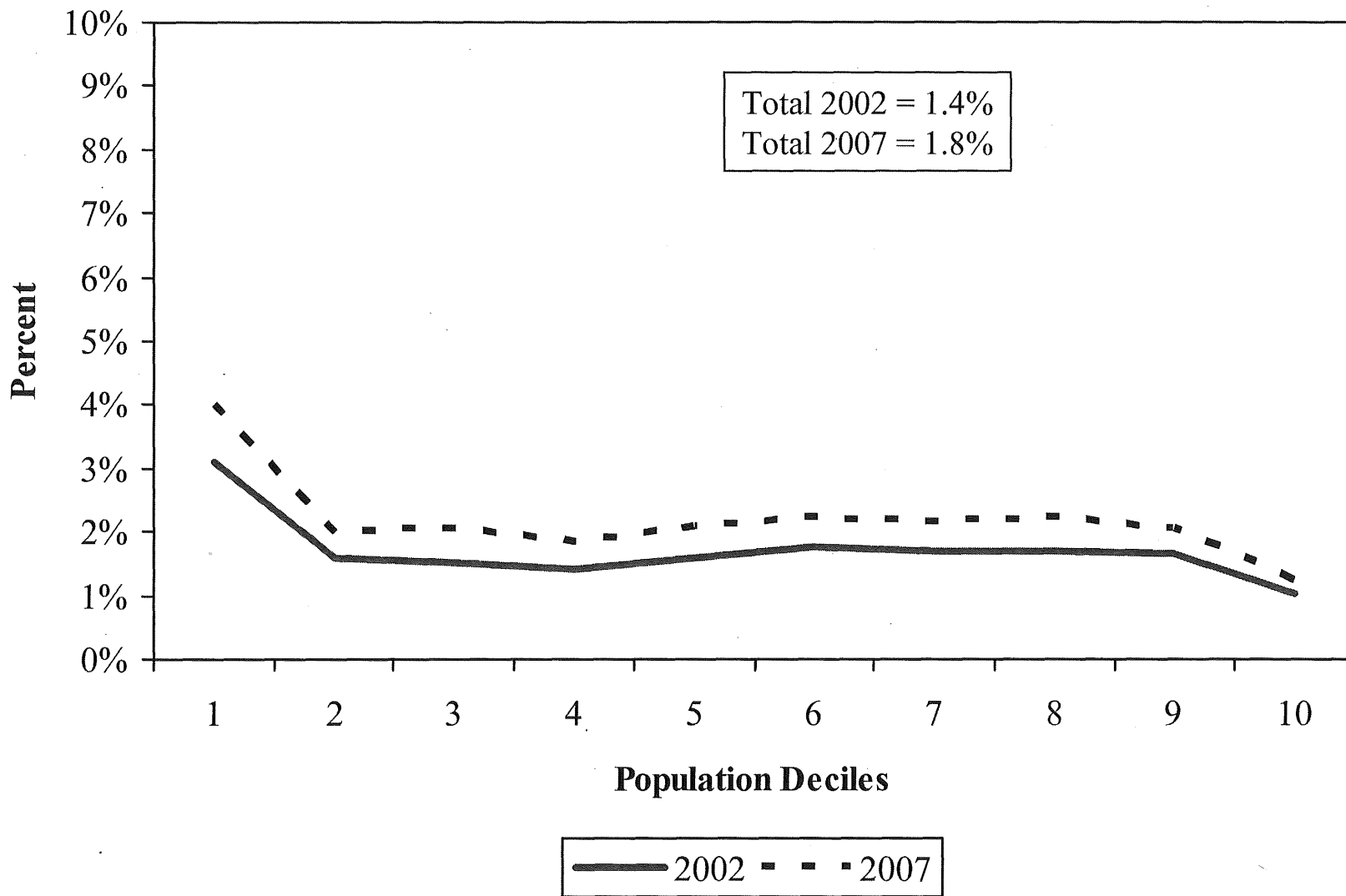
## Effective Tax Rates for 2002 and 2007



Based on Nov. 2004 Economic Forecast, MN Department of Finance

# Homeowners Property Tax - Net

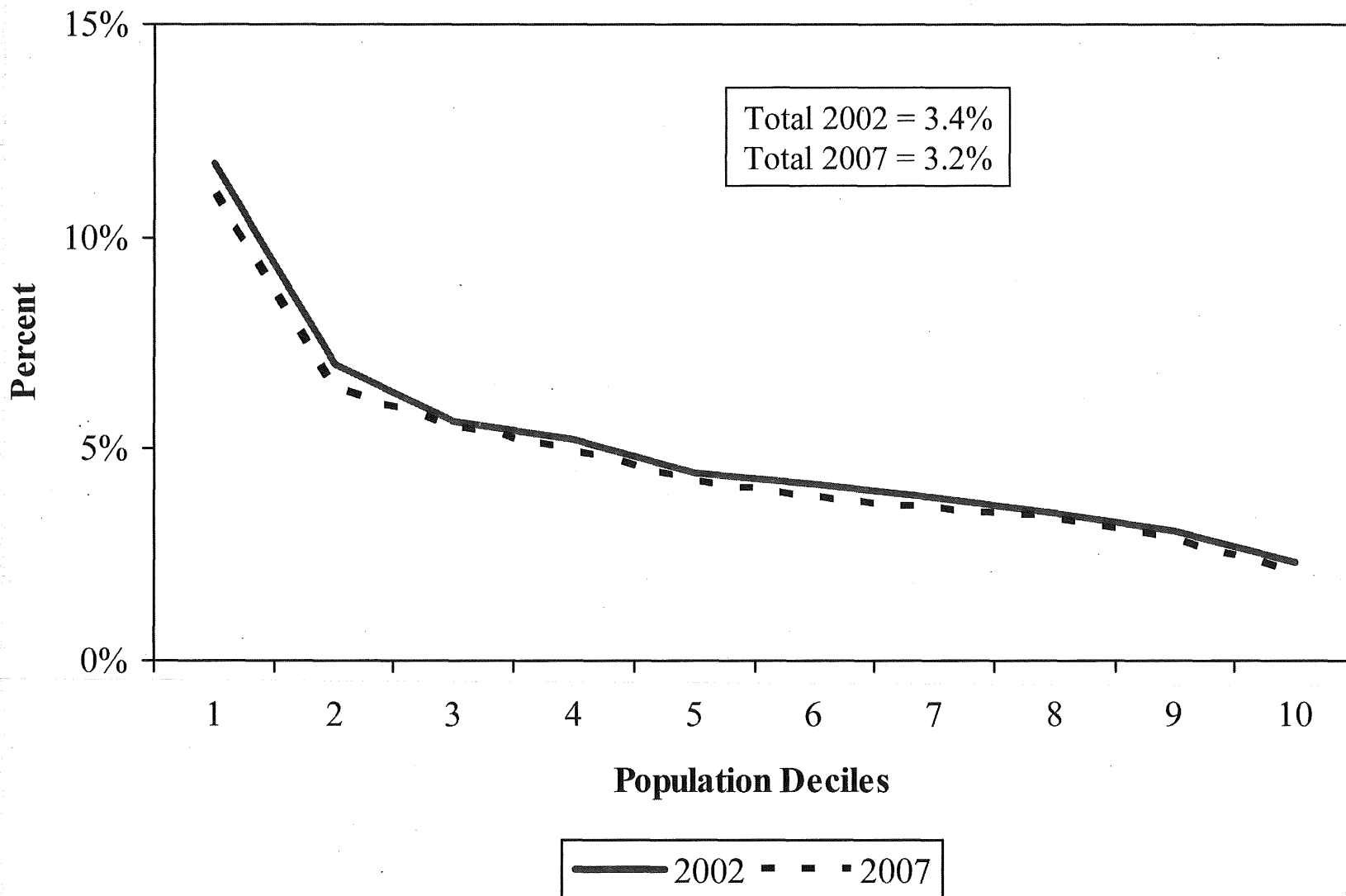
## Effective Tax Rates for 2002 and 2007



Based on Nov. 2004 Economic Forecast, MN Department of Finance

# Total Business Tax

## Effective Tax Rates for 2002 and 2007



Based on Nov. 2004 Economic Forecast, MN Department of Finance

# Minnesota Households

## Alternative Distributional Analysis

- Income Decile - Each decile = 10% of Minnesota household income.
- Income Range - The beginning and ending income level associated with each decile.
- Households by Decile - Total households estimated for each 10% of Minnesota's income.

### Calendar Year 2002

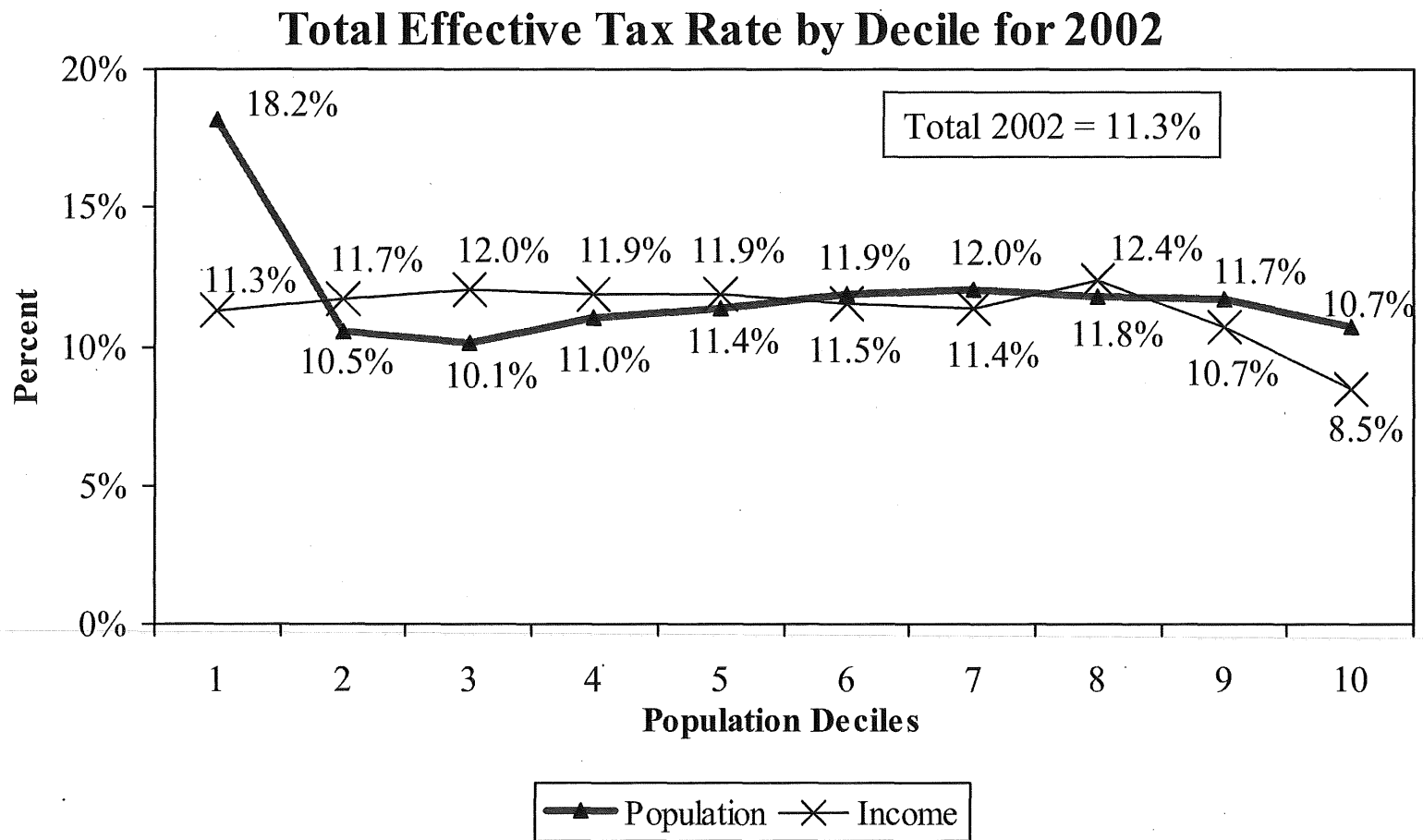
Income Decile	Income Range	Number of Households	Household Income		Total Tax	
			\$'s Thousands	Percent*	\$'s Thousands	Percent*
First	\$26,678 & under	903,829	\$12,733,509	10.0%	\$1,443,719	10.0%
Second	\$26,679 - \$40,235	384,336	12,730,381	10.0%	1,483,696	10.3%
Third	\$40,236 - \$53,354	273,921	12,731,222	10.0%	1,521,449	10.6%
Fourth	\$53,355 - \$66,741	213,533	12,736,036	10.0%	1,520,064	10.5%
Fifth	\$66,742 - \$80,745	173,233	12,730,371	10.0%	1,511,377	10.5%
Sixth	\$80,746 - \$99,767	142,509	12,734,744	10.0%	1,461,695	10.1%
Seventh	\$99,768 - \$129,635	113,305	12,731,229	10.0%	1,447,731	10.0%
Eighth	\$129,636 - \$202,014	80,648	12,726,548	10.0%	1,581,573	11.0%
Ninth	\$202,015 - \$494,093	43,882	12,731,424	10.0%	1,360,074	9.4%
Tenth	\$494,094 & over	10,874	12,725,965	10.0%	1,080,986	7.5%
<b>TOTALS</b>		<b>2,340,070</b>	<b>\$127,311,429</b>	<b>100.0%</b>	<b>\$14,412,365</b>	<b>100.0%</b>

\*Percents are rounded.



# Distributional Incidence Comparison

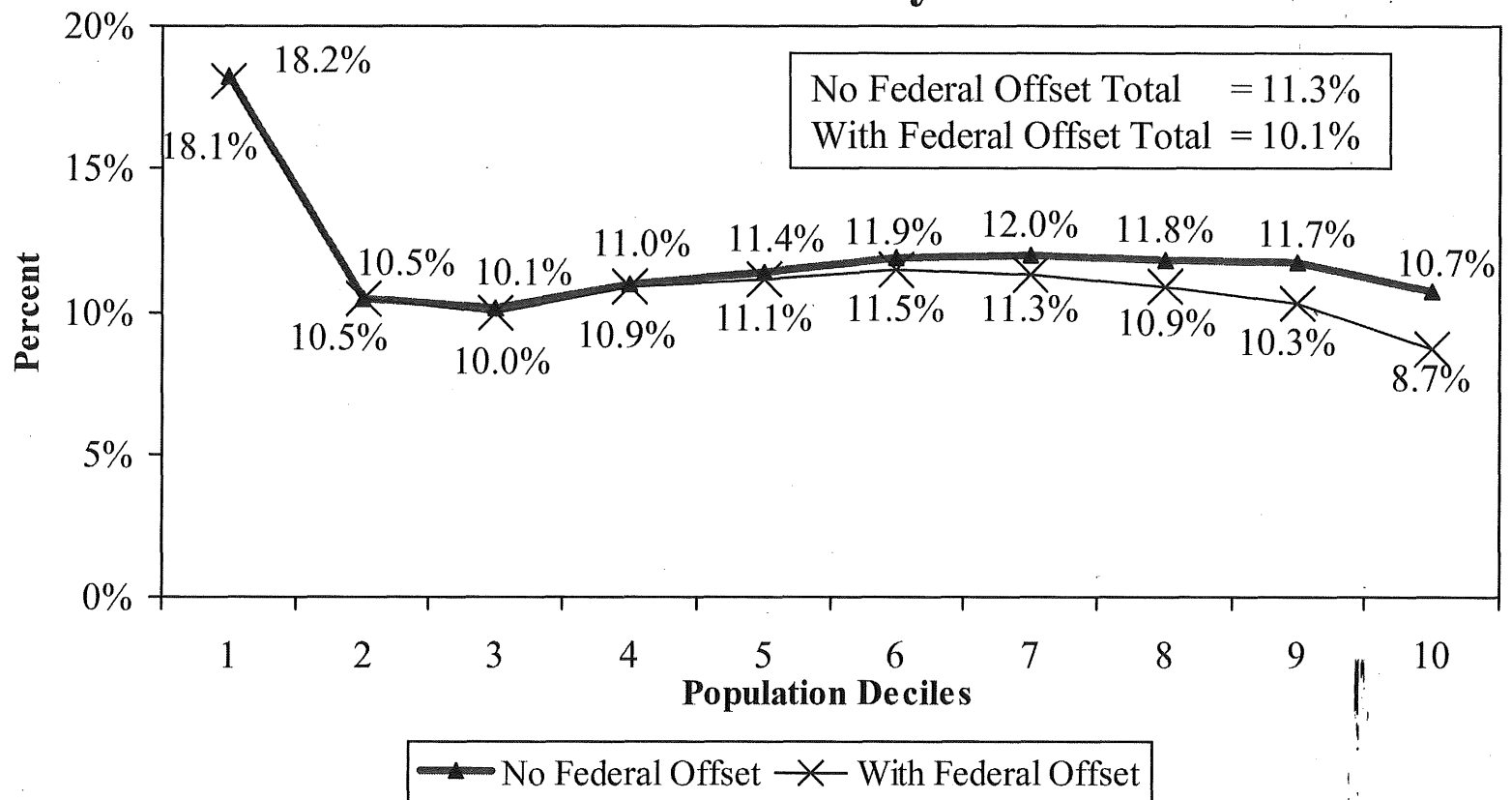
Effective tax rates by population deciles and income deciles.



# Federal Offset

Distributional incidence with and without federal tax offset.

### Total Effective Tax Rate by Decile for 2002



# Summary of Tax Incidence

## Current: 2000-2002

- Minnesota's household income and total tax collection fell over the two years.
- The shares of business and household taxes remained largely unchanged.
- The overall tax system was slightly less regressive by 2002.
- The effective tax rate rose to 11.3% of total income.

## History: 1990-2002

- The recession of 2002 was a marked change from the high growth of the 1990's.
- Effective tax rates peaked in 1994 and have fallen each year until 2002 due to tax law changes and economic trends.
- Minnesota trended towards being slightly regressive in the 1990's but has since stabilized.
- The rapid growth in the 1990's exceeded the tax system's ability to remain proportional.

## Future: 2002-2007

- Economic growth is expected to lower the overall effective tax rate.
- The overall tax system is expected to trend towards a slightly more regressive system.
- The initial burden of taxes will shift to households and away from business.

# **2005 Minnesota Tax Incidence Study**

(Using November 2004 Forecast)

An analysis of Minnesota's household and business taxes.  
March 2005

MINNESOTA • REVENUE

# **2005 Minnesota Tax Incidence Study**

**Analysis of Minnesota's household  
and business taxes.**

MINNESOTA • REVENUE

**Tax Research Division**

**March 1, 2005**

**The *Tax Incidence Study* is available on the  
Department of Revenue's Internet web site at  
<http://www.taxes.state.mn.us/reports/reports.html>**

# MINNESOTA · REVENUE

March 1, 2005

## **To the Members of the Legislature of the State of Minnesota:**

I am pleased to transmit to you the eighth Minnesota Tax Incidence Study undertaken by the Department of Revenue in response to Minnesota Statutes, Section 270.0682 (Laws of 1990, Chapter 604, Article 10, Section 9).

This version of the incidence study report builds on past studies and provides new information regarding tax incidence. Previous studies have estimated how the burden of state and local taxes was distributed across income groups from a historic perspective. This study does that by displaying the burden of state and local taxes across income groups in 2002. It includes over 99 percent of Minnesota taxes paid, those paid by business as well as those paid by individuals. The study addresses the important question: "Who pays Minnesota's taxes?" It reports detailed information on characteristics and tax burdens of Minnesota taxpayers, both at the business and household level.

The report also estimates tax incidence across income groups for state and local taxes for 2007. By forecasting incidence into the future, it is possible to give policy makers a view of the state and local tax system that reflects tax law changes enacted into law to date. Studies that concentrate only on history would not reflect the most recent changes to Minnesota's tax system. In order to provide this information, a forecast of future economic conditions was required. This version of the report contains a forecast that is consistent with the November, 2004 economic outlook from the Department of Finance. As such, we plan on updating this study to reflect changes contained in the most current economic outlook.

The study also includes estimates of effective tax rates for business sectors in Minnesota's economy. This allows the tax system to be compared across industries by the major state and local taxes. The calculations are provided for both 2002 and 2007. Updates for 2007 will follow the same update schedule.

The information presented here can be used to evaluate Minnesota's tax system. It should also be valuable in considering any future changes in Minnesota's tax structure.

Minnesota Statutes, Section 3.197, specifies that a report to the Legislature must include the cost of its preparation. The approximate cost of preparing this report was \$70,000.

Sincerely,



Daniel A. Salomone  
Commissioner

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## Executive Summary

This report shows the distribution of calendar year 2002 Minnesota state and local taxes in relation to taxpayer income, along with projections for calendar year 2007. It answers the question, "Who pays Minnesota's taxes?" The major objective is to provide taxpayers and policymakers with important information on the equity or fairness of the overall distribution of Minnesota taxes. Knowing the distribution of taxes allows conclusions to be drawn about the relative burden of the tax system, or about specific taxes, that are borne in Minnesota and ultimately by Minnesotans. This is the eighth biennial tax incidence study prepared in response to the statutory requirement enacted in 1990.

Included in this report are taxes with an initial impact on businesses, such as the corporate franchise tax and the sales tax on business purchases, as well as those taxes imposed directly on households. The report first discusses the initial burdens of taxes imposed on Minnesota households and businesses. The taxes imposed on businesses are further analyzed by industry sector. The analysis then proceeds to the estimation of the final incidence of taxes on Minnesota households, after taxes imposed on business have been shifted to those ultimately bearing them.

The main goal of the study is to estimate the total tax burden on Minnesota households distributed by income ranges. Doing so allows conclusions to be drawn concerning the equity of the tax system.

The report:

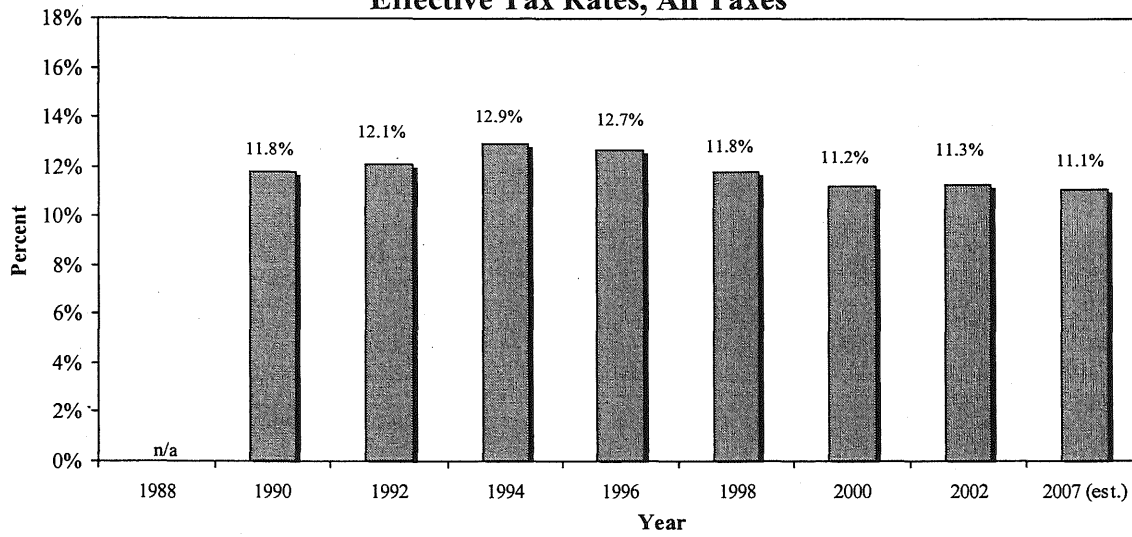
- Analyzes \$17.2 billion in taxes collected in 2002, a total that represents over 99 percent of all state and local taxes.
- Allocates imposed tax amounts among Minnesota households (58.7 percent), Minnesota businesses (39.3 percent) and nonresidents (2.0 percent).
- Computes effective tax rates for Minnesota business sectors using gross state product estimates.
- Calculates average household tax burden by income range. That burden consists of taxes imposed directly on households, such as the income tax or consumer sales tax, plus those households' share of taxes, initially imposed on business, but in the end shifted to households, the ultimate payers.

Conclusions of the research are that:

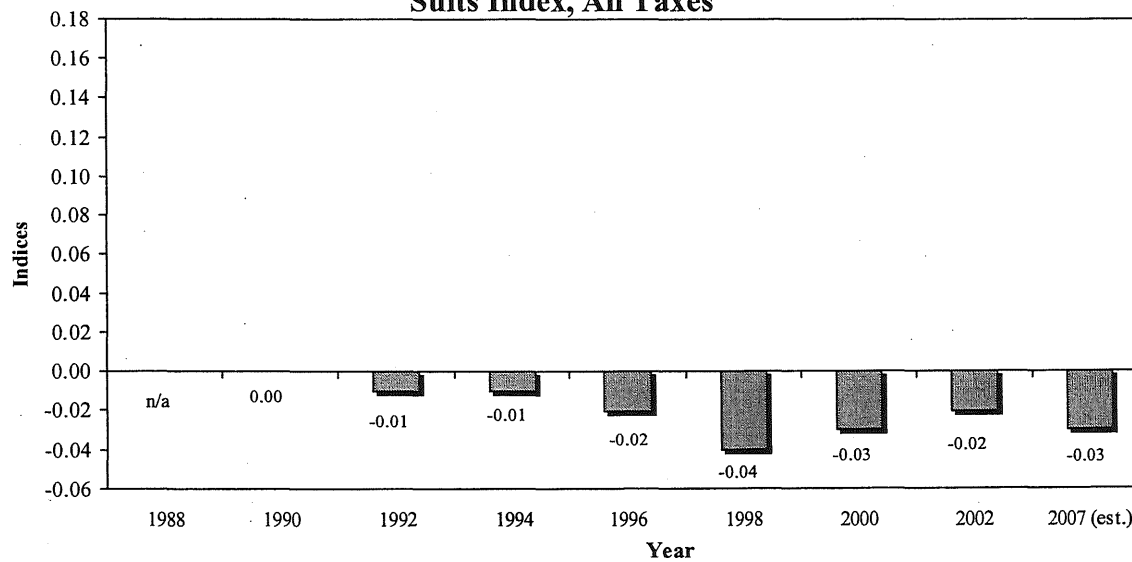
- For 2002, Minnesota's tax system reflected recessionary conditions. Both total tax collections and overall household income declined between 2000 and 2002.
- Another factor contributing to the fall in taxes was 2001 property tax reform.
- The share of taxes imposed directly on Minnesota households dropped slightly from 2000 to 2002, as did the share of taxes imposed on nonresidents, while the share imposed on business rose slightly.
- The industry with the highest effective tax rate is mining; that with the lowest effective rate is financial activities.
- After allowing for the shift in business taxes, the Minnesota tax system in 2002 was slightly regressive (although less so than in 2000), with lower effective tax rates for the lowest and highest income households and higher effective rates for middle income households.
- Incomes are expected to grow by almost one-third between 2002 and 2007. Tax receipts are forecast to grow by almost as much. The overall effective tax rate is expected to decline from 11.3 percent to 11.1 percent over that period.
- The tax system is expected to become slightly more regressive from 2002 to 2007, because for higher deciles income growth is expected to outpace growth in total tax liability, while the reverse is true for middle to lower deciles.

This is the eighth biennial tax incidence study. That is a sufficiently long period to provide some historical context for the results of the current study. The figure below shows how both effective tax rates and the Suits index for all taxes have changed over the past decade and a half. The effective tax rate is the ratio of tax paid to income. The Suits index is a measure of the progressivity or regressivity of a tax or tax system. Positive values reflect progressivity; negative values show regressivity. The Suits index is explained in more detail later in this report.

**Figure E-1**  
**Effective Tax Rates, All Taxes**



**Figure E-2**  
**Suits Index, All Taxes**



## Overview of Study

### Minnesota State and Local Tax Collections

Minnesota collected \$17.2 billion in state and local taxes in 2002 and by 2007 collections are expected to rise to \$21.9 billion. Over 75 percent is collected at the state level; local governments collected the remainder, largely from property taxes. The primary purpose of the report is to illustrate Minnesota's tax system in total by examining the individual elements and tracing their impact through to Minnesota's households. By so doing, the total tax system and each separate tax can be estimated as to who pays the tax in relation to their income.

The coverage of this study is summarized in *Table 1-1*. The study includes taxes on households and businesses accounting for over 99 percent of total state tax collections and over 99 percent of local tax collections. The report examines 31 separate tax system components.

**Table 1-1**  
**Minnesota State and Local Tax Collections in 2002**  
(\$ Millions)

State		Local		Total State and Local
<b>Included</b>		<b>Included</b>		<b>Included</b>
Individual income tax	\$5,408	Gross property taxes (after credits)		
Corporate franchise tax	560	Homestead property taxes	\$1,936	
Estate tax	97	Property taxes on second home	84	
General sales and use tax	3,829	Rental property taxes (residential)	416	
Motor vehicle sales tax	609	Other business property taxes		
Motor fuels excise taxes	632	(including farming and taconite)	<u>1,634</u>	
Alcoholic beverage excise taxes	61			
Cigarette & tobacco excise taxes	178	Subtotal	\$4,071	
Insurance premiums tax	202			
Gambling taxes	57	Sales taxes	114	
MinnesotaCare taxes	191	Gross earnings taxes	45	
Motor vehicle registration tax	483			
Mortgage and deed taxes	263			
Waste taxes	56			
State property taxes	585			
Property tax refunds	<u>-268</u>			
Total	\$12,945	Total	\$4,229	\$17,174
<b>Omitted</b>		<b>Omitted</b>		<b>Omitted</b>
Controlled substances tax		Tree growth tax		
Airflight property tax		Auxiliary forest tax		
Aircraft registration tax		Contamination tax		
Rural electric cooperatives tax		Severed mineral interests tax		
Metropolitan solid waste landfill fee		Unmined taconite tax		
		Local gambling tax		
Total	\$19	Total	\$4	\$28
<b>Total Tax Collections</b>	<b>\$12,964</b>	<b>Total Tax Collections</b>	<b>\$4,233</b>	<b>Total Tax Collections</b> <b>\$17,197</b>

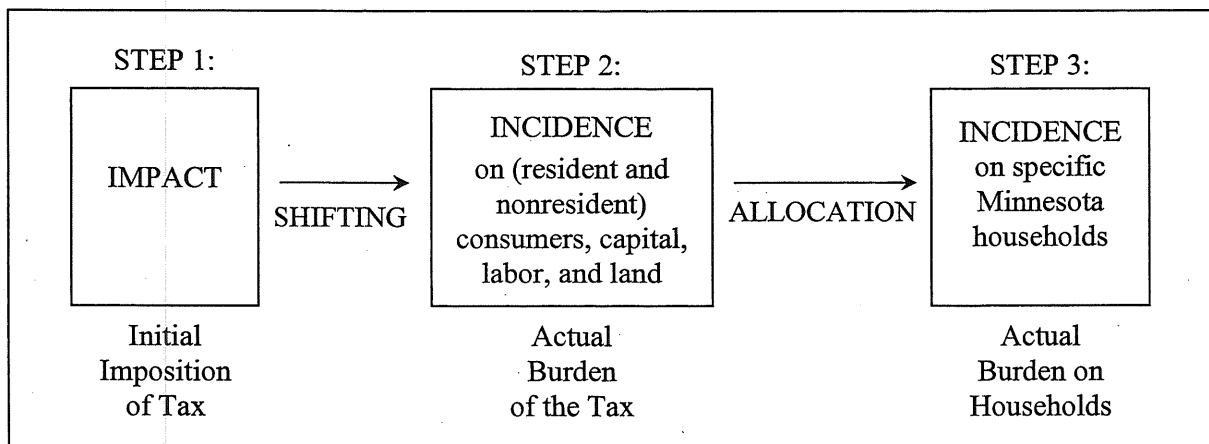


## The Concept of Tax Incidence

Economists commonly distinguish between the initial impact of a tax and its incidence. The initial impact of a tax is on the taxpayer legally liable to pay the tax, while the incidence of a tax is the final resting place of the tax after any tax shifting has occurred.

*Figure 1-1* illustrates the steps involved in moving from impact to tax incidence on Minnesota households.

**Figure 1-1**  
**Estimating Tax Incidence**

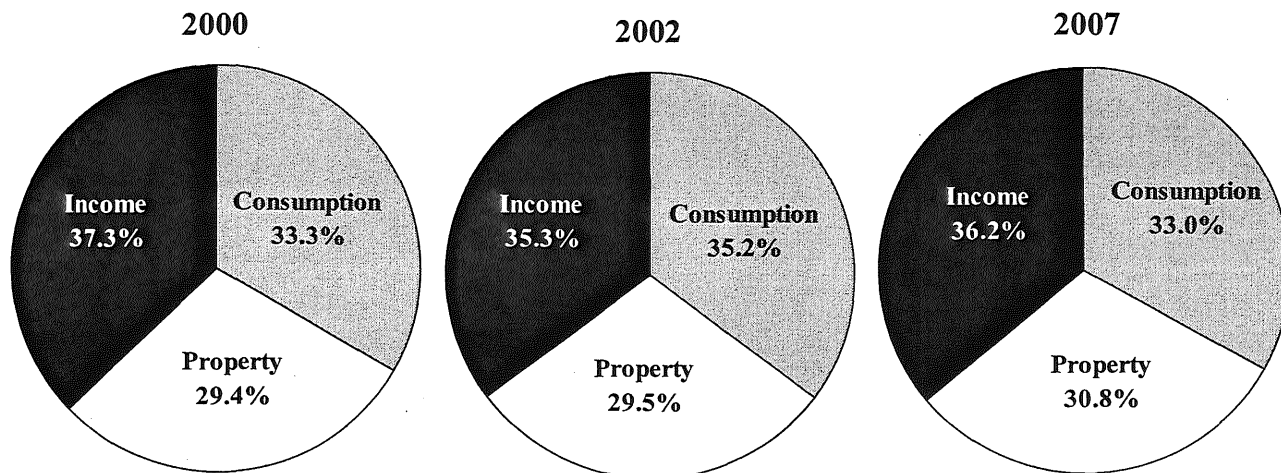


Following are the major findings of this study laid out according to each step in *Figure 1-1*.

## Step 1 – Impact

Figure 1-2, derived from Tables 1-2 and 1-3, illustrates the distribution of the revenues actually collected in 2002 and expected to be collected in 2007 by three general categories: Income, Consumption, and Property.

**Figure 1-2**  
**Minnesota Tax System Impacts by Tax Area**



The three graphs in the figure show the relative tax shares that exist in periods of quite different economic circumstances. There was a decline in income from 2000 to 2002; the year 2002 was at or near the bottom of a recession. But the period from 2002 to 2007 is expected to be one of growth. There are other factors at work that also affect the relative tax shares.

**Income taxes** – Household income is expected to grow by more than 32 percent from 2002 to 2007. As a general rule, income taxes tend to keep pace or grow as incomes rise. Taxes on consumption and on property, by contrast, often lag behind.

**Consumption taxes** – There are several tax law changes that affect consumption tax receipts in 2007 compared to 2002. There is a scheduled reduction in the liquor sales tax rate and the elimination of the auto rental tax. Insurance premiums and MinnesotaCare taxes, on the other hand, are projected to rise.

**Property taxes** – Levy limits were abolished in 2004. Limited market value for houses is phased out over 2002 to 2007. The market value for houses is expected to rise sharply compared to that for other types of property.

**Table 1-2**  
**2002 State and Local Tax Collections by**  
**Type of Tax and Taxpayer Category (\$ Millions)**

Tax Category	Collections		Percentage by Taxpayer Category			
	Total	Percentage Distribution	Households		Businesses	Total
			Resident	Nonresident		
<b>State Taxes</b>						
<b>Taxes on Income</b>						
Individual income tax	\$5,408	31.5%	96.7%	3.3%		100.0%
Corporate franchise tax <sup>1</sup>	560	3.3			100.0%	100.0
Estate tax	97	0.6	100.0			100.0
<b>Total Income and Estate Taxes</b>	<b>\$6,064</b>	<b>35.3%</b>	<b>87.8%</b>	<b>2.9%</b>	<b>9.2%</b>	<b>100.0%</b>
<b>Taxes on Consumption</b>						
Total sales tax	\$4,438	25.8%	53.1%	3.3%	43.6%	100.0%
General sales/use tax	3,829	22.3	51.0	3.8	45.2	100.0
Sales tax on motor vehicles	609	3.5	66.3		33.7	100.0
Motor fuels excise taxes	632	3.7			100.0	100.0
Alcoholic beverage excise taxes	61	0.4			100.0	100.0
Cigarette and tobacco excise taxes	178	1.0			100.0	100.0
Insurance premiums taxes	202	1.2			100.0	100.0
Gambling taxes	57	0.3			100.0	100.0
MinnesotaCare taxes	191	1.1			100.0	100.0
<b>Total Consumption Taxes</b>	<b>\$5,760</b>	<b>33.5%</b>	<b>40.9%</b>	<b>2.5%</b>	<b>56.6%</b>	<b>100.0%</b>
<b>Taxes on Property</b>						
Residential recreational	\$28	0.2%	80.2%	19.8%		100.0%
Commercial	369	2.1			100.0%	100.0
Industrial	125	0.7			100.0	100.0
Utility	64	0.4			100.0	100.0
<b>Total Property Taxes</b>	<b>\$585</b>	<b>3.4%</b>	<b>3.8%</b>	<b>0.9%</b>	<b>95.3%</b>	<b>100.0%</b>
<b>Other Taxes</b>						
Motor vehicle registration tax	\$483	2.8%	81.0%		19.0%	100.0%
Mortgage and deed taxes	263	1.5	63.7		36.3	100.0
Solid waste management taxes	56	0.3	39.8		60.2	100.0
<b>Total Other Taxes</b>	<b>\$803</b>	<b>4.7%</b>	<b>72.4%</b>		<b>27.6%</b>	<b>100.0</b>
<b>Property Tax Refunds</b>						
Homeowners	-\$131	-0.8%	100.0%			100.0%
Renters	-137	-0.8	100.0			100.0
<b>Total Property Tax Refunds</b>	<b>-\$268</b>	<b>-1.6%</b>	<b>100.0%</b>			<b>100.0%</b>
<b>Total State Taxes</b>	<b>\$12,945</b>	<b>75.4%</b>	<b>61.9%</b>	<b>2.5%</b>	<b>35.5%</b>	<b>100.0%</b>
<b>Local Taxes</b>						
Property taxes (Pay 2002)	\$4,071	23.7%	49.2%	0.4%	50.4%	100.0%
General property tax (gross-credits)	4,009	23.3	50.0	0.4	49.6	100.0
Homeowners (gross of PTR)	1,936	11.3	100.0			100.0
Residential recreational	84	0.5	80.2	19.8		100.0
Commercial <sup>2</sup>	882	5.1			100.0	100.0
Industrial	296	1.7			100.0	100.0
Farm (other than residence) <sup>3</sup>	212	1.2			100.0	100.0
Rental housing	416	2.4			100.0	100.0
Utility	181	1.1			100.0	100.0
Minerals <sup>4</sup>	0	0.0			100.0	100.0
Mining production taxes (taconite)	62	0.4			100.0	100.0
Local sales taxes <sup>5</sup>	114	0.7	51.0	3.8	45.2	100.0
Local gross earnings taxes <sup>6</sup>	45	0.3			100.0	100.0
<b>Total Local Taxes</b>	<b>\$4,229</b>	<b>24.6%</b>	<b>48.8%</b>	<b>0.5%</b>	<b>50.7%</b>	<b>100.0%</b>
<b>Total State and Local Taxes</b>	<b>\$17,174</b>	<b>100.0%</b>	<b>58.7%</b>	<b>2.0%</b>	<b>39.3%</b>	<b>100.0%</b>

<sup>1</sup>Includes taconite/iron ore occupation tax.

<sup>2</sup>Includes resorts and railroads.

<sup>3</sup>Farm includes timber.

<sup>4</sup>Minerals does not include the aggregate material production tax.

<sup>5</sup>Allocated to business/consumer in the same proportions as general sales tax.

<sup>6</sup>For cities with annual receipts greater than \$500,000.

**Table 1-3**  
**2007 State and Local Tax Collections by**  
**Type of Tax and Taxpayer Category (\$ Millions)**

Tax Category	Collections		Percentage by Taxpayer Category			
	Total	Percentage Distribution	Households		Businesses	Total
			Resident	Nonresident		
<b>State Taxes</b>						
<b>Taxes on Income</b>						
Individual income tax	\$7,135	32.6%	96.7%	3.3%		100.0%
Corporate franchise tax <sup>1</sup>	696	3.2			100.0%	100.0
Estate tax	92	0.4	100.0			100.0
<b>Total Income and Estate Taxes</b>	<b>\$7,922</b>	<b>36.2%</b>	<b>88.2%</b>	<b>3.0%</b>	<b>8.8%</b>	<b>100.0%</b>
<b>Taxes on Consumption</b>						
Total sales tax	\$5,074	23.2%	53.4%	3.4%	43.1%	100.0%
General sales/use tax	4,456	20.4	51.7	3.9	44.4	100.0
Sales tax on motor vehicles	618	2.8	66.3		33.7	100.0
Motor fuels excise taxes	692	3.2			100.0	100.0
Alcoholic beverage excise taxes	68	0.3			100.0	100.0
Cigarette and tobacco excise taxes	176	0.8			100.0	100.0
Insurance premiums taxes	387	1.8			100.0	100.0
Gambling taxes	61	0.3			100.0	100.0
MinnesotaCare taxes	428	2.0			100.0	100.0
<b>Total Consumption Taxes</b>	<b>\$6,886</b>	<b>31.5%</b>	<b>39.4%</b>	<b>2.5%</b>	<b>58.1%</b>	<b>100.0%</b>
<b>Taxes on Property</b>						
Residential recreational	\$62	0.3%	80.2%	19.8%		100.0%
Commercial	421	1.9			100.0%	100.0
Industrial	124	0.6			100.0	100.0
Utility	64	0.3			100.0	100.0
<b>Total Property Taxes</b>	<b>\$671</b>	<b>3.1%</b>	<b>7.4%</b>	<b>1.8%</b>	<b>90.8%</b>	<b>100.0%</b>
<b>Other Taxes</b>						
Motor vehicle registration tax	\$542	2.5%	81.0%		19.0%	100.0%
Mortgage and deed taxes	242	1.1	54.0		46.0	100.0
Solid waste management taxes	62	0.3	41.4		58.6	100.0
<b>Total Other Taxes</b>	<b>\$847</b>	<b>3.9%</b>	<b>70.4%</b>		<b>29.6%</b>	<b>100.0</b>
<b>Property Tax Refunds</b>						
Homeowners	-\$207	-0.9%	100.0%			100.0%
Renters	-154	-0.7	100.0			100.0
<b>Total Property Tax Refunds</b>	<b>-\$361</b>	<b>-1.6%</b>	<b>100.0%</b>			<b>100.0%</b>
<b>Total State Taxes</b>	<b>\$15,965</b>	<b>73.0%</b>	<b>62.6%</b>	<b>2.6%</b>	<b>34.8%</b>	<b>100.0%</b>
<b>Local Taxes</b>						
Property taxes (Pay 2002)	\$5,729	26.2%	57.7%	0.5%	41.9%	100.0%
General property tax (gross-credits)	5,651	25.8	58.5	0.5	41.0	100.0
Homeowners (gross of PTR)	3,190	14.6	100.0			100.0
Residential recreational	141	0.6	80.2	19.8		100.0
Commercial <sup>2</sup>	961	4.4			100.0	100.0
Industrial	283	1.3			100.0	100.0
Farm (other than residence) <sup>3</sup>	272	1.2			100.0	100.0
Rental housing	629	2.9			100.0	100.0
Utility	175	0.8			100.0	100.0
Minerals <sup>4</sup>	0	0.0			100.0	100.0
Mining production taxes (taconite)	78	0.4			100.0	100.0
Local sales taxes <sup>5</sup>	130	0.6	51.7	3.9	44.4	100.0
Local gross earnings taxes <sup>6</sup>	53	0.2			100.0	100.0
<b>Total Local Taxes</b>	<b>\$5,913</b>	<b>27.0%</b>	<b>57.0%</b>	<b>0.6%</b>	<b>42.4%</b>	<b>100.0%</b>
<b>Total State and Local Taxes</b>	<b>\$21,877</b>	<b>100.0%</b>	<b>61.1%</b>	<b>2.1%</b>	<b>36.9%</b>	<b>100.0%</b>

<sup>1</sup>Includes taconite/iron ore occupation tax.

<sup>2</sup>Includes resorts and railroads.

<sup>3</sup>Farm includes timber, net of sustainable forest incentive program payments.

<sup>4</sup>Minerals does not include the aggregate material production tax.

<sup>5</sup>Allocated to business/consumer in the same proportions as general sales tax.

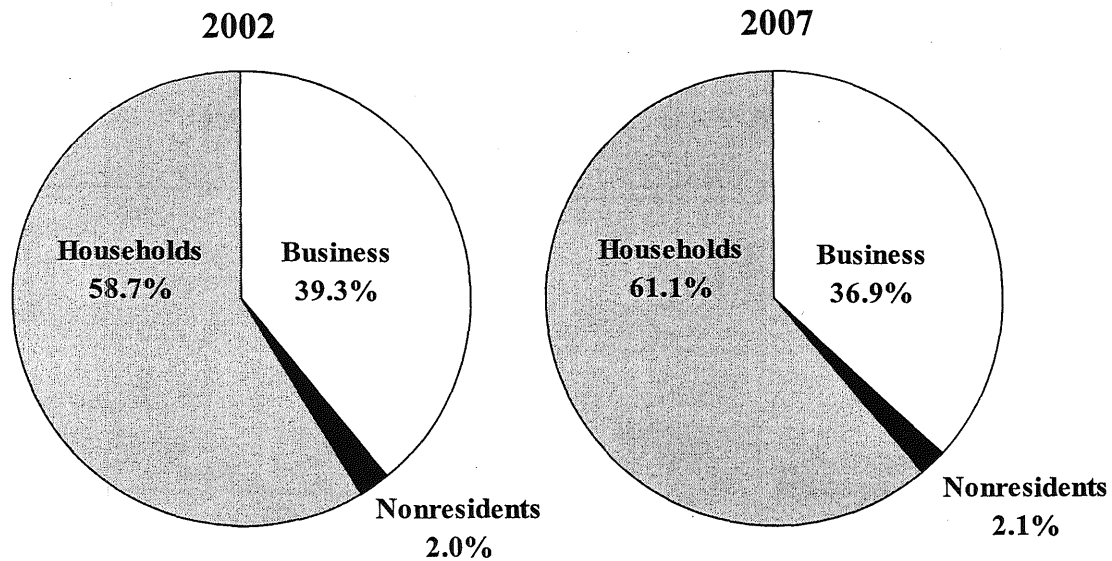
<sup>6</sup>For cities with annual receipts greater than \$500,000.

Together these factors imply that the relative share of income taxes rises slightly, the relative share of consumption taxes drops and the relative share of property taxes rises.

Another way of looking at this is to consider how Minnesota's tax system is split between state and local taxes. In 2002, the state's share was about 75 percent of the total; by 2007 that is expected to drop to 73 percent.

In addition, it is also possible to examine the impact of the tax system on households and businesses. *Figure 1-3* depicts the proportions of the tax system that impact the two categories with a small amount in both years expected to be paid by nonresidents of Minnesota.

**Figure 1-3**  
**Minnesota Tax System Impacts: Business vs. Households**



A number of factors combine to shift taxes away from business and toward households. Market value of homes is expected to increase at a much greater rate than that for business property. The new statewide property tax, while primarily a business tax, is restricted in growth to the rate of inflation. Sales taxes imposed on businesses show a lower rate of growth than do sales taxes paid by households. The income tax grows at a faster rate than consumption taxes.

To further explore the impact of Minnesota's tax system on businesses, taxes have been allocated by industrial sector.

## **Effective Tax Rates by Industrial Sector**

### ***Background***

The burden a tax system places on business is of interest to policymakers. While the old saying that “businesses don’t pay taxes, people do” is essentially true, the issue of tax burden on business is important in a competitive marketplace which is increasingly global in scope. In order to examine the issue in Minnesota, the following analysis has been included in the tax incidence report.

Taking the private business sector tax amounts and allocating each of the separate taxes analyzed in this study, it is possible to calculate and compare the total tax burden by the major industrial sectors in Minnesota’s economy.

The next step in calculating the effective tax rates is to select a common measure for a tax base across industry sectors so that a meaningful comparison can be made. This is necessary because of the diverse number of bases that are involved in Minnesota’s tax system. For example, property tax is computed on a value concept while sales tax is tied to a selling price and corporate income tax is computed on a measure of profit. The common base used in this analysis is gross state product (GSP) associated with each sector of the state’s economy. The source of the output figures are estimates produced by the U.S. Department of Commerce for 2002 and a forecast for 2007.

### **Summary of Effective Tax Rates by Industry**

As shown in *Table 1-4*, the overall effective tax rate on Minnesota’s businesses was 3.68 percent in 2002 and is estimated to fall to 3.44 percent by 2007, a decline of over 5 percent. The decline is due to reductions associated with property tax reform and a decline in sales tax effective rates. Approximately 40 percent of all business tax burden comes from property taxes. Sales and use is second followed by corporate income tax which is a distant third.

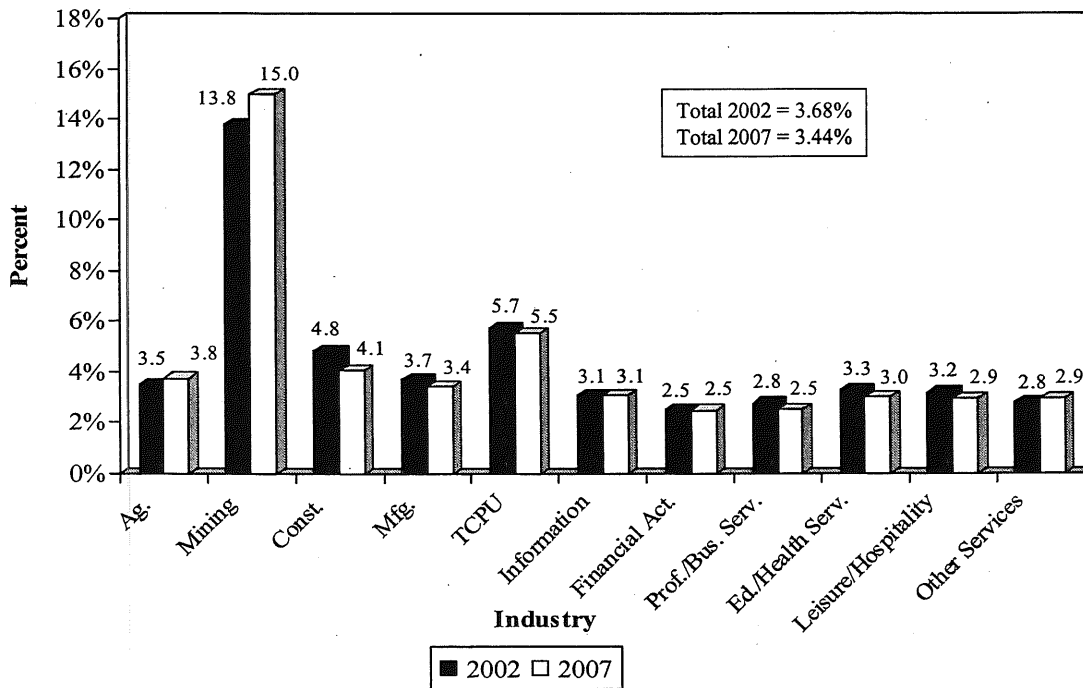
On a sector basis in 2002 the highest effective tax rate of 13.8 percent belongs to mining. While much of the mining tax burden is destined for outside Minnesota, the taconite tax, tied directly to production, is the reason for the high rate. At the opposite end of the spectrum is the Financial Activities sector which has an effective tax rate of 2.5 percent.

**Table 1-4**  
**Effective Rates by Tax**

Tax	Effective Rate	
	2002	2007
Corporate Franchise	0.31%	0.30%
General Sales	1.00	0.89
Motor Vehicle Sales	0.11	0.09
Motor Fuels	0.35	0.30
Insurance Premiums	0.11	0.17
Mortgage/Deed	0.05	0.05
MinnesotaCare	0.11	0.19
Other	0.21	0.17
Property Tax		
Commercial	0.70	0.61
Industrial	0.24	0.18
Farm	0.12	0.12
Utility	0.14	0.10
Rental	0.23	0.28
Minerals/Taconite	0.03	0.03
Motor Vehicle Registration	0.05	0.05
<b>Total Private</b>	<b>3.68%</b>	<b>3.44%</b>

Figure 1-4 contains the eleven industrial sectors with their effective tax rates for 2002 and 2007.

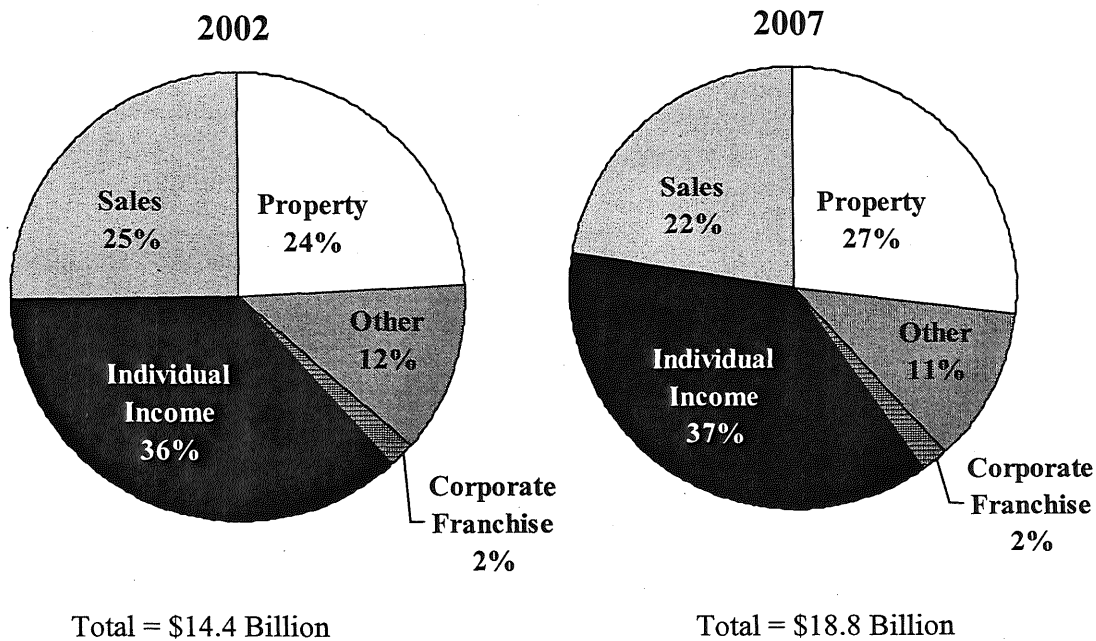
**Effective Tax Rates for 2002 and 2007**



## Step 2 – Shifting

Step 2 relies on economic theory to estimate how much of the burden of each tax is “shifted” from the initial business taxpayer to households. Such shifting depends on Minnesota tax rates compared to those in other states, the nature of the market for the goods or services produced by the business being taxed and other factors. Step 2 estimates how much of the business tax burden is shifted onto consumers (in higher prices), labor (in lower wages), and capital (in lower rates of return). *Figure 1-5* indicates that Minnesota households will pay either directly or indirectly through shifted business tax somewhat more in property taxes in 2007 than in 2002 due to property tax reform and relative growth rates.

**Figure 1-5**  
**Household Incidence After Shifting**





### **Step 3 – Distributional Analysis**

Step 3 combines the incidence assumptions from Step 2 with information on the income and characteristics of individuals to estimate the tax burden falling on each of Minnesota's 2.3 million households. Each dollar of tax is allocated either to specific Minnesota households or exported out of state. The result is a tax burden, or tax incidence, of each separate tax. These separate taxes can be aggregated to estimate the total incidence by household. Using the estimated burden by household, effective tax rates can be computed. Effective tax rates provide insight into how the incidence of Minnesota's tax system changes as household income changes.

### **Tax Progressivity and the Suits Index**

Taxes are often described as progressive, proportional, or regressive. The effective tax rate -- that is, the ratio of taxes paid to income -- can be used to compare tax burdens across income categories. A progressive tax is one in which the effective tax rate rises as income rises. A regressive tax is one in which the effective tax rate falls as income rises. However, it is difficult to summarize the overall distribution of a tax (progressive, proportional, or regressive) from the individual effective tax rates. The Suits Index is a summary measure of the overall distribution for a specific tax or group of taxes.

The Suits Index has numerical properties that make it easy to understand the degree of progressivity or regressivity of a tax. A proportional tax has a Suits Index equal to zero; a progressive tax has a positive index number in the range between 0 and +1. In the extreme case, when the total tax burden is paid by those in the highest income bracket, the index has a value of +1. For a regressive tax, the Suits Index has a negative value between 0 and -1, with -1 being the most regressive value.

*Table 1-5* presents Suits indexes for selected Minnesota state and local tax groups in 2002 and 2007. The only major progressive tax is the personal income tax. Consumption taxes were the most regressive category. Taken as a whole, the system of Minnesota taxes was marginally regressive (a Suits index of -0.018). State taxes were progressive (+0.027), and local taxes were regressive (-0.173). Between 2002 and 2007, Minnesota's tax system, as measured by the Suits index, shows a noticeable move toward regressivity.

**Table 1-5**  
**Suits Indexes for Selected**  
**Minnesota State and Local Taxes**

Tax Category	2002 Suits Index	2007 Suits Index
Personal Income Tax	+0.199	+0.185
Sales Taxes (State & Local)	-0.143	-0.152
State Business Taxes	-0.179	-0.186
State Individual Taxes	+0.107	+0.106
All State Taxes	+0.027	+0.026
Local Taxes	-0.173	-0.182
Total Taxes	-0.018	-0.029

### Effective Tax Rates

The major findings in this study are summarized in *Tables 1-4, 1-6, and 1-7* and highlighted in *Figures 1-4, 1-6, and 1-7*.

For analytical purposes, Minnesota's households are divided into 10 equal parts, or deciles. Each decile has an associated income value for calculating effective tax rates. The results show that the state and local tax system had some progressivity in the lower to middle deciles and some regressivity in the middle to upper deciles. For 2002, effective tax rates rose from 10.1 percent in the third decile to 12.0 percent in the seventh decile, declined to 11.7 percent in the ninth decile, and then fell to 10.7 percent in the tenth decile. This pattern was similar for the projections to 2007.

Overall, Minnesota residents paid an estimated 11.3 percent of their 2002 total income in state and local taxes; this declined to 11.1 percent for the 2007 projections. For 2002, the effective tax rate was 8.7 percent for state taxes and 2.6 percent for local taxes. Taxpayers in the second through tenth deciles pay over 98 percent of the taxes included in the study. Because the information for the first decile includes data anomalies and measurement limitations discussed in the study, effective tax rates for the first decile are not reliable.

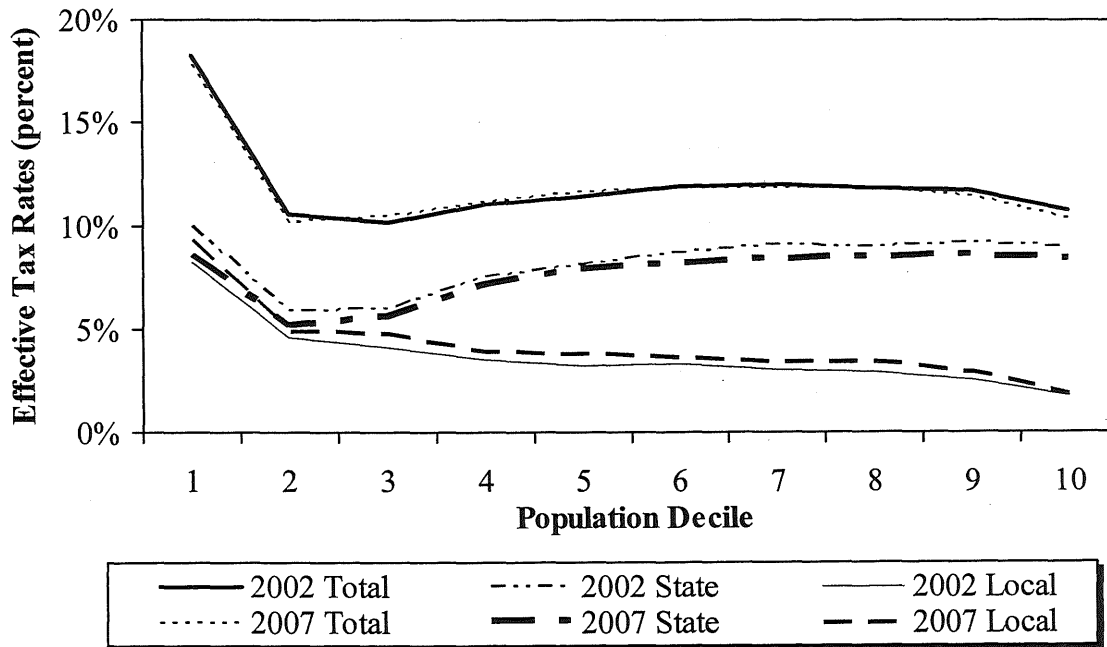
As shown in *Figure 1-6*, state tax burdens and local tax burdens were distributed quite differently. Total state taxes for 2002 (individual and business combined) were slightly progressive overall, with effective tax rates generally rising from 5.9 percent in the second decile to 9.2 percent in the ninth decile before falling to 9.0 percent in the tenth decile. Local tax effective rates, essentially property tax, declined consistently over all deciles except the sixth and were regressive overall. By 2007, effective rates fall across all deciles at the state level. Local taxes, conversely, increase because of expected increases in property values and property tax reform.

As shown in *Figure 1-7*, the patterns of effective rates for taxes paid by individuals versus businesses were also distributed quite differently. For 2002, effective rates for taxes paid by individuals increased from 3.5 percent in the second decile to 8.6 percent in the ninth decile, and then declined to 8.4 percent in the tenth decile. *Figure 1-7* indicates that Minnesota state and local taxes on businesses after shifting to Minnesota citizens are regressive, with effective tax rates for 2002 falling from 7.0 to 2.3 percent between the second and tenth deciles. The overall effective rate for taxes on businesses after shifting was 3.4 percent in 2002. For the projections to 2007, the overall effective tax rate declined to 3.2 percent on businesses but remained at 7.9 percent on individuals.

**Table 1-6**  
**Minnesota Effective Tax Rates for 2002 and 2007**  
**State and Local Taxes by Population Decile**

Decile	2002			2007		
	State	Local	Total	State	Local	Total
First	10.0%	8.2%	18.2%	8.6%	9.3%	17.9%
Second	5.9	4.6	10.5	5.2	4.9	10.1
Third	6.0	4.1	10.1	5.6	4.8	10.4
Fourth	7.5	3.5	11.0	7.1	3.9	11.1
Fifth	8.1	3.2	11.4	7.9	3.8	11.6
Sixth	8.7	3.3	11.9	8.2	3.6	11.8
Seventh	9.1	3.0	12.0	8.4	3.4	11.8
Eighth	9.0	2.9	11.8	8.5	3.4	11.8
Ninth	9.2	2.5	11.7	8.6	2.9	11.4
Tenth	9.0	1.8	10.7	8.4	1.9	10.3
Total	8.7%	2.6%	11.3%	8.2%	2.9%	11.1%

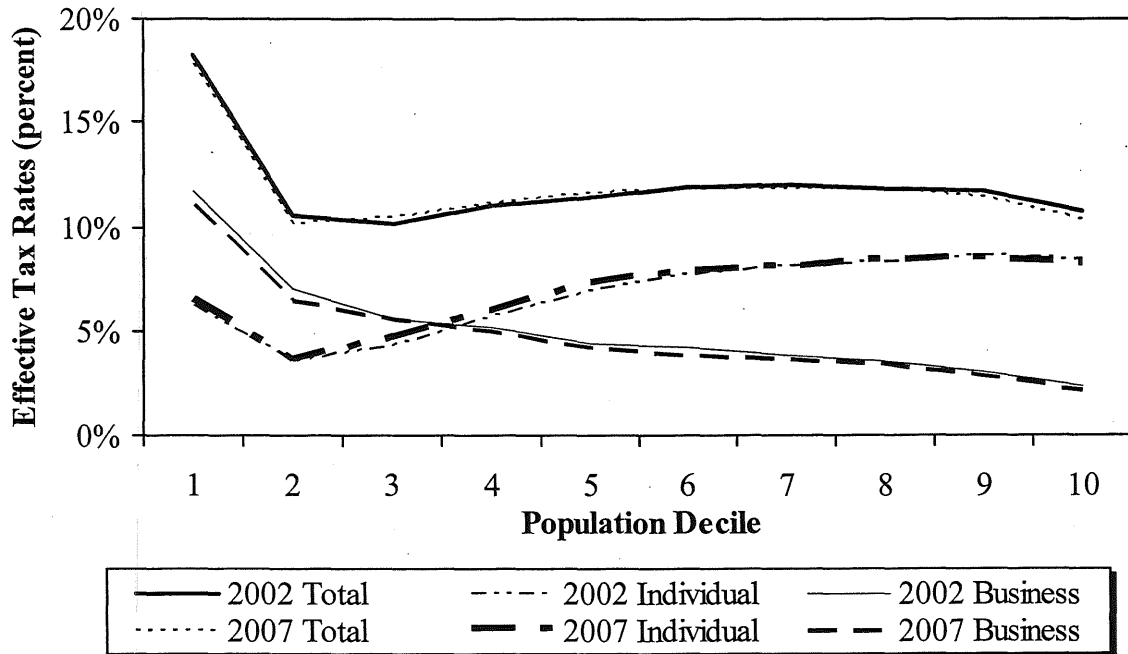
**Figure 1-6**  
**Effective Tax Rates for 2002 and 2007**  
**State and Local Taxes by Population Decile**



**Table 1-7**  
**Minnesota Effective Tax Rates for 2002 and 2007**  
**Individual and Business Taxes by Population Decile**

Decile	2002			2007		
	Individual	Business	Total	Individual	Business	Total
First	6.2%	11.7%	18.2%	6.5%	11.0%	17.9%
Second	3.5	7.0	10.5	3.6	6.4	10.1
Third	4.3	5.6	10.1	4.7	5.6	10.4
Fourth	5.7	5.2	11.0	6.0	5.0	11.1
Fifth	6.9	4.4	11.4	7.3	4.2	11.6
Sixth	7.7	4.2	11.9	7.9	3.8	11.8
Seventh	8.1	3.8	12.0	8.1	3.6	11.8
Eighth	8.3	3.5	11.8	8.4	3.4	11.8
Ninth	8.6	3.0	11.7	8.5	2.8	11.4
Tenth	8.4	2.3	10.7	8.2	2.1	10.3
Total	7.9%	3.4%	11.3%	7.9%	3.2%	11.1%

**Figure 1-7**  
**Effective Tax Rates for 2002 and 2007**  
**Individual and Business Taxes by Population Decile**



## Historical Comparison

Incidence data has been collected and published in a series of studies, of which this is the eighth. That data extends back to 1988. It is interesting to consider the pattern of effective tax rates and Suits index numbers over that time. This period illustrates the effect of the business cycle on incomes and tax receipts. It includes both very rapid growth periods in the mid- and late 1990's, the slowdown of the early 1990's, and the contraction from 2000 to 2002.

Effective tax rates over the period 1988 – 2002 at first rise and then fall. As shown in *Table 1-8*, the effective tax rate for the tax system as a whole was 11.8 percent in 1990. (It was 9.1 percent in 1988; however, the study in that year did not include business taxes.) Effective tax rates rose to 12.9 percent just four years later in 1994, but then began a sustained decline to 11.3 percent in 2002. By 2007 it is expected that the effective tax rate will be 11.1 percent. The decline is attributable partly to tax cuts and partly to income growth, especially in the late 1990's, that outstripped tax collections.

Suits index values show a different pattern, as also shown in *Table 1-8*. The tax system is Suits-neutral in both 1988 and 1990, but then starts trending toward greater regressivity. The Suits index falls from -0.01 in 1992 and 1994 to a low of -0.04 in 1998. It rises somewhat in succeeding years but is still expected to equal -0.03 in 2007.

**Table 1-8**  
**Households, Household Income, Total Taxes,**  
**Effective Tax Rates, and Suits Indices, All Taxes, 1988 - 2007**  
**(Amounts in \$ 000's)**

Year	Number of Households	Household Income	Total Taxes* as Imposed	Tax Dollars* Included in Study (%)	Total Taxes** After Shifting	Effective Tax Rate	Suits Index
1988	2,035,717	\$59,590,130	\$9,092,150	n/a	n/a	n/a	n/a
1990	2,072,488	65,842,600	9,575,000	97.1%	\$7,747,743	11.8%	0.00
1992	2,120,967	74,410,299	11,050,000	96.9%	8,991,383	12.1%	-0.01
1994	2,148,820	80,148,374	12,539,000	98.0%	10,323,412	12.9%	-0.01
1996	2,193,971	93,272,563	14,495,000	98.0%	11,886,823	12.7%	-0.02
1998	2,232,670	114,610,957	16,137,000	97.8%	13,526,348	11.8%	-0.04
2000	2,322,380	132,094,974	17,599,000	99.8%	14,809,590	11.2%	-0.03
2002	2,340,070	127,311,429	17,174,000	99.9%	14,412,365	11.3%	-0.02
2007 (est)	2,509,820	168,325,618	21,877,000	n/a	18,664,791	11.1%	-0.03

Interval	Household Growth	Income Growth	Post-Shifting Tax Growth**
1988-1990	1.8%	10.5%	n/a
1990-1992	2.3%	13.0%	16.1%
1992-1994	1.3%	7.7%	14.8%
1994-1996	2.1%	16.4%	15.1%
1996-1998	1.8%	22.9%	13.8%
1998-2000	4.0%	15.3%	9.5%
2000-2002	0.8%	-3.6%	-2.7%
2002-2007 (est)	7.3%	32.2%	29.5%

\*Taxes not included in the study have declined in number over time.

\*\*In 1988 business taxes, after shifting, were not included in the study.

## Principal Results, 2002

This section examines the state and local tax burdens imposed on Minnesota taxpayers in 2002. Taxes paid by businesses as well as those paid directly by households are included. The taxes included account for over 99 percent of Minnesota state and local tax revenue in 2002.

Only Minnesota taxes paid by residents are included in the analysis below; Minnesota taxes paid by nonresidents and taxes paid by Minnesota residents to other states are excluded. For business taxes, the study estimates the extent to which they are shifted forward to Minnesota consumers in higher prices or backward to Minnesota workers in lower wages or to owners of capital in lower returns. The incidence results for the entire system of state and local taxes in Minnesota are reported both in terms of the overall distribution of tax burdens and by tax type.

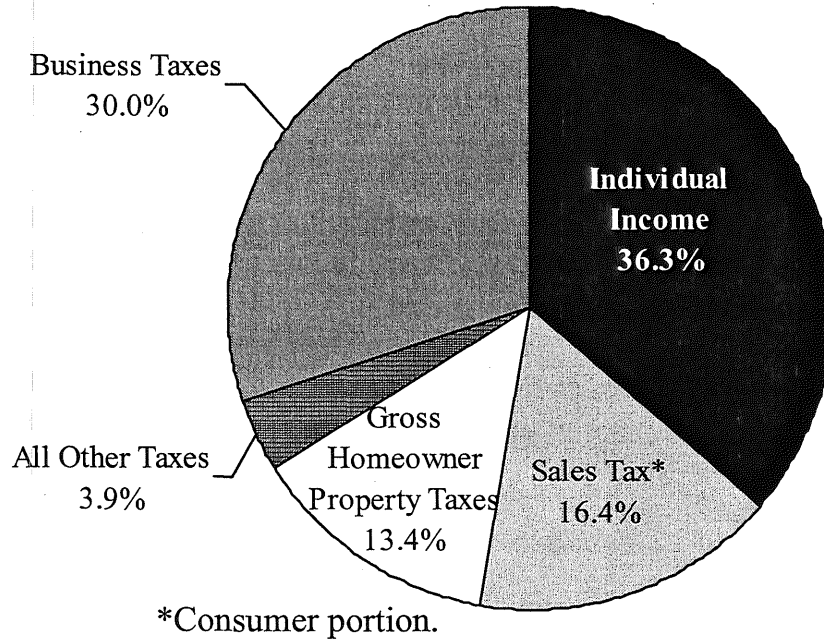
### **The Total Tax Burden**

For 2002, Minnesota residents paid a total of \$14.4 billion in taxes while earning \$127.3 billion in total money income. Minnesota residents thus paid 11.3 percent of their total income in state and local taxes.

As shown in *Figure 2-1*, the individual income tax accounted for 36.3 percent of the total tax burden on Minnesota residents. Homeowner property taxes and the consumer state and local sales tax (including sales tax on motor vehicles) were 13.4 percent and 16.4 percent of the total, respectively. Taxes imposed on business accounted for 30.0 percent. All other taxes comprised the remaining 3.9 percent of total state and local taxes paid by Minnesota residents.



**Figure 2-1**  
**2002 Distribution of Minnesota**  
**State and Local Tax Burdens by Tax**



Details of Minnesota tax collections before and after tax shifting are shown in *Table 2-1*. Of the \$17.2 billion in total tax collections in 2002, \$14.4 billion or almost 84 percent is paid by Minnesotans, directly or indirectly. The rest is exported to taxpayers out of state.

It is apparent from the table that some taxes are borne by Minnesotans in much greater proportions than are others. Of the large state taxes, the income tax is borne almost entirely by Minnesota residents, who pay over 96 percent of total collections, but residents of Minnesota pay a lesser share, 82.4 percent, of the general sales tax. At the other end of the scale, Minnesotans pay only 10.9 percent of the property taxes on industrial property.

**Table 2-1  
2002 Tax Collection Amounts (\$ Millions)**

Tax Type	Total	As Imposed			After Shifting		Suits Index <sup>5</sup>
		MN HH's	NR	Business	Minnesota	Exported	
<b>State Taxes</b>							
<b>Taxes on Income and Estates</b>							
Individual income tax	\$5,408	\$5,229	\$178		\$5,229	\$178	0.199
Corporate franchise tax <sup>1</sup>	560			\$560	297	263	-0.116
Estate tax	97	97			97		0.281
<b>Total Income and Estate Taxes</b>	<b>\$6,064</b>	<b>\$5,326</b>	<b>\$178</b>	<b>\$560</b>	<b>\$5,623</b>	<b>\$441</b>	<b>0.184</b>
<b>Taxes on Consumption</b>							
Total sales tax	\$4,438	\$2,357	\$146	\$1,936	\$3,659	\$779	-0.143
General sales/use tax	3,829	1,953	146	1,731	3,146	683	-0.143
Sales tax on motor vehicles	609	404		205	513	96	-0.145
Motor fuels excise taxes	632			632	516	117	-0.240
Alcoholic beverage excise taxes	61			61	54	6	-0.170
Cigarette and tobacco excise taxes	178			178	173	5	-0.515
Insurance premiums taxes	202			202	150	53	-0.131
Gambling taxes	57			57	55	2	-0.350
MinnesotaCare taxes	191			191	166	25	-0.266
<b>Total Consumption Taxes</b>	<b>\$5,760</b>	<b>\$2,357</b>	<b>\$146</b>	<b>\$3,258</b>	<b>\$4,773</b>	<b>\$987</b>	<b>-0.174</b>
<b>Taxes on Property</b>							
Residential recreational	\$28	\$22	\$5		\$22	\$5	-0.179
Commercial	369	0	0	\$369	194	175	-0.105
Industrial	125	0	0	125	14	111	-0.120
Utility	64	0	0	64	40	24	-0.132
<b>Total Property Taxes</b>	<b>\$585</b>	<b>\$22</b>	<b>\$5</b>	<b>\$558</b>	<b>\$270</b>	<b>\$316</b>	<b>-0.100</b>
<b>Other Taxes</b>							
Motor vehicle registration tax	\$483	\$391		\$92	\$440	\$43	-0.107
Mortgage and deed taxes	263	168		96	221	42	-0.111
Solid waste management taxes	56	22		34	53	4	-0.170
<b>Total Other Taxes</b>	<b>\$803</b>	<b>\$581</b>		<b>\$221</b>	<b>\$714</b>	<b>\$89</b>	<b>-0.113</b>
<b>Property Tax Refunds</b>							
Homeowners	-\$131	-\$131			-\$131		0.675
Renters	-137	-137			-137		0.874
<b>Total Property Tax Refunds</b>	<b>-\$268</b>	<b>-\$268</b>			<b>-\$268</b>		<b>0.777</b>
<b>Total State Taxes</b>	<b>\$12,945</b>	<b>\$8,019</b>	<b>\$329</b>	<b>\$4,597</b>	<b>\$11,112</b>	<b>\$1,833</b>	<b>0.027</b>
<b>Local Taxes</b>							
Property taxes (Pay 2002)	\$4,073	\$2,004	\$17	\$2,050	\$3,179	\$892	-0.174
General property tax (gross-credits)	4,009	2,004	17	1,988	3,178	830	-0.175
Homeowners (gross)	1,936	1,936			1,936	0	-0.148
Residential recreational	84	68	17		68	17	-0.179
Commercial <sup>2</sup>	882			882	463	419	-0.105
Industrial	296			296	32	264	-0.120
Farm (other than residence) <sup>3</sup>	212			212	208	4	-0.310
Rental housing	416			416	358	59	-0.370
Utility	181			181	114	68	-0.132
Minerals <sup>4</sup>	0			0	0	0	0.021
Mining production taxes (taconite)	62			62	1	62	0.149
Local sales taxes <sup>5</sup>	114	58	4	52	94	20	-0.143
Local gross earnings taxes <sup>6</sup>	45			45	28	17	-0.132
<b>Total Local Taxes</b>	<b>\$4,229</b>	<b>\$2,062</b>	<b>\$21</b>	<b>\$2,146</b>	<b>\$3,301</b>	<b>\$929</b>	<b>-0.173</b>
<b>Total State and Local Taxes</b>	<b>\$17,174</b>	<b>\$10,081</b>	<b>\$350</b>	<b>\$6,743</b>	<b>\$14,412</b>	<b>\$2,762</b>	<b>-0.018</b>

<sup>1</sup>Includes taconite/iron ore occupation tax.

<sup>2</sup>Includes resorts and railroads.

<sup>3</sup>Includes Timber.

<sup>4</sup>Amount less than \$500,000.

<sup>5</sup>Suits index for estate tax based on distribution of 1999 estate tax amounts.

Of the total, \$6.7 billion or 39.3 percent of Minnesota taxes are imposed on businesses. Of that amount \$2.4 billion or nearly 36 percent is exported.

The Suits index numbers show that most taxes levied in Minnesota are regressive to some degree. Only a few taxes, and only one large tax, the personal income tax, are progressive (Suits index greater than zero). The consumption taxes as a group are the most regressive, with a Suits index of  $-0.17$ . Nevertheless the progressive income tax and the few other progressive taxes are nearly sufficient to offset the many regressive taxes, so that the Suits index of the tax system as a whole is only slightly regressive at  $-0.02$ .

### **Taxes by Sector**

*Table 2-2* shows the distribution of taxes imposed on business by industrial sector, as well as those taxes imposed solely on households.

There is considerable variation in the tax amounts attributed to each sector. In order to judge the relative magnitudes of these sectors, we can present them as effective tax rates, as is done in *Table 2-3*.

**Table 2-2**  
**Minnesota Taxes Imposed by NAICS Sector CY 2002 Taxes - \$ Thousands**

Tax Type	Agriculture	Mining	Const.	Mfg.	Trade Trans. Utilities	Info.	Financial Activities	Prof. Ed. & Bus. Services	Ed. & Health Services	Leisure and Hospitality	Government		Total Business	Households	Non-Residents	Total
											Other Services	Govt.				
<b>State Taxes</b>																
<b>Taxes on Income and Estates</b>																
Individual income tax														\$5,229,358	\$178,234	\$5,407,593
Corporate franchise tax	\$5,395	\$1,450	\$21,509	\$128,879	\$149,990	\$28,814	\$53,786	\$150,451	\$7,739	\$7,337	\$4,457		\$559,807			559,807
Estate tax														96,989		96,989
<b>Total Income and Estate Taxes</b>	<b>\$5,395</b>	<b>\$1,450</b>	<b>\$21,509</b>	<b>\$128,879</b>	<b>\$149,990</b>	<b>\$28,814</b>	<b>\$53,786</b>	<b>\$150,451</b>	<b>\$7,739</b>	<b>\$7,337</b>	<b>\$4,457</b>		<b>\$559,807</b>	<b>\$5,326,347</b>	<b>\$178,234</b>	<b>\$6,064,389</b>
<b>Taxes on Consumption</b>																
Total general sales tax	\$30,186	\$6,626	\$336,661	\$196,318	\$385,262	\$130,425	\$172,802	\$194,952	\$189,471	\$72,452	\$86,027	\$134,797	\$1,935,978	\$2,356,569	\$145,504	\$4,438,050
General sales/use tax	30,001	6,100	327,410	166,905	342,110	124,604	158,953	165,805	159,305	53,902	76,402	119,256	1,730,752	1,952,817	145,504	3,829,073
Sales tax on motor vehicles	185	526	9,252	29,413	43,151	5,821	13,849	29,147	30,166	18,550	9,625	15,541	205,225	403,752		608,978
Motor fuels excise taxes					632,321								632,321			632,321
Alcoholic beverage excise taxes				10,913	49,714								60,627			60,627
Cigarette and tobacco excise taxes					178,457								178,457			178,457
Insurance premiums taxes							202,447						202,447			202,447
Gambling taxes					24,362					32,779			57,141			57,141
Minnesota Care taxes			7	899	47,590	421	502	12,365	125,644	1,539	175	2,001	191,142			191,142
<b>Total Consumption Taxes</b>	<b>\$30,186</b>	<b>\$6,626</b>	<b>\$336,668</b>	<b>\$208,130</b>	<b>\$1,317,705</b>	<b>\$130,846</b>	<b>\$375,750</b>	<b>\$207,316</b>	<b>\$315,115</b>	<b>\$106,769</b>	<b>\$86,202</b>	<b>\$136,797</b>	<b>\$3,258,111</b>	<b>\$2,356,569</b>	<b>\$145,504</b>	<b>\$5,760,183</b>
<b>Taxes on Property</b>																
Residential recreational														\$22,215	\$5,485	\$27,700
Commercial			\$30,600		\$87,800	\$17,100	\$48,500	\$91,500	\$61,900	\$19,000	\$12,800		\$369,200			369,200
Industrial				\$124,812									124,812			124,812
Utility					63,600								63,600			63,600
<b>Total Property Taxes</b>			<b>\$30,600</b>	<b>\$124,812</b>	<b>\$151,400</b>	<b>\$17,100</b>	<b>\$48,500</b>	<b>\$91,500</b>	<b>\$61,900</b>	<b>\$19,000</b>	<b>\$12,800</b>		<b>\$557,612</b>	<b>\$22,215</b>	<b>\$5,485</b>	<b>\$585,312</b>
<b>Other Taxes</b>																
Motor vehicle registration tax	\$89	\$255	\$4,487	\$14,266	\$20,930	\$2,533	\$6,717	\$14,137	\$14,632	\$8,997	\$4,669		\$91,712	\$390,982		\$482,694
Mortgage and deed taxes	27,741	3	2,491	10,069	14,186	1,391	24,256	7,438	5,033	1,973	1,045		95,625	167,804		263,429
Solid waste management taxes	589	345	2,403	3,571	8,687	2,446	1,739	3,255	3,861	1,058	1,500	\$4,520	33,974	22,479		56,453
<b>Total Other Taxes</b>	<b>\$28,419</b>	<b>\$604</b>	<b>\$9,382</b>	<b>\$27,906</b>	<b>\$43,803</b>	<b>\$6,369</b>	<b>\$32,711</b>	<b>\$24,830</b>	<b>\$23,526</b>	<b>\$12,028</b>	<b>\$7,213</b>	<b>\$4,520</b>	<b>\$221,311</b>	<b>\$581,264</b>		<b>\$802,575</b>
<b>Property Tax Refunds</b>																
Homeowners																
Renters																
<b>Total Property Tax Refunds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total State Taxes</b>	<b>\$64,000</b>	<b>\$8,679</b>	<b>\$398,159</b>	<b>\$489,727</b>	<b>\$1,662,898</b>	<b>\$183,129</b>	<b>\$510,747</b>	<b>\$474,097</b>	<b>\$408,281</b>	<b>\$145,134</b>	<b>\$110,673</b>	<b>\$141,317</b>	<b>\$4,596,840</b>	<b>\$8,018,577</b>	<b>\$329,223</b>	<b>\$12,944,641</b>
<b>Local Property Taxes</b>																
Homeowners (gross)														\$1,936,325		\$1,936,325
Residential recreational														67,607	\$16,693	84,300
Commercial			\$71,400		\$223,200	\$39,900	\$112,500	\$212,500	\$144,100	\$48,000	\$30,200		\$881,800			881,800
Industrial				\$296,200									296,200			296,200
Farm (other than residence)	\$212,000												212,000			212,000
Utility					\$181,400								181,400			181,400
Residential rental (gross)							416,325						416,325			416,325
Minerals		\$156											156			156
<b>Total Property Taxes</b>	<b>\$212,000</b>	<b>\$156</b>	<b>\$71,400</b>	<b>\$296,200</b>	<b>\$404,600</b>	<b>\$39,900</b>	<b>\$528,825</b>	<b>\$212,500</b>	<b>\$144,100</b>	<b>\$48,000</b>	<b>\$30,200</b>	<b>\$0</b>	<b>\$1,987,881</b>	<b>\$2,003,932</b>	<b>\$16,693</b>	<b>\$4,008,506</b>
<b>Other Local Taxes</b>																
Mining production taxes (taconite)		\$62,288											\$62,288			\$62,288
Local sales taxes	\$894	182	\$9,752	\$4,971	\$10,190	\$3,711	\$4,734	\$4,938	\$4,745	\$1,605	\$2,276	\$3,552	51,550	\$58,164	\$4,334	114,049
Local gross earnings taxes					\$44,546								44,546			44,546
<b>Total Other Taxes</b>	<b>\$894</b>	<b>\$62,470</b>	<b>\$9,752</b>	<b>\$4,971</b>	<b>\$54,736</b>	<b>\$3,711</b>	<b>\$4,734</b>	<b>\$4,938</b>	<b>\$4,745</b>	<b>\$1,605</b>	<b>\$2,276</b>	<b>\$3,552</b>	<b>\$158,384</b>	<b>\$58,164</b>	<b>\$4,334</b>	<b>\$220,883</b>
<b>Total Local Taxes</b>	<b>\$212,894</b>	<b>\$62,626</b>	<b>\$81,152</b>	<b>\$301,171</b>	<b>\$459,336</b>	<b>\$43,611</b>	<b>\$533,559</b>	<b>\$217,438</b>	<b>\$148,845</b>	<b>\$49,605</b>	<b>\$32,476</b>	<b>\$3,552</b>	<b>\$2,146,265</b>	<b>\$2,062,096</b>	<b>\$21,027</b>	<b>\$4,229,389</b>
<b>Total State and Local Taxes</b>	<b>\$276,894</b>	<b>\$71,305</b>	<b>\$479,311</b>	<b>\$790,898</b>	<b>\$2,122,234</b>	<b>\$226,740</b>	<b>\$1,044,306</b>	<b>\$691,536</b>	<b>\$557,126</b>	<b>\$194,739</b>	<b>\$143,148</b>	<b>\$144,869</b>	<b>\$6,743,105</b>	<b>\$10,080,674</b>	<b>\$350,250</b>	<b>\$17,174,029</b>

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Based on Nov. 04 Forecast

**Table 2-3**  
**Taxes Imposed by Sector**  
**CY 2002 Taxes**  
**Effective Tax Rates**

Tax Type	Effective Tax Rates
Agriculture	3.51%
Mining	13.82
Construction	4.81
Manufacturing	3.72
Trade, Transportation, Utilities	5.72
Information	3.07
Financial Activities	2.49
Professional and Business Services	2.77
Educational and Health Services	3.30
Leisure and Hospitality	3.18
Other Services	2.78
Overall Average	3.68%

### Taxes by Decile

To summarize the distribution of tax burdens by income level, the population of Minnesota households was divided into ten equal-sized groups or *deciles* of households ranked by household income levels. By definition, the first decile includes the 10 percent of households with the lowest income levels and the tenth decile includes the highest-income 10 percent of households. There were approximately 234,000 taxpaying households in each population decile. The total burden by tax type for each decile is summarized in *Table 2-4*.

Taxpayers in the top decile (incomes of \$102,427 and over) bore 36.8 percent of the total tax burden while having 38.8 percent of total income. By tax type, taxpayers in the top decile paid 52.2 percent of the individual income tax, 28.0 percent of the consumer sales tax, 24.5 percent of the gross residential property tax, and 26.6 percent of business taxes.

**Table 2-4**

**2002 Population Deciles - Amounts (\$ 000's)**

Population Decile	Income Range	Number of Households	Household Income	State Income Taxes		State Sales Tax			Property Tax Refund	State Property Tax	State Excise Taxes	Other State Taxes	
				Individual Income Tax	Corporate Franchise Tax	Purchases by Individuals	Purchases by Businesses	Sales Tax Total				Taxes on Individuals	Taxes on Businesses
First	\$8,354 & under	234,007	\$1,235,590	-\$14,087	\$7,607	\$63,972	\$37,331	\$101,303	-\$37,272	\$7,720	\$32,311	\$11,623	\$14,223
Second	\$8,355 - \$14,065	234,007	2,610,954	-16,966	9,307	80,560	45,022	125,582	-45,303	8,721	41,280	13,157	19,056
Third	\$14,066 - \$20,714	234,007	4,077,633	14,495	12,722	108,470	60,086	168,556	-55,789	12,113	46,981	21,063	25,216
Fourth	\$20,715 - \$27,703	234,007	5,684,091	80,626	17,591	150,025	79,120	229,146	-45,582	15,510	61,657	33,312	34,064
Fifth	\$27,704 - \$35,683	234,007	7,369,943	188,428	20,467	167,970	89,878	257,848	-32,006	17,907	65,674	41,980	40,151
Sixth	\$35,684 - \$45,436	234,007	9,435,329	304,785	24,297	201,831	109,016	310,847	-20,611	21,838	73,602	54,896	47,112
Seventh	\$45,437 - \$57,589	234,007	11,996,892	432,605	30,863	255,437	137,362	392,799	-13,345	27,308	84,747	73,890	57,262
Eighth	\$57,590 - \$74,189	234,007	15,304,686	614,973	35,924	292,737	157,199	449,936	-7,331	30,956	93,682	86,139	66,389
Ninth	\$74,190 - \$102,426	234,007	20,167,679	895,566	47,408	376,801	199,733	576,534	-5,138	39,904	105,083	113,970	76,723
Tenth	\$102,427 & over	234,007	49,428,632	2,728,934	90,440	658,766	387,807	1,046,573	-5,440	87,706	137,975	228,225	123,289
<b>TOTALS</b>		<b>2,340,070</b>	<b>\$127,311,429</b>	<b>\$5,229,358</b>	<b>\$296,626</b>	<b>\$2,356,569</b>	<b>\$1,302,554</b>	<b>\$3,659,123</b>	<b>-\$267,818</b>	<b>\$269,682</b>	<b>\$742,992</b>	<b>\$678,253</b>	<b>\$503,487</b>
Top 5%	Over \$139,652	117,004	\$35,715,029	\$2,058,869	\$61,674	\$439,951	\$266,228	\$706,179	-\$2,968	\$61,618	\$82,787	\$148,697	\$77,829
Top 1%	Over \$323,340	23,401	\$17,636,487	\$1,111,575	\$19,427	\$106,964	\$78,415	\$185,379	-\$538	\$22,795	\$18,908	\$35,905	\$22,495

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Population Decile	Residential Local Property Taxes					Nonresidential Local Property Taxes	Other Local Taxes
	Homeowners Gross	Renters Gross	Owners of Rental Prop.	Total on Rental Prop.	Residential Total *		
First	\$50,027	\$13,024	\$6,276	\$19,301	\$72,164	\$25,549	\$3,486
Second	56,941	20,511	7,045	27,555	86,695	29,519	4,260
Third	84,442	26,863	9,633	36,496	124,723	34,886	5,648
Fourth	99,495	29,415	8,826	38,241	142,455	49,054	7,586
Fifth	135,751	25,623	9,464	35,087	176,078	54,473	8,598
Sixth	180,686	19,636	15,881	35,516	221,898	78,155	10,198
Seventh	216,186	13,615	19,891	33,507	255,917	85,911	12,883
Eighth	267,283	9,832	22,434	32,266	306,871	115,910	14,802
Ninth	335,657	7,729	19,753	27,483	375,018	110,633	19,194
Tenth	509,858	8,028	64,161	72,188	599,753	232,827	35,518
<b>TOTALS</b>	<b>\$1,936,325</b>	<b>\$174,276</b>	<b>\$183,364</b>	<b>\$357,639</b>	<b>\$2,361,571</b>	<b>\$816,917</b>	<b>\$122,173</b>
Top 5%	\$303,988	\$5,074	\$47,215	\$52,288	\$366,633	\$159,981	\$24,159
Top 1%	\$89,984	\$2,466	\$18,255	\$20,721	\$113,610	\$57,934	\$6,521

Local Taxes Total	Total State Taxes			Total State and Local Taxes
	Total on Individuals	Total on Businesses	State Taxes Total	
\$101,199	\$25,168	\$98,261	\$123,429	\$224,628
120,473	32,170	122,664	154,834	275,307
165,256	89,483	155,874	245,356	410,613
199,095	219,932	206,392	426,324	625,419
239,149	368,093	232,354	600,448	839,596
310,252	542,773	273,994	816,766	1,127,018
354,710	750,632	335,498	1,086,130	1,440,840
437,583	988,923	381,744	1,370,667	1,808,250
504,844	1,385,101	464,949	1,850,050	2,354,894
868,099	3,616,302	821,398	4,437,700	5,305,799
<b>\$3,300,661</b>	<b>\$8,018,577</b>	<b>\$3,093,127</b>	<b>\$11,111,704</b>	<b>\$14,412,365</b>
\$550,773	\$2,647,952	\$546,733	\$3,194,686	\$3,745,459
\$178,065	\$1,254,861	\$161,085	\$1,415,946	\$1,594,011

\* Includes seasonal recreational residential (cabins)

In contrast, taxpayers in the bottom decile (incomes of \$8,354 and below) bore 1.5 percent of the total tax burden and received only 1.0 percent of total income. The bottom decile taxpayers had a negative net individual income tax burden due to refundable tax credits. The same households paid 2.7 percent of the consumer sales tax, 2.9 percent of gross residential property tax, and 3.2 percent of business taxes.

### **Overall Effective Tax Rates**

To evaluate the fairness or equity in the distribution of tax burdens by income level, tax burdens must be compared to the underlying distribution of income. This section examines this relationship in more detail.

A key measure used to analyze tax equity is the effective tax rate, which is defined as the ratio of taxes to income. Effective tax rates measure the percentage of income paid in taxes and can be compared for different levels of income. The distribution of tax burdens is characterized as progressive if the effective tax rate rises with income, proportional if it is constant for all income levels, or regressive if it falls as income rises.

Effective tax rates by tax type are reported in *Table 2-5*. Effective tax rates by population deciles for the four major tax types included in this study are presented in *Table 2-6* and are illustrated in *Figure 2-2*. As shown in *Figure 2-2*, the effective tax rate is shown on the vertical axis of the figure; population deciles are shown on the horizontal axis (each decile containing 10 percent of total households).

The results show that the individual income tax was very progressive, while the three remaining taxes were generally regressive. Because the progressive individual income tax accounted for over one-third of the total tax burden, it offsets most of the regressivity of the other state and local taxes. Hence, as a whole, the state and local system of taxation in Minnesota was only slightly regressive overall.

**Table 2-5**

**2002 Population Deciles - Effective Tax Rates**

Population Decile	Income Range	Number of Households	Household Income	State Income Taxes		State Sales Tax			Property Tax Refund	State Property Tax	State Excise Taxes	Other State Taxes	
				Individual Income Tax	Corporate Franchise Tax	Purchases by Individuals	Purchases by Businesses	Sales Tax Total				Taxes on Individuals	Taxes on Businesses
First	\$8,354 & under	234,007	\$1,235,590	- 1.1%	0.6%	5.2%	3.0%	8.2%	- 3.0%	0.6%	2.6%	0.9%	1.2%
Second	\$8,355 - \$14,065	234,007	2,610,954	- 0.6%	0.4%	3.1%	1.7%	4.8%	- 1.7%	0.3%	1.6%	0.5%	0.7%
Third	\$14,066 - \$20,714	234,007	4,077,633	0.4%	0.3%	2.7%	1.5%	4.1%	- 1.4%	0.3%	1.2%	0.5%	0.6%
Fourth	\$20,715 - \$27,703	234,007	5,684,091	1.4%	0.3%	2.6%	1.4%	4.0%	- 0.8%	0.3%	1.1%	0.6%	0.6%
Fifth	\$27,704 - \$35,683	234,007	7,369,943	2.6%	0.3%	2.3%	1.2%	3.5%	- 0.4%	0.2%	0.9%	0.6%	0.5%
Sixth	\$35,684 - \$45,436	234,007	9,435,329	3.2%	0.3%	2.1%	1.2%	3.3%	- 0.2%	0.2%	0.8%	0.6%	0.5%
Seventh	\$45,437 - \$57,589	234,007	11,996,892	3.6%	0.3%	2.1%	1.1%	3.3%	- 0.1%	0.2%	0.7%	0.6%	0.5%
Eighth	\$57,590 - \$74,189	234,007	15,304,686	4.0%	0.2%	1.9%	1.0%	2.9%	0.0%	0.2%	0.6%	0.6%	0.4%
Ninth	\$74,190 - \$102,426	234,007	20,167,679	4.4%	0.2%	1.9%	1.0%	2.9%	0.0%	0.2%	0.5%	0.6%	0.4%
Tenth	\$102,427 & over	234,007	49,428,632	5.5%	0.2%	1.3%	0.8%	2.1%	0.0%	0.2%	0.3%	0.5%	0.2%
TOTALS		2,340,070	\$127,311,429	4.1%	0.2%	1.9%	1.0%	2.9%	- 0.2%	0.2%	0.6%	0.5%	0.4%
Top 5%	Over \$139,652	117,004	\$35,715,029	5.8%	0.2%	1.2%	0.7%	2.0%	0.0%	0.2%	0.2%	0.4%	0.2%
Top 1%	Over \$323,340	23,401	\$17,636,487	6.3%	0.1%	0.6%	0.4%	1.1%	0.0%	0.1%	0.1%	0.2%	0.1%

Population Decile	Residential Local Property Taxes					Nonresidential Local Property Taxes	Other Local Taxes
	Homeowners Gross	Renters Gross	Owners of Rental Prop.	Total on Rental Prop.	Residential Total *		
First	4.0%	1.1%	0.5%	1.6%	5.8%	2.1%	0.3%
Second	2.2%	0.8%	0.3%	1.1%	3.3%	1.1%	0.2%
Third	2.1%	0.7%	0.2%	0.9%	3.1%	0.9%	0.1%
Fourth	1.8%	0.5%	0.2%	0.7%	2.5%	0.9%	0.1%
Fifth	1.8%	0.3%	0.1%	0.5%	2.4%	0.7%	0.1%
Sixth	1.9%	0.2%	0.2%	0.4%	2.4%	0.8%	0.1%
Seventh	1.8%	0.1%	0.2%	0.3%	2.1%	0.7%	0.1%
Eighth	1.7%	0.1%	0.1%	0.2%	2.0%	0.8%	0.1%
Ninth	1.7%	0.0%	0.1%	0.1%	1.9%	0.5%	0.1%
Tenth	1.0%	0.0%	0.1%	0.1%	1.2%	0.5%	0.1%
TOTALS	1.5%	0.1%	0.1%	0.3%	1.9%	0.6%	0.1%
Top 5%	0.9%	0.0%	0.1%	0.1%	1.0%	0.4%	0.1%
Top 1%	0.5%	0.0%	0.1%	0.1%	0.6%	0.3%	0.0%

Local Taxes Total	Total State Taxes			Total State and Local Taxes
	Total on Individuals	Total on Businesses	State Taxes Total	
8.2%	2.0%	8.0%	10.0%	18.2%
4.6%	1.2%	4.7%	5.9%	10.5%
4.1%	2.2%	3.8%	6.0%	10.1%
3.5%	3.9%	3.6%	7.5%	11.0%
3.2%	5.0%	3.2%	8.1%	11.4%
3.3%	5.8%	2.9%	8.7%	11.9%
3.0%	6.3%	2.8%	9.1%	12.0%
2.9%	6.5%	2.5%	9.0%	11.8%
2.5%	6.9%	2.3%	9.2%	11.7%
1.8%	7.3%	1.7%	9.0%	10.7%
2.6%	6.3%	2.4%	8.7%	11.3%
1.5%	7.4%	1.5%	8.9%	10.5%
1.0%	7.1%	0.9%	8.0%	9.0%

\* Includes seasonal recreational residential (cabins)

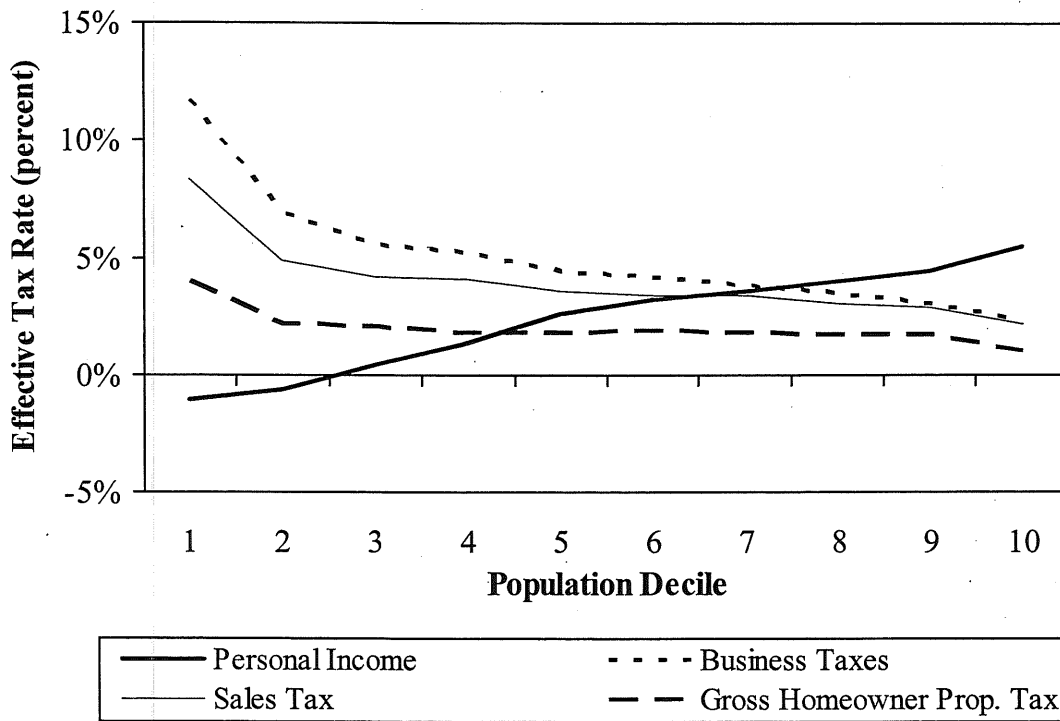


**Table 2-6  
Effective Tax Rates**

2002 Decile	Personal Income	Business Taxes	Sales Tax*	Gross Homeowner Property Tax
First	-1.1%	11.7%	8.4%	4.0%
Second	-0.6%	7.0%	4.9%	2.2%
Third	0.4%	5.6%	4.2%	2.1%
Fourth	1.4%	5.2%	4.1%	1.8%
Fifth	2.6%	4.4%	3.6%	1.8%
Sixth	3.2%	4.2%	3.4%	1.9%
Seventh	3.6%	3.8%	3.4%	1.8%
Eighth	4.0%	3.5%	3.0%	1.7%
Ninth	4.4%	3.0%	2.9%	1.7%
Tenth	5.5%	2.3%	2.2%	1.0%
<b>Total</b>	<b>4.1%</b>	<b>3.4%</b>	<b>2.9%</b>	<b>1.5%</b>

\*Included local sales taxes.

**Figure 2-2  
Effective Tax Rates for 2002  
by Population Decile**



### ***The Individual Income Tax***

Because of its graduated tax rate structure and allowance of personal exemptions and deductions, the individual income tax is, by design, progressive. As seen in *Table 2-5* for 2002, effective tax rates rose significantly with increases in household income. At the low end, the effective tax rate for the income tax was -1.1 percent for the first decile. It rose steadily to 5.5 percent for the tenth decile. First decile households can receive refundable tax credits, which more than offset any income tax liabilities.

### ***Sales Tax on Consumer Purchases***

In agreement with most incidence studies, this analysis finds the consumer portion of the sales tax to be regressive, especially at low-income levels. (The sales tax on business purchases is included with the business tax category.) This is because the share of income represented by taxable consumption tends to be smaller for high-income households than for low-income ones. Hence, tax burdens as a proportion of income tend to decline as one moves up the income scale.

For 2002, the effective consumer sales tax rate for the bottom decile was 5.2 percent, compared to the rate for the top decile of 1.3 percent (see *Table 2-5*). Effective tax rates for the second through ninth deciles, representing 80 percent of all taxpayers, ranged from 3.1 to 1.9 percent.

### ***Residential Property Taxes***

*Homeowner Property Taxes.* The gross property tax on owner-occupied homes showed some variation. For 2002, the effective property tax rate for homeowners tax was 2.2 percent for the second decile, 1.8 percent for the fourth decile, rose to 1.9 percent in the sixth decile and declined to 1.0 percent in the tenth decile.

*Rental Property Taxes.* This study's estimates of the property tax burden on renters are consistent with the approach used for business taxes more generally. Taxes on rental property, like taxes on other business property, are partly shifted to renters in higher rents and partly paid by property owners in lower returns. Using the methodology applied to business taxes more generally, this study estimates that a sizable portion of the 2002 gross rental property tax (58 percent) was borne by the investors who own rental housing; the remaining share (42 percent) was assumed to be shifted to renters in higher rents. The effective tax rate on renters was, therefore, lower than it would have been if all of the tax were passed along in higher rents.

### ***Other Individual Taxes***

The "other state taxes" category in *Table 3-5* includes the motor vehicle registration tax, estate taxes, solid waste management taxes, mortgage and deed taxes, insurance premiums taxes, gambling taxes, and MinnesotaCare Taxes.

### ***Business Taxes***

As shown in *Figure 2-1* previously, business taxes were 30.0 percent of the total tax burden on Minnesota residents. Business taxes include the following:

- Business property taxes
- Corporate franchise tax
- Sales tax paid on purchases of capital equipment and other intermediate inputs
- Motor vehicle registration tax paid by business
- Insurance premiums tax
- Mortgage and deed taxes on business property
- Solid waste management taxes paid by business
- Excise taxes on motor fuels, tobacco, and alcohol
- Gambling taxes
- MinnesotaCare taxes
- Local gross earnings taxes

Although the legal impact of each of these taxes falls on the business entity, each is partially shifted to consumers (in higher prices) and to labor (in lower wages). Only a portion of business taxes are borne by capital owners as a lower rate of return on their investment. Part of the burden of each of these taxes is also shifted to nonresidents. This study estimates the degree to which such shifting occurs and then allocates the estimated burden to Minnesota households based on each household's sources of income and patterns of spending. (An explanation of tax shifting and the method of estimating the incidence of business taxes is included in the Appendix.)

To determine the incidence of each business tax, the study first estimated tax payments made by the different business sectors. Market characteristics of each business sector were used to estimate the degree to which taxes were shifted to consumers, labor, and nonresidents. Finally, taxes paid by each of these taxpayer categories (factors) were distributed to individual households in the sample.

Overall, the burden of Minnesota business taxes on Minnesota households was regressive. The effective tax rate generally fell as income increased. The effective tax rate was 7.0 percent in the second decile; it fell steadily as income rose, reaching 2.3 percent in the tenth decile.

### **Effective Tax Rates in the First Decile**

As shown in *Table 2-5*, low-income taxpayers in the first decile had significantly higher sales, excise, property, and business tax burdens than taxpayers with higher incomes. The total effective tax rate of 18.2 percent for taxpayers in the first decile was much higher than the rates in other deciles. This 18.2 percent effective tax rate includes an adjustment to exclude negative incomes.

The effective tax rate for the first decile is overstated for several reasons. First, the lowest decile includes households who have temporarily low incomes or have better overall economic well-being than was indicated by their money income in 2002. A portion of retirees, for example, may be living primarily on savings or other assets but report small amounts of annual money income received. Due to unemployment or business fluctuations, some households who normally have higher incomes are also included in the first decile. A small portion of all first-decile households were in this decile only because they reported business losses or large capital losses for income tax purposes in 2002.

Second, effective tax rates for the first decile are overstated because income is understated. The incidence sample was unable to identify all sources of income. Many first-decile households filed neither an income tax nor a property tax refund return. The incidence study identified some other sources of income for these households, but many had additional sources of income that were not identified. An underestimate of household income generally causes effective tax rates to be overestimated.

Household income is also underestimated in the *Consumer Expenditure Survey* used to estimate sales and excise tax burdens. To the extent that income was subject to relatively greater underreporting than consumption, particularly for low-income households, the taxable consumption expenditures calculated from CES will be overstated.

While this study does adjust for negative incomes for a small number of households, no attempt has been made to adjust for possible underreported or unidentified sources of income or for other differences between transitory and long run measures of income. By including only money income, the substantial amounts of food stamps and housing subsidies received by the poor are ignored in this study. Consequently, money income at the low end of the income distribution does not provide an accurate measure of overall economic well-being. For all of these reasons, effective tax rates in the first decile are overstated by an unknown but possibly significant amount.

## Projected Results, 2007

This section examines the state and local tax burdens imposed on Minnesota taxpayers in 2007. The taxes included are the same as those analyzed for 2002.

### **Tax Incidence Projections to 2007**

To analyze tax incidence for years beyond 2002 various methods were used to project 2002 data into the future. These projections were accomplished in several ways.

***Income*** – The HITS income tax model contains assumptions, derived from the state economic forecast, about expected growth in each of the various categories of income: wages, interest, pensions etc. These expected growth rates were applied to the amount of each type of income that each household received in 2002. Adding up these components provides an estimate of total income in 2007 for the household. Because the various types of income are assumed to grow at different rates, some households in the model will experience faster income growth than will others. Therefore, the assignment of a given household to a decile ranking may change.

***Population*** – Estimates are that the number of Minnesota households will grow by over 7.25 percent between 2002 and 2007. Therefore, we increase the number of households assumed to be represented by each household in the incidence sample by that percentage.

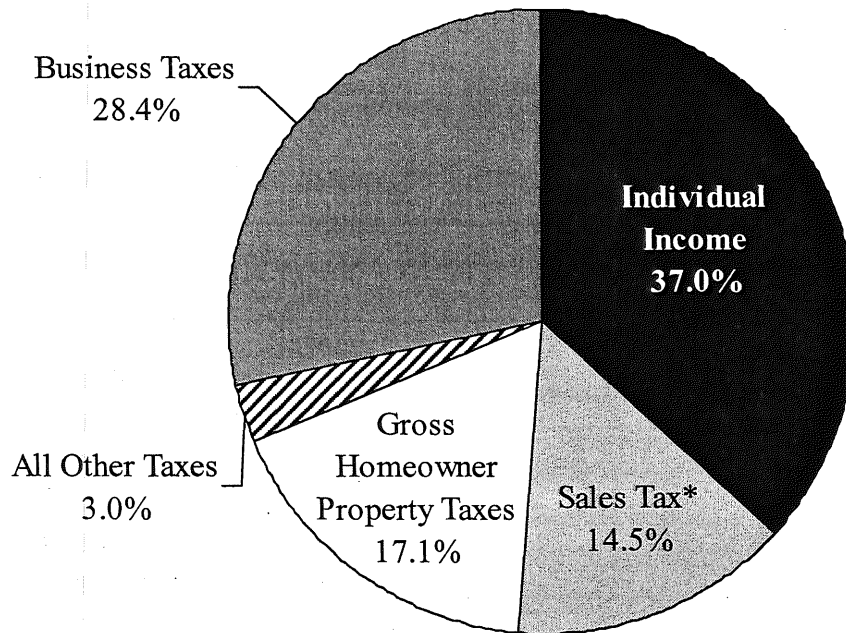
***Taxes*** – All taxes were adjusted for tax law change that had either gone into effect or, under current law, are scheduled to go into effect. The major change is the 6-year phaseout of limited market value in property taxation. Income tax projections were from the HITS income tax model projections. For the remaining taxes in the study, estimates were produced of total collections based on the most current Department of Finance forecast, and also divided into tax liabilities imposed directly on Minnesota households, amounts imposed on nonresident households and amounts imposed on business. The business estimates were further disaggregated by economic sector. The business taxes were assumed to be shifted in the same manner as were the corresponding 2002 business taxes. Those taxes imposed directly on households were assumed to be allocated to the various households in the sample in the same way as were the 2002 taxes.

## The Total Tax Burden

For 2007, Minnesota residents are expected to pay a total of \$18.7 billion in taxes while earning \$168.3 billion in total money income. Minnesota residents thus will pay 11.1 percent of their total income in state and local taxes.

As shown in *Figure 3-1*, the individual income tax accounts for 37.0 percent of the total tax burden on Minnesota residents. Homeowner property taxes and the consumer sales tax (including sales tax on motor vehicles) were 17.1 percent and 14.5 percent of the total, respectively. Taxes on business accounted for 28.4 percent. All other taxes make up the remaining 3.0 percent of total state and local taxes paid by Minnesota residents.

**Figure 3-1**  
**2007 Distribution of Minnesota**  
**State and Local Tax Burdens by Tax**



\*Consumer portion.

Details of Minnesota tax collections before and after tax shifting are shown in *Table 3-1*. Of the \$21.9 billion in total tax collections in 2007, \$18.7 billion or over 85 percent is paid by Minnesotans, directly or indirectly. The rest is exported to taxpayers out of state.

As was the case in 2002, the income tax is borne almost entirely by Minnesota residents, who pay over 96 percent of total collections. Residents of Minnesota pay 82.3 percent of the general sales tax. At the other end of the scale Minnesotans pay only 11.0 percent of the property taxes on industrial property.

Of the total, \$8.1 billion or 36.9 percent of Minnesota taxes are imposed on businesses. Of that amount \$2.8 billion or nearly 35 percent is exported.

The Suits index numbers show that most taxes levied in Minnesota are regressive to some degree. Only a few taxes, and only one large tax, the personal income tax, are progressive (Suits index greater than zero). The consumption taxes as a group are the most regressive, with a Suits index of  $-0.183$ . Nevertheless the progressive income tax and the few other progressive taxes are nearly sufficient to offset the many regressive taxes, so that the Suits index of the tax system as a whole is only slightly regressive at  $-0.029$ .

### **Taxes by Sector**

*Table 3-2* shows the distribution of taxes imposed on business by industrial sector, as well as those taxes imposed solely on households.

There is considerable variation in the tax amounts attributed to each sector, with trade, transportation and utilities, and financial activities, accounting for large amounts and agriculture and mining having much smaller amounts. In order to judge the relative magnitudes of these by sector, we can present them as effective tax rates, as is done in *Table 3-3*.



**Table 3-1**  
**2007 Tax Collection Amounts (\$ Millions)**

Tax Type	Total	As Imposed			After Shifting		Suite Index Decile
		MN HH's	NR	Business	Minnesota	Exported	
<b>State Taxes</b>							
<b>Taxes on Income and Estates</b>							
Individual income tax	\$7,135	\$6,900	\$235		\$6,900	\$235	0.185
Corporate franchise tax <sup>1</sup>	696			\$696	369	327	-0.126
Estate tax	92	92			92		0.271
<b>Total Income and Estate Taxes</b>	<b>\$7,922</b>	<b>\$6,991</b>	<b>\$235</b>	<b>\$696</b>	<b>\$7,360</b>	<b>\$562</b>	<b>0.170</b>
<b>Taxes on Consumption</b>							
Total sales tax	\$5,074	\$2,712	\$174	\$2,188	\$4,188	\$886	-0.152
General sales/use tax	4,456	2,302	174	1,980	3,667	789	-0.152
Sales tax on motor vehicles	618	410		208	521	97	-0.155
Motor fuels excise taxes	692			692	564	128	-0.251
Alcoholic beverage excise taxes	68			68	61	7	-0.182
Cigarette and tobacco excise taxes	176			176	170	5	-0.523
Insurance premiums taxes	387			387	286	101	-0.138
Gambling taxes	61			61	59	2	-0.359
MinnesotaCare taxes	428			428	371	57	-0.276
<b>Total Consumption Taxes</b>	<b>\$6,886</b>	<b>\$2,712</b>	<b>\$174</b>	<b>\$4,000</b>	<b>\$5,699</b>	<b>\$1,186</b>	<b>-0.183</b>
<b>Taxes on Property</b>							
Residential recreational	\$62	\$50	\$12		\$50	\$12	-0.189
Commercial	421			\$421	221	200	-0.106
Industrial	124			124	14	110	-0.145
Utility	64			64	40	24	-0.142
<b>Total Property Taxes</b>	<b>\$671</b>	<b>\$50</b>	<b>\$12</b>	<b>\$609</b>	<b>\$325</b>	<b>\$346</b>	<b>-0.110</b>
<b>Other Taxes</b>							
Motor vehicle registration tax	\$542	\$439		\$103	\$494	\$48	-0.119
Mortgage and deed taxes	242	131		111	193	49	-0.118
Solid waste management taxes	62	26		36	58	4	-0.180
<b>Total Other Taxes</b>	<b>\$847</b>	<b>\$596</b>		<b>\$251</b>	<b>\$746</b>	<b>\$101</b>	<b>-0.123</b>
<b>Property Tax Refunds</b>							
Homeowners	-\$207	-\$207			-\$207		0.681
Renters	-154	-154			-154		0.878
<b>Total Property Tax Refunds</b>	<b>-\$361</b>	<b>-\$361</b>			<b>-\$361</b>		<b>0.775</b>
<b>Total State Taxes</b>	<b>\$15,965</b>	<b>\$9,987</b>	<b>\$421</b>	<b>\$5,556</b>	<b>\$13,769</b>	<b>\$2,196</b>	<b>0.026</b>
<b>Local Taxes</b>							
Property taxes (Pay 2007)	\$5,729	\$3,303	\$28	\$2,398	\$4,756	\$974	-0.183
General property tax (gross-credits)	5,651	3,303	28	2,320	4,755	896	-0.183
Homeowners (gross)	3,190	3,190			3,190	0	-0.160
Residential recreational	141	113	28		113	28	-0.189
Commercial <sup>2</sup>	961			961	505	456	-0.106
Industrial	283			283	31	252	-0.145
Farm (other than residence) <sup>3</sup>	272			272	266	6	-0.289
Rental housing	629			629	540	89	-0.363
Utility	175			175	110	65	-0.142
Minerals <sup>4</sup>	0			0	0	0	0.036
Mining production taxes (taconite)	78			78	1	78	0.176
Local sales taxes <sup>5</sup>	130	67	5	58	107	23	-0.152
Local gross earnings taxes <sup>6</sup>	53			53	33	20	-0.142
<b>Total Local Taxes</b>	<b>\$5,913</b>	<b>\$3,371</b>	<b>\$33</b>	<b>\$2,509</b>	<b>\$4,896</b>	<b>\$1,017</b>	<b>-0.182</b>
<b>Total State and Local Taxes</b>	<b>\$21,877</b>	<b>\$13,358</b>	<b>\$454</b>	<b>\$8,065</b>	<b>\$18,665</b>	<b>\$3,213</b>	<b>-0.029</b>

<sup>1</sup>Includes taconite/iron ore occupation tax.

<sup>3</sup>Includes Timber, net of sustainable forest incentive payments.

<sup>2</sup>Includes resorts and railroads.

<sup>4</sup>Amount less than \$500,000.

**Table 3-2  
Minnesota Taxes Imposed by NAICS Sector CY 2007 Taxes - \$ Thousands**

Tax Type	Agriculture	Mining	Const.	Mfg.	Trade Trans. Utilities	Info.	Financial Activities	Prof. Ed. & Bus. Services	Ed. & Health Services	Leisure and Hospitality	Government		Total Business	Households	Non-Residents	Total
											Other Services	Govt.				
<b>State Taxes</b>																
<b>Taxes on Income and Estates</b>																
Individual income tax														\$6,899,540	\$235,160	\$7,134,700
Corporate franchise tax	\$6,692	\$3,668	\$26,675	\$159,831	\$186,013	\$35,734	\$66,703	\$186,585	\$9,598	\$9,098	\$5,527		\$696,125			696,125
Estate tax														91,500		91,500
<b>Total Income and Estate Taxes</b>	<b>\$6,692</b>	<b>\$3,668</b>	<b>\$26,675</b>	<b>\$159,831</b>	<b>\$186,013</b>	<b>\$35,734</b>	<b>\$66,703</b>	<b>\$186,585</b>	<b>\$9,598</b>	<b>\$9,098</b>	<b>\$5,527</b>		<b>\$696,125</b>	<b>\$6,991,040</b>	<b>\$235,160</b>	<b>\$7,922,325</b>
<b>Taxes on Consumption</b>																
Total general sales tax	\$33,587	\$7,419	\$387,403	\$219,074	\$436,530	\$148,087	\$197,267	\$215,647	\$207,507	\$82,759	\$98,904	\$154,282	\$2,188,466	\$2,711,748	\$174,015	\$5,074,229
General sales/use tax	33,382	6,957	377,056	189,428	390,179	142,458	181,287	184,490	182,131	61,625	86,712	144,645	1,980,351	2,301,513	174,015	4,455,879
Sales tax on motor vehicles	205	461	10,346	29,646	46,351	5,629	15,981	31,157	25,375	21,134	12,192	9,637	208,114	410,236		618,350
Motor fuels excise taxes					692,276								692,276			692,276
Alcoholic beverage excise taxes				12,246	55,786								68,032			68,032
Cigarette and tobacco excise taxes					175,762								175,762			175,762
Insurance premiums taxes							386,949						386,949			386,949
Gambling taxes					25,939					34,900			60,839			60,839
MinnesotaCare taxes			14	1,791	94,822	839	1,000	24,637	250,345	3,066	349	50,669	427,533			427,533
<b>Total Consumption Taxes</b>	<b>\$33,587</b>	<b>\$7,419</b>	<b>\$387,417</b>	<b>\$233,110</b>	<b>\$1,481,115</b>	<b>\$148,926</b>	<b>\$585,216</b>	<b>\$240,283</b>	<b>\$457,852</b>	<b>\$120,726</b>	<b>\$99,253</b>	<b>\$204,951</b>	<b>\$3,999,855</b>	<b>\$2,711,748</b>	<b>\$174,015</b>	<b>\$6,885,618</b>
<b>Taxes on Property</b>																
Residential recreational														\$49,723	\$12,277	\$62,000
Commercial			\$34,900		\$100,100	\$19,500	\$55,300	\$104,200	\$70,500	\$21,900	\$14,600		\$421,000			421,000
Industrial				\$124,000									124,000			124,000
Utility					64,000								64,000			64,000
<b>Total Property Taxes</b>			<b>\$34,900</b>	<b>\$124,000</b>	<b>\$164,100</b>	<b>\$19,500</b>	<b>\$55,300</b>	<b>\$104,200</b>	<b>\$70,500</b>	<b>\$21,900</b>	<b>\$14,600</b>		<b>\$609,000</b>	<b>\$49,723</b>	<b>\$12,277</b>	<b>\$671,000</b>
<b>Other Taxes</b>																
Motor vehicle registration tax	\$100	\$287	\$5,041	\$16,028	\$23,515	\$2,845	\$7,546	\$15,883	\$16,439	\$10,108	\$5,245		\$103,038	\$439,266		\$542,304
Mortgage and deed taxes	32,344	3	2,905	11,740	16,539	1,621	28,280	8,672	5,868	2,300	1,218		111,492	130,758		242,250
Solid waste management taxes	631	370	2,575	3,826	9,309	2,621	1,863	3,488	4,138	1,134	1,607	\$4,844	36,407	25,770		62,177
<b>Total Other Taxes</b>	<b>\$33,075</b>	<b>\$660</b>	<b>\$10,521</b>	<b>\$31,594</b>	<b>\$49,364</b>	<b>\$7,088</b>	<b>\$37,690</b>	<b>\$28,043</b>	<b>\$26,445</b>	<b>\$13,542</b>	<b>\$8,071</b>	<b>\$4,844</b>	<b>\$250,937</b>	<b>\$595,794</b>		<b>\$846,731</b>
<b>Property Tax Refunds</b>																
Homeowners																-\$206,560
Renters																-\$154,300
<b>Total Property Tax Refunds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>-\$360,860</b>
<b>Total State Taxes</b>	<b>\$73,354</b>	<b>\$11,747</b>	<b>\$459,513</b>	<b>\$548,536</b>	<b>\$1,880,591</b>	<b>\$211,248</b>	<b>\$744,909</b>	<b>\$559,111</b>	<b>\$564,395</b>	<b>\$165,266</b>	<b>\$127,451</b>	<b>\$209,795</b>	<b>\$5,555,917</b>	<b>\$9,987,445</b>	<b>\$421,451</b>	<b>\$15,964,814</b>
<b>Local Property Taxes</b>																
Homeowners (gross)														\$3,190,400		\$3,190,400
Residential recreational														113,079	\$27,921	141,000
Commercial			\$78,100		\$237,900	\$43,500	\$123,700	\$231,800	\$157,500	\$56,100	\$32,400		\$961,000			961,000
Industrial				\$283,000									283,000			283,000
Farm (other than residence)	\$271,668												271,668			271,668
Utility					\$175,000								175,000			175,000
Residential rental (gross)							628,700						628,700			628,700
Minerals		\$156											156			156
<b>Total Property Taxes</b>	<b>\$271,668</b>	<b>\$156</b>	<b>\$78,100</b>	<b>\$283,000</b>	<b>\$412,900</b>	<b>\$43,500</b>	<b>\$752,400</b>	<b>\$231,800</b>	<b>\$157,500</b>	<b>\$56,100</b>	<b>\$32,400</b>	<b>\$0</b>	<b>\$2,319,524</b>	<b>\$3,303,479</b>	<b>\$27,921</b>	<b>\$5,650,924</b>
<b>Other Local Taxes</b>																
Mining production taxes (taconite)		\$78,429											\$78,429			\$78,429
Local sales taxes	\$976	203	\$11,021	\$5,537	\$11,404	\$4,164	\$5,299	\$5,392	\$5,323	\$1,801	\$2,534	\$4,228	\$7,882	\$67,269	\$5,086	\$130,238
Local gross earnings taxes					\$53,042								53,042			53,042
<b>Total Other Taxes</b>	<b>\$976</b>	<b>\$78,632</b>	<b>\$11,021</b>	<b>\$5,537</b>	<b>\$64,446</b>	<b>\$4,164</b>	<b>\$5,299</b>	<b>\$5,392</b>	<b>\$5,323</b>	<b>\$1,801</b>	<b>\$2,534</b>	<b>\$4,228</b>	<b>\$189,353</b>	<b>\$67,269</b>	<b>\$5,086</b>	<b>\$261,708</b>
<b>Total Local Taxes</b>	<b>\$272,644</b>	<b>\$78,788</b>	<b>\$89,121</b>	<b>\$288,537</b>	<b>\$477,346</b>	<b>\$47,664</b>	<b>\$757,699</b>	<b>\$237,192</b>	<b>\$162,823</b>	<b>\$57,901</b>	<b>\$34,934</b>	<b>\$4,228</b>	<b>\$2,508,877</b>	<b>\$3,370,748</b>	<b>\$33,007</b>	<b>\$5,912,632</b>
<b>Total State and Local Taxes</b>	<b>\$345,998</b>	<b>\$90,535</b>	<b>\$548,634</b>	<b>\$837,073</b>	<b>\$2,357,937</b>	<b>\$258,911</b>	<b>\$1,502,608</b>	<b>\$796,304</b>	<b>\$727,219</b>	<b>\$223,167</b>	<b>\$163,386</b>	<b>\$214,023</b>	<b>\$8,064,794</b>	<b>\$13,358,193</b>	<b>\$454,458</b>	<b>\$21,877,446</b>

**Table 3-3**  
**Taxes Imposed by Sector**  
**CY 2007 Taxes**  
**Effective Tax Rates**

Tax Type	Effective Tax Rates
Agriculture	3.90%
Mining	15.02
Construction	4.09
Manufacturing	3.47
Trade, Transportation, Utilities	5.57
Information	3.10
Financial Activities	2.52
Professional and Business Services	2.51
Educational and Health Services	3.02
Leisure and Hospitality	2.94
Other Services	2.95
Overall Average	3.47%

### **Taxes by Decile**

To summarize the distribution of tax burdens by income level, the population of Minnesota households was divided into ten equal-sized groups or *deciles* of households ranked by household income levels. By definition, the first decile includes the 10 percent of households with the lowest income levels and the tenth decile includes the highest-income 10 percent of households. There were approximately 251,000 taxpaying households in each population decile. The total burden by tax type for each decile is summarized in *Table 3-4*.

Taxpayers in the top decile (incomes of \$124,564 and over) bore 36.9 percent of the total tax burden while having 39.8 percent of total income. By tax type, taxpayers in the top decile paid 52.4 percent of the individual income tax, 28.0 percent of the consumer sales tax, 24.4 percent of the gross residential property tax, and 26.6 percent of business taxes.

**Table 3-4**

**2007 Population Deciles - Amounts (\$ 000's)**

Population Decile	Income Range	Number of Households	Household Income	State Income Taxes		State Sales Tax			Property Tax Refund	State Property Tax	State Excise Taxes	Other State Taxes	
				Individual Income Tax	Corporate Franchise Tax	Purchases by Individuals	Purchases by Businesses	Sales Tax Total				Taxes on Individuals	Taxes on Businesses
First	\$10,053 & under	250,982	\$1,563,187	-\$21,007	\$9,297	\$73,418	\$41,289	\$114,707	-\$47,344	\$9,311	\$33,546	\$11,583	\$24,075
Second	\$10,054 - \$16,799	250,982	3,359,834	-21,690	11,516	92,437	49,790	142,228	-57,985	10,121	42,927	13,678	32,544
Third	\$16,800 - \$24,825	250,982	5,226,612	23,799	15,967	126,519	68,351	194,870	-72,884	14,856	50,365	22,323	43,494
Fourth	\$24,826 - \$33,259	250,982	7,307,147	122,006	21,715	172,579	88,561	261,140	-59,874	18,412	65,691	35,049	57,910
Fifth	\$33,260 - \$43,196	250,982	9,564,042	269,996	25,363	195,037	102,394	297,431	-44,037	21,593	70,546	43,623	69,104
Sixth	\$43,197 - \$55,645	250,982	12,343,303	410,875	30,344	231,770	122,790	354,560	-30,346	25,961	79,052	55,682	80,499
Seventh	\$55,646 - \$70,318	250,982	15,716,606	566,977	38,256	291,207	154,206	445,413	-20,639	32,117	90,676	73,963	98,828
Eighth	\$70,319 - \$90,052	250,982	19,989,490	793,202	45,398	340,307	181,807	522,114	-11,503	38,589	100,456	88,293	117,213
Ninth	\$90,053 - \$124,563	250,982	26,316,386	1,140,704	58,266	428,795	224,122	652,916	-8,023	48,121	112,616	113,927	134,177
Tenth	\$124,564 & over	250,982	66,939,010	3,614,677	112,737	759,679	442,875	1,202,554	-8,225	105,470	150,022	229,173	207,617
<b>TOTALS</b>		<b>2,509,820</b>	<b>\$168,325,618</b>	<b>\$6,899,540</b>	<b>\$368,858</b>	<b>\$2,711,748</b>	<b>\$1,476,185</b>	<b>\$4,187,933</b>	<b>-\$360,860</b>	<b>\$324,552</b>	<b>\$795,898</b>	<b>\$687,294</b>	<b>\$865,461</b>
Top 5%	Over \$171,906	125,527	\$48,961,013	\$2,757,171	\$76,287	\$501,439	\$301,855	\$803,294	-\$4,534	\$73,333	\$89,569	\$149,221	\$128,182
Top 1%	Over \$407,522	25,108	\$24,873,250	\$1,512,388	\$24,054	\$122,498	\$89,048	\$211,545	-\$851	\$26,626	\$20,563	\$35,922	\$35,737

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Population Decile	Residential Local Property Taxes					Nonresidential Local Property Taxes	Other Local Taxes
	Homeowners Gross	Renters Gross	Owners of Rental Prop.	Total on Rental Prop.	Residential Total *		
First	\$81,520	\$19,668	\$8,457	\$28,125	\$114,390	\$27,130	\$3,962
Second	91,111	30,973	8,654	39,628	134,416	26,919	4,861
Third	141,012	40,566	14,076	54,642	201,986	41,888	6,572
Fourth	162,621	44,420	12,011	56,432	226,945	52,376	8,714
Fifth	226,299	38,694	15,448	54,142	289,205	61,056	9,973
Sixth	297,142	29,652	22,124	51,776	358,444	80,003	11,780
Seventh	355,198	20,561	27,822	48,383	413,991	101,202	14,788
Eighth	457,251	14,847	36,536	51,383	520,882	136,621	17,330
Ninth	546,306	11,672	29,263	40,936	607,110	124,954	21,947
Tenth	831,940	12,122	102,508	114,631	976,188	259,305	41,182
<b>TOTALS</b>	<b>\$3,190,400</b>	<b>\$263,177</b>	<b>\$276,901</b>	<b>\$540,078</b>	<b>\$3,843,557</b>	<b>\$911,453</b>	<b>\$141,109</b>
Top 5%	\$495,093	\$7,662	\$76,497	\$84,159	\$596,575	\$176,786	\$27,716
Top 1%	\$146,217	\$3,725	\$29,209	\$32,933	\$184,008	\$64,017	\$7,522

Local Taxes Total	Total State Taxes			Total State and Local Taxes
	Total on Individuals	Total on Businesses	State Taxes Total	
\$145,482	\$18,737	\$115,430	\$134,168	\$279,650
166,195	28,057	145,282	173,340	339,535
250,446	102,541	190,249	292,790	543,236
288,035	273,231	248,819	522,050	810,085
360,233	468,472	285,146	753,618	1,113,851
450,227	672,170	334,457	1,006,627	1,456,854
529,982	916,085	409,505	1,325,590	1,855,572
674,832	1,215,685	478,078	1,693,763	2,368,595
754,011	1,684,139	568,565	2,252,704	3,006,714
1,276,674	4,608,327	1,005,698	5,614,025	6,890,699
<b>\$4,896,116</b>	<b>\$9,987,445</b>	<b>\$3,781,229</b>	<b>\$13,768,674</b>	<b>\$18,664,791</b>
\$801,077	\$3,410,914	\$661,609	\$4,072,523	\$4,873,600
\$255,547	\$1,672,093	\$193,891	\$1,865,984	\$2,121,531

\* Includes seasonal recreational residential (cabins).

In contrast, taxpayers in the bottom decile (incomes of \$10,053 and below) bore 1.5 percent of the total tax burden and received only 0.9 percent of total income. The bottom decile taxpayers had a negative net individual income tax burden due to the refundable tax credits. The same households paid 2.7 percent of the consumer sales tax, 2.6 percent of gross residential property tax, and 3.1 percent of business taxes.

### **Overall Effective Tax Rates**

In a similar fashion as was done for taxes paid in 2002, effective tax rates by tax type for 2007 are reported in *Table 3-5*. Effective tax rates by population deciles for the four major tax types included in this study are presented in *Table 3-6* and are illustrated in *Figure 3-2*. As shown in *Figure 3-2*, the effective tax rate is shown on the vertical axis of the figure; population deciles are shown on the horizontal axis (each decile containing 10 percent of total taxpayers).

The results show that the individual income tax is progressive, while the three remaining taxes are generally regressive. Because the progressive individual income tax accounts for over one-third of the total tax burden, it offsets most of the regressivity of the other state and local taxes. Hence, as a whole, the state and local system of taxation in Minnesota is only slightly regressive overall.

### ***The Individual Income Tax***

Because of its graduated tax rate structure and allowance of personal exemptions and deductions, the individual income tax is, by design, progressive. As seen in *Table 3-5* for 2007, effective tax rates rise significantly with increases in household income. At the low end, the effective tax rate for the income tax is -1.3 percent for the first decile. It rises steadily to 5.4 percent for the tenth decile. First decile households can receive refundable tax credits, which more than offset any income tax liabilities.

**Table 3-5**

**2007 Population Deciles - Effective Tax Rates**

Population Decile	Income Range	Number of Households	Household Income	State Income Taxes		State Sales Tax			Property Tax Refund	State Property Tax	State Excise Taxes	Other State Taxes	
				Individual Income Tax	Corporate Franchise Tax	Purchases by Individuals	Purchases by Businesses	Sales Tax Total				Taxes on Individuals	Taxes on Businesses
First	\$10,053 & under	250,982	\$1,563,187	- 1.3%	0.6%	4.7%	2.6%	7.3%	- 3.0%	0.6%	2.1%	0.7%	1.5%
Second	\$10,054 - \$16,799	250,982	3,359,834	- 0.6%	0.3%	2.8%	1.5%	4.2%	- 1.7%	0.3%	1.3%	0.4%	1.0%
Third	\$16,800 - \$24,825	250,982	5,226,612	0.5%	0.3%	2.4%	1.3%	3.7%	- 1.4%	0.3%	1.0%	0.4%	0.8%
Fourth	\$24,826 - \$33,259	250,982	7,307,147	1.7%	0.3%	2.4%	1.2%	3.6%	- 0.8%	0.3%	0.9%	0.5%	0.8%
Fifth	\$33,260 - \$43,196	250,982	9,564,042	2.8%	0.3%	2.0%	1.1%	3.1%	- 0.5%	0.2%	0.7%	0.5%	0.7%
Sixth	\$43,197 - \$55,645	250,982	12,343,303	3.3%	0.2%	1.9%	1.0%	2.9%	- 0.2%	0.2%	0.6%	0.5%	0.7%
Seventh	\$55,646 - \$70,318	250,982	15,716,606	3.6%	0.2%	1.9%	1.0%	2.8%	- 0.1%	0.2%	0.6%	0.5%	0.6%
Eighth	\$70,319 - \$90,052	250,982	19,989,490	4.0%	0.2%	1.7%	0.9%	2.6%	- 0.1%	0.2%	0.5%	0.4%	0.6%
Ninth	\$90,053 - \$124,563	250,982	26,316,386	4.3%	0.2%	1.6%	0.9%	2.5%	0.0%	0.2%	0.4%	0.4%	0.5%
Tenth	\$124,564 & over	250,982	66,939,010	5.4%	0.2%	1.1%	0.7%	1.8%	0.0%	0.2%	0.2%	0.3%	0.3%
<b>TOTALS</b>		2,509,820	\$168,325,618	4.1%	0.2%	1.6%	0.9%	2.5%	- 0.2%	0.2%	0.5%	0.4%	0.5%
Top 5%	Over \$171,906	125,527	\$48,961,013	5.6%	0.2%	1.0%	0.6%	1.6%	0.0%	0.1%	0.2%	0.3%	0.3%
Top 1%	Over \$407,522	25,108	\$24,873,250	6.1%	0.1%	0.5%	0.4%	0.9%	0.0%	0.1%	0.1%	0.1%	0.1%

Population Decile	Residential Local Property Taxes					Nonresidential Local Property Taxes	Other Local Taxes
	Homeowners Gross	Renters Gross	Owners of Rental Prop.	Total on Rental Prop.	Residential Total *		
First	5.2%	1.3%	0.5%	1.8%	7.3%	1.7%	0.3%
Second	2.7%	0.9%	0.3%	1.2%	4.0%	0.8%	0.1%
Third	2.7%	0.8%	0.3%	1.0%	3.9%	0.8%	0.1%
Fourth	2.2%	0.6%	0.2%	0.8%	3.1%	0.7%	0.1%
Fifth	2.4%	0.4%	0.2%	0.6%	3.0%	0.6%	0.1%
Sixth	2.4%	0.2%	0.2%	0.4%	2.9%	0.6%	0.1%
Seventh	2.3%	0.1%	0.2%	0.3%	2.6%	0.6%	0.1%
Eighth	2.3%	0.1%	0.2%	0.3%	2.6%	0.7%	0.1%
Ninth	2.1%	0.0%	0.1%	0.2%	2.3%	0.5%	0.1%
Tenth	1.2%	0.0%	0.2%	0.2%	1.5%	0.4%	0.1%
<b>TOTALS</b>	1.9%	0.2%	0.2%	0.3%	2.3%	0.5%	0.1%
Top 5%	1.0%	0.0%	0.2%	0.2%	1.2%	0.4%	0.1%
Top 1%	0.6%	0.0%	0.1%	0.1%	0.7%	0.3%	0.0%

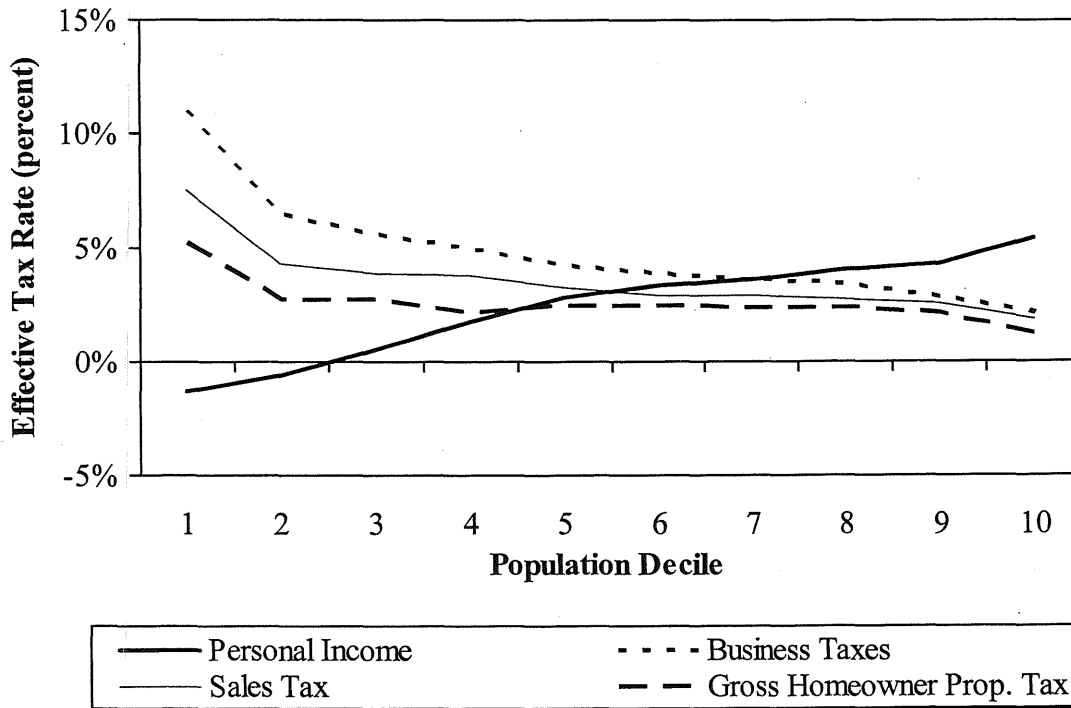
Local Taxes Total	Total State Taxes			Total State and Local Taxes	
	Total on Individuals	Total on Businesses	State Taxes Total		
9.3%	1.2%	7.4%	8.6%	17.9%	
4.9%	0.8%	4.3%	5.2%	10.1%	
4.8%	2.0%	3.6%	5.6%	10.4%	
3.9%	3.7%	3.4%	7.1%	11.1%	
3.8%	4.9%	3.0%	7.9%	11.6%	
3.6%	5.4%	2.7%	8.2%	11.8%	
3.4%	5.8%	2.6%	8.4%	11.8%	
3.4%	6.1%	2.4%	8.5%	11.8%	
2.9%	6.4%	2.2%	8.6%	11.4%	
1.9%	6.9%	1.5%	8.4%	10.3%	
<b>TOTALS</b>	2.9%	5.9%	2.2%	8.2%	11.1%
1.6%	7.0%	1.4%	8.3%	10.0%	
1.0%	6.7%	0.8%	7.5%	8.5%	

\*Includes seasonal recreational residential (cabins).

**Table 3-6  
Effective Tax Rates**

<b>2005 Decile</b>	<b>Personal Income</b>	<b>Business Taxes</b>	<b>Sales Tax*</b>	<b>Gross Homeowner Property Tax</b>
1	-1.3%	11.0%	7.5%	5.2%
2	-0.6%	6.4%	4.3%	2.7%
3	0.5%	5.6%	3.8%	2.7%
4	1.7%	5.0%	3.7%	2.2%
5	2.8%	4.2%	3.2%	2.4%
6	3.3%	3.8%	2.9%	2.4%
7	3.6%	3.6%	2.9%	2.3%
8	4.0%	3.4%	2.7%	2.3%
9	4.3%	2.8%	2.5%	2.1%
10	5.4%	2.1%	1.8%	1.2%
<b>Total</b>	<b>4.1%</b>	<b>3.2%</b>	<b>2.6%</b>	<b>1.9%</b>

**Figure 3-2  
Effective Tax Rates for 2007  
by Population Decile**



### ***Sales Tax on Consumer Purchases***

The consumer portion of the sales tax is regressive, especially at low income levels. (The sales tax on business purchases is included with the business tax category.) This is because the share of income represented by taxable consumption tends to be smaller for high-income households than for low-income ones. Hence, tax burdens as a proportion of income tend to decline as one moves up the income scale.

For 2007, the effective consumer sales tax rate for the bottom decile is 4.7 percent, compared to the rate for the top decile of 1.1 percent (see *Table 3-5*). Effective tax rates for the second through ninth deciles, representing 80 percent of all taxpayers, ranged from 2.8 to 1.6 percent.

### ***Residential Property Taxes***

*Homeowner Property Taxes.* For 2007, the net effective property tax rate for homeowners tax is 2.7 percent for the second decile, 2.4 percent in the fifth decile, 2.1 percent in the ninth decile, and declines to 1.2 percent in the tenth decile.

*Rental Property Taxes.* This study's estimates of the property tax burden on renters are consistent with the approach used for business taxes more generally. Taxes on rental property, like taxes on other business property, are partly shifted to renters in higher rents and partly paid by property owners in lower returns. Using the methodology applied to business taxes more generally, this study estimates that a sizable portion of the 2007 rental property tax (58 percent) was borne by the investors who own rental housing; the remaining share (42 percent) was assumed to be shifted to renters in higher rents. The effective tax rate on renters was, therefore, lower than it would have been if all of the tax were passed along in higher rents.

### ***Other Individual Taxes***

The "other state taxes" category in *Table 3-5* includes the motor vehicle registration tax, estate taxes, solid waste management taxes, mortgage and deed taxes, insurance premiums taxes, gambling taxes, and MinnesotaCare Taxes.



## *Business Taxes*

As shown in *Figure 3-1* above, business taxes were 28.4 percent of the total tax burden on Minnesota residents. Business taxes include the following:

- Business property taxes
- Corporate franchise tax
- Sales tax paid on purchases of capital equipment and other intermediate inputs
- Motor vehicle registration tax paid by business
- Insurance premiums tax
- Mortgage and deed taxes on business property
- Solid waste management taxes paid by business
- Excise taxes on motor fuels, tobacco, and alcohol
- Gambling taxes
- MinnesotaCare taxes
- Local gross earnings taxes

Although the legal impact of each of these taxes falls on the business entity, each is partially shifted to consumers (in higher prices) and to labor (in lower wages). Only a portion of business taxes are borne by capital owners as a lower rate of return on their investment. Part of the burden of each of these taxes is also shifted to nonresidents. This study estimates the degree to which such shifting occurs and then allocates the estimated burden to Minnesota households based on each household's sources of income and patterns of spending. (An explanation of tax shifting and the method of estimating the incidence of business taxes is included in the Appendix.)

To determine the incidence of each business tax, the study first estimated tax payments made by the different business sectors (manufacturing, mining, retail trade, etc.). Market characteristics of each business sector were used to estimate the degree to which taxes were shifted to consumers, labor, and nonresidents. Finally, taxes paid by each of these taxpayer categories (factors) were distributed to individual households in the sample.

Overall, the burden of Minnesota business taxes on Minnesota households was regressive. The effective tax rate generally fell as income increased. The effective tax rate was 6.4 percent in the second decile; it fell steadily as income rose, reaching 2.1 percent in the tenth decile.

## **Effective Tax Rates in the First Decile**

As shown in *Table 3-5*, low income taxpayers in the first decile had significantly higher sales, excise, net property, and business tax burdens than taxpayers with higher incomes. The total effective tax rate of 17.9 percent for taxpayers in the first decile was much higher than the rates in other deciles. This 17.9 percent effective tax rate includes an adjustment to exclude negative incomes.

The effective tax rate for the first decile is overstated for several reasons which have been discussed in the previous section.

## Additional Results

### **An Alternative Presentation: Income Deciles**

The results presented earlier in this study have been summarized for deciles of households. Each population decile represents ten percent of the population of households in the study. This section provides an alternative way to summarize the distribution of the 2002 and 2007 tax burdens. *Tables 4-1* through *4-4* are organized by income deciles rather than population deciles. To derive income deciles, households are ranked from lowest to highest income and divided into groups representing equal amounts of total income.

The distribution of tax by income deciles in these tables can be compared to the distribution by population deciles in *Tables 2-4*, *2-5*, *3-4*, and *3-5*. In both distributions households are ranked by income level. Using the year 2002 for purposes of illustration, in the population decile distribution each decile of 234,000 households is 10 percent of all households; in the income decile distribution, each decile with \$12.7 billion of income constitutes 10 percent of total income. Because of their relatively low incomes, it takes 904,000 households in the first income decile to account for 10 percent of total income; in contrast, there are only 10,874 high-income households in the tenth decile, who also received 10 percent of total income.

Again using the year 2002 for illustration, the first decile includes 39 percent of all households. Their share of total taxes (10.0 percent) was equal to their share of household income (10 percent). First income decile households (with 10 percent of total income) paid less than 1 percent of the individual income tax, but paid 16.2 percent of the consumer sales tax, 23.4 percent of excise taxes, and 17.9 percent of all business taxes borne by Minnesota residents.

The tenth income decile includes only 0.5 percent of all households. Their share of total taxes (7.5 percent) was lower than their share of household income (10 percent). They paid 15.8 percent of the individual income tax, 2.1 percent of the consumer sales tax, 1.2 percent of excise taxes, and 2.9 percent of business taxes borne by Minnesota residents.

*Tables 4-2 and 4-4* show effective tax rates by income decile. A comparison of the effective tax rate for all taxes reveals some differences. First, the effective tax rate for the first income decile (11.3 percent) was much lower than that for the first population decile (18.2 percent), again using 2002 data. The first income decile included almost four times as many households as the first population decile. As a result, the tax rate for the first income decile is an average for households in the first four population deciles.

The pattern of effective tax rates also differs for the top deciles. The tenth income decile (with 10,874 households) had an effective tax rate of 8.5 percent. In contrast, the tenth population decile (with about 234,000 households) had an effective tax rate of 10.7 percent.

Analyzing the tax burden by income deciles provides additional insights into the distribution of the burden. It provides more detailed information about the burden on higher income households, but less information about the 55 percent of households who are combined in the first two income deciles.

*Table 4-5* shows the Suits index values for each tax and for the various tax groupings. Suits values for population deciles are repeated for purposes of comparison.

**Table 4-1**

**2002 Income Deciles - Amounts (\$ 000's)**

Income Decile	Income Range	Number of Households	Household Income	State Income Taxes		State Sales Tax			Property Tax Refund	State Property Tax	State Excise Taxes	Other State Taxes	
				Individual Income Tax	Corporate Franchise Tax	Purchases by Individuals	Purchases by Businesses	Sales Tax Total				Taxes on Individuals	Taxes on Businesses
First	\$26,678 & under	903,829	\$12,733,509	\$48,678	\$44,721	\$382,325	\$210,679	\$593,004	-\$177,226	\$41,881	\$173,702	\$74,490	\$87,864
Second	\$26,679 - \$40,235	384,336	12,730,381	345,310	34,911	289,051	154,650	443,701	-49,657	30,763	110,779	74,529	67,980
Third	\$40,236 - \$53,354	273,921	12,731,222	434,400	32,999	273,076	147,259	420,335	-19,997	29,565	93,681	77,479	62,272
Fourth	\$53,355 - \$66,741	213,533	12,736,036	491,969	30,906	253,574	137,151	390,725	-7,923	27,061	82,392	73,459	57,753
Fifth	\$66,742 - \$80,745	173,233	12,730,371	539,860	30,368	245,327	129,684	375,010	-3,970	25,232	73,421	74,895	52,279
Sixth	\$80,746 - \$99,767	142,509	12,734,744	568,204	29,187	230,130	122,398	352,527	-3,443	24,897	64,280	69,923	47,099
Seventh	\$99,768 - \$129,635	113,305	12,731,229	614,477	27,246	208,795	114,119	322,914	-2,369	24,020	53,269	67,928	42,924
Eighth	\$129,636 - \$202,014	80,648	12,726,548	652,901	32,138	255,851	143,108	398,959	-1,579	29,383	51,175	88,851	43,623
Ninth	\$202,015 - \$494,093	43,882	12,731,424	706,422	22,849	168,755	101,095	269,850	-1,326	22,643	31,510	62,073	29,489
Tenth	\$494,094 & over	10,874	12,725,965	827,136	11,302	49,686	42,411	92,097	-328	14,236	8,783	14,624	12,205
<b>TOTALS</b>		<b>2,340,070</b>	<b>\$127,311,429</b>	<b>\$5,229,358</b>	<b>\$296,626</b>	<b>\$2,356,569</b>	<b>\$1,302,554</b>	<b>\$3,659,123</b>	<b>-\$267,818</b>	<b>\$269,682</b>	<b>\$742,992</b>	<b>\$678,253</b>	<b>\$503,487</b>
Top 5%	Over \$1,271,104	1,979	\$6,366,294	\$439,742	\$3,767	\$9,043	\$12,467	\$21,510	-\$50	\$5,387	\$1,599	\$3,768	\$3,631
Top 1%	Over \$11,393,133	52	\$1,278,473	\$81,248	\$642	\$236	\$1,598	\$1,835	-\$1	\$1,013	\$42	\$77	\$468

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Income Decile	Residential Local Property Taxes					Nonresidential Local Property Taxes	Other Local Taxes
	Homeowners Gross	Renters Gross	Owners of Rental Prop.	Total on Rental Prop.	Residential Total*		
First	\$274,969	\$85,480	\$30,825	\$116,305	\$404,133	\$132,544	\$19,927
Second	244,550	40,234	18,255	58,490	311,704	98,963	14,711
Third	229,584	19,291	21,394	40,685	277,409	99,517	13,789
Fourth	225,447	10,296	20,842	31,139	262,634	98,240	12,847
Fifth	224,834	7,412	14,241	21,653	252,658	79,220	12,404
Sixth	204,513	3,343	12,189	15,532	228,213	69,069	11,739
Seventh	195,549	2,729	13,774	16,503	218,939	67,605	10,779
Eighth	167,614	1,991	21,997	23,988	197,667	74,988	13,466
Ninth	120,254	1,785	19,757	21,542	146,054	61,326	9,184
Tenth	49,012	1,714	10,089	11,803	62,161	35,444	3,326
<b>TOTALS</b>	<b>\$1,936,325</b>	<b>\$174,276</b>	<b>\$183,364</b>	<b>\$357,639</b>	<b>\$2,361,571</b>	<b>\$816,917</b>	<b>\$122,173</b>
Top 5%	\$13,250	\$846	\$3,631	\$4,477	\$17,970	\$13,252	\$832
Top 1%	\$573	\$60	\$102	\$162	\$741	\$2,156	\$92

Local Taxes Total	Total State Taxes			Total State and Local Taxes
	Total on Individuals	Total on Businesses	State Taxes Total	
\$556,605	\$332,493	\$554,621	\$887,114	\$1,443,719
425,379	662,081	396,237	1,058,317	1,483,696
390,715	767,305	363,429	1,130,734	1,521,449
373,721	813,067	333,276	1,146,343	1,520,064
344,281	858,140	308,956	1,167,096	1,511,377
309,021	867,498	285,176	1,152,674	1,461,695
297,322	891,093	259,316	1,150,409	1,447,731
286,122	998,017	297,434	1,295,451	1,581,573
216,563	937,324	206,187	1,143,511	1,360,074
100,931	891,561	88,494	980,055	1,080,986
<b>\$3,300,661</b>	<b>\$8,018,577</b>	<b>\$3,093,127</b>	<b>\$11,111,704</b>	<b>\$14,412,365</b>
\$32,054	\$452,584	\$26,770	\$479,354	\$511,408
\$2,989	\$81,562	\$3,761	\$85,323	\$88,312

\* Includes seasonal recreational residential (cabins).

**Table 4-2**

**2002 Income Deciles - Effective Tax Rates**

Income Decile	Income Range	Number of Households	Household Income	State Income Taxes		State Sales Tax			Property Tax Refund	State Property Tax	State Excise Taxes	Other State Taxes	
				Individual Income Tax	Corporate Franchise Tax	Purchases by Individuals	Purchases by Businesses	Sales Tax Total				Taxes on Individuals	Taxes on Businesses
First	\$26,678 & under	903,829	12,733,509	0.4%	0.4%	3.0%	1.7%	4.7%	- 1.4%	0.3%	1.4%	0.6%	0.7%
Second	\$26,679 - \$40,235	384,336	12,730,381	2.7%	0.3%	2.3%	1.2%	3.5%	- 0.4%	0.2%	0.9%	0.6%	0.5%
Third	\$40,236 - \$53,354	273,921	12,731,222	3.4%	0.3%	2.1%	1.2%	3.3%	- 0.2%	0.2%	0.7%	0.6%	0.5%
Fourth	\$53,355 - \$66,741	213,533	12,736,036	3.9%	0.2%	2.0%	1.1%	3.1%	- 0.1%	0.2%	0.6%	0.6%	0.5%
Fifth	\$66,742 - \$80,745	173,233	12,730,371	4.2%	0.2%	1.9%	1.0%	2.9%	0.0%	0.2%	0.6%	0.6%	0.4%
Sixth	\$80,746 - \$99,767	142,509	12,734,744	4.5%	0.2%	1.8%	1.0%	2.8%	0.0%	0.2%	0.5%	0.5%	0.4%
Seventh	\$99,768 - \$129,635	113,305	12,731,229	4.8%	0.2%	1.6%	0.9%	2.5%	0.0%	0.2%	0.4%	0.5%	0.3%
Eighth	\$129,636 - \$202,014	80,648	12,726,548	5.1%	0.3%	2.0%	1.1%	3.1%	0.0%	0.2%	0.4%	0.7%	0.3%
Ninth	\$202,015 - \$494,093	43,882	12,731,424	5.5%	0.2%	1.3%	0.8%	2.1%	0.0%	0.2%	0.2%	0.5%	0.2%
Tenth	\$494,094 & over	10,874	12,725,965	6.5%	0.1%	0.4%	0.3%	0.7%	0.0%	0.1%	0.1%	0.1%	0.1%
<b>TOTALS</b>		<b>2,340,070</b>	<b>127,311,429</b>	<b>4.1%</b>	<b>0.2%</b>	<b>1.9%</b>	<b>1.0%</b>	<b>2.9%</b>	<b>- 0.2%</b>	<b>0.2%</b>	<b>0.6%</b>	<b>0.5%</b>	<b>0.4%</b>
Top 5%	Over \$1,271,104	1,979	6,366,294	6.9%	0.1%	0.1%	0.2%	0.3%	0.0%	0.1%	0.0%	0.1%	0.1%
Top 1%	Over \$11,393,133	52	1,278,473	6.4%	0.1%	0.0%	0.1%	0.1%	0.0%	0.1%	0.0%	0.0%	0.0%

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Income Decile	Residential Local Property Taxes					Nonresidential Local Property Taxes	Other Local Taxes
	Homeowners Gross	Renters Gross	Owners of Rental Prop.	Total on Rental Prop.	Residential Total *		
First	2.2%	0.7%	0.2%	0.9%	3.2%	1.0%	0.2%
Second	1.9%	0.3%	0.1%	0.5%	2.4%	0.8%	0.1%
Third	1.8%	0.2%	0.2%	0.3%	2.2%	0.8%	0.1%
Fourth	1.8%	0.1%	0.2%	0.2%	2.1%	0.8%	0.1%
Fifth	1.8%	0.1%	0.1%	0.2%	2.0%	0.6%	0.1%
Sixth	1.6%	0.0%	0.1%	0.1%	1.8%	0.5%	0.1%
Seventh	1.5%	0.0%	0.1%	0.1%	1.7%	0.5%	0.1%
Eighth	1.3%	0.0%	0.2%	0.2%	1.6%	0.6%	0.1%
Ninth	0.9%	0.0%	0.2%	0.2%	1.1%	5.0%	0.1%
Tenth	0.4%	0.0%	0.1%	0.1%	0.5%	0.3%	0.0%
<b>TOTALS</b>	<b>1.5%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.3%</b>	<b>1.9%</b>	<b>0.6%</b>	<b>0.1%</b>
Top 5%	0.2%	0.0%	0.1%	0.1%	0.3%	0.2%	0.0%
Top 1%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.0%

Local Taxes Total	Total State Taxes			Total State and Local Taxes
	Total on Individuals	Total on Businesses	State Taxes Total	
4.4%	2.6%	4.4%	7.0%	11.3%
3.3%	5.2%	3.1%	8.3%	11.7%
3.1%	6.0%	2.9%	8.9%	12.0%
2.9%	6.4%	2.6%	9.0%	11.9%
2.7%	6.7%	2.4%	9.2%	11.9%
2.4%	6.8%	2.2%	9.1%	11.5%
2.3%	7.0%	2.0%	9.0%	11.4%
2.2%	7.8%	2.3%	10.2%	12.4%
1.7%	7.4%	1.6%	9.0%	10.7%
0.8%	7.0%	0.7%	7.7%	8.5%
<b>2.6%</b>	<b>6.3%</b>	<b>2.4%</b>	<b>8.7%</b>	<b>11.3%</b>
0.5%	7.1%	0.4%	7.5%	8.0%
0.2%	6.4%	0.3%	6.7%	6.9%

Based on Nov. 04 Forecast

\* Includes seasonal recreational residential (cabins).

**Table 4-3**

**2007 Income Deciles - Amounts (\$ 000's)**

Income Decile	Income Range	Number of Households	Household Income	State Income Taxes		State Sales Tax			Property Tax Refund	State Property Tax	State Excise Taxes	Other State Taxes	
				Individual Income Tax	Corporate Franchise Tax	Purchases by Individuals	Purchases by Businesses	Sales Tax Total				Taxes on Individuals	Taxes on Businesses
First	\$32,471 & under	984,958	\$16,834,017	\$91,359	\$56,706	\$450,930	\$240,848	\$691,778	-\$229,359	\$51,037	\$187,283	\$79,368	\$151,421
Second	\$32,472 - \$49,814	412,897	16,834,595	497,991	43,714	336,380	175,458	511,837	-68,766	36,674	119,486	77,048	116,749
Third	\$49,815 - \$66,035	291,807	16,831,525	586,237	41,193	314,871	167,674	482,546	-30,211	35,204	101,262	78,542	107,582
Fourth	\$66,036 - \$82,369	228,309	16,833,767	650,638	39,195	296,025	158,336	454,361	-12,425	33,347	88,306	75,851	101,083
Fifth	\$82,370 - \$100,042	185,765	16,832,556	697,746	38,425	285,720	149,851	435,571	-6,248	31,024	79,349	76,023	93,051
Sixth	\$100,043 - \$123,955	151,967	16,829,927	741,997	36,103	262,397	138,305	400,702	-5,370	30,722	68,704	69,895	82,570
Seventh	\$123,956 - \$165,492	119,506	16,837,380	801,504	33,685	239,426	130,312	369,738	-3,529	29,585	56,898	67,612	74,838
Eighth	\$165,493 - \$269,845	82,514	16,852,152	854,488	40,828	298,813	165,339	464,152	-2,360	35,970	55,136	90,316	74,438
Ninth	\$269,846 - \$700,500	42,468	16,810,770	922,656	26,641	179,706	108,532	288,239	-2,074	26,244	31,528	59,634	46,768
Tenth	\$700,501 & over	9,634	16,828,929	1,054,925	12,366	47,479	41,529	89,009	-519	14,744	7,946	13,003	16,961
<b>TOTALS</b>		<b>2,509,825</b>	<b>\$168,325,618</b>	<b>\$6,899,540</b>	<b>\$368,858</b>	<b>\$2,711,748</b>	<b>\$1,476,185</b>	<b>\$4,187,933</b>	<b>-\$360,860</b>	<b>\$324,552</b>	<b>\$795,898</b>	<b>\$687,294</b>	<b>\$865,461</b>
Top 5%	Over \$2,031,373	1,620	\$8,416,329	\$560,102	\$4,071	\$7,988	\$12,024	\$20,012	-\$78	\$5,406	\$1,337	\$3,242	\$4,706
Top 1%	Over \$19,214,857	43	\$1,694,371	\$104,161	\$751	\$210	\$1,692	\$1,902	-\$2	\$1,060	\$35	\$64	\$632

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Income Decile	Residential Local Property Taxes					Nonresidential Local Property Taxes	Other Local Taxes
	Homeowners gross	Renters gross	Owners of Rental Prop.	Total on Rental Prop.	Residential Total *		
First	\$458,891	\$129,085	\$42,595	\$171,680	\$652,078	\$142,805	\$23,402
Second	406,077	60,759	25,528	86,287	506,857	108,804	17,109
Third	387,354	29,132	31,972	61,103	460,400	112,850	16,010
Fourth	395,274	15,549	32,712	48,261	453,651	109,131	15,061
Fifth	362,434	11,193	22,497	33,690	406,444	100,157	14,574
Sixth	341,613	5,049	18,984	24,033	379,307	76,879	13,482
Seventh	316,993	4,121	24,245	28,366	356,876	76,099	12,452
Eighth	271,927	3,007	32,959	35,967	318,038	85,564	15,834
Ninth	181,169	2,695	31,945	34,640	222,932	64,855	9,894
Tenth	68,669	2,588	13,464	16,052	86,973	34,310	3,290
<b>TOTALS</b>	<b>\$3,190,400</b>	<b>\$263,177</b>	<b>\$276,901</b>	<b>\$540,078</b>	<b>\$3,843,557</b>	<b>\$911,453</b>	<b>\$141,107</b>
Top 5%	\$17,424	\$1,277	\$4,873	\$6,150	\$23,980	\$12,478	\$807
Top 1%	\$755	\$91	\$146	\$237	\$1,002	\$2,077	\$101

Local Taxes Total	Total State Taxes			Total State and Local Taxes
	Total on Individuals	Total on Businesses	State Taxes Total	
\$818,284	\$401,756	\$677,838	\$1,079,595	\$1,897,879
632,769	849,026	485,709	1,334,735	1,967,504
589,260	954,692	447,663	1,402,355	1,991,615
577,843	1,014,537	415,819	1,430,355	2,008,199
521,175	1,057,780	387,162	1,444,941	1,966,116
469,667	1,074,925	350,398	1,425,323	1,894,990
445,428	1,110,078	320,253	1,430,331	1,875,759
419,436	1,245,718	367,250	1,612,968	2,032,404
297,681	1,163,055	236,581	1,399,636	1,697,317
124,573	1,115,880	92,556	1,208,436	1,333,009
<b>\$4,896,116</b>	<b>\$9,987,445</b>	<b>\$3,781,229</b>	<b>\$13,768,674</b>	<b>\$18,664,791</b>
\$37,265	\$571,432	\$27,364	\$598,797	\$636,062
\$3,181	\$104,437	\$4,165	\$108,602	\$111,783

\* Includes seasonal recreational residential (cabins)

Based on Nov. 04 Forecast

**Table 4-4**

**2007 Income Deciles - Effective Tax Rates**

Income Decile	Income Range	Number of Households	Household Income	State Income Taxes		State Sales Tax			Property Tax Refund	State Property Tax	State Excise Taxes	Other State Taxes	
				Individual Income Tax	Corporate Franchise Tax	Purchases by Individuals	Purchases by Businesses	Sales Tax Total				Taxes on Individuals	Taxes on Businesses
First	\$32,471 & under	984,958	\$16,834,017	0.5%	0.3%	2.7%	1.4%	4.1%	-1.4%	0.3%	1.1%	0.5%	0.9%
Second	\$32,472 - \$49,814	412,897	16,834,595	3.0%	0.3%	2.0%	1.0%	3.0%	-0.4%	0.2%	0.7%	0.5%	0.7%
Third	\$49,815 - \$66,035	291,807	16,831,525	3.5%	0.2%	1.9%	1.0%	2.9%	-0.2%	0.2%	0.6%	0.5%	0.6%
Fourth	\$66,036 - \$82,369	228,309	16,833,767	3.9%	0.2%	1.8%	0.9%	2.7%	-0.1%	0.2%	0.5%	0.5%	0.6%
Fifth	\$82,370 - \$100,042	185,765	16,832,556	4.1%	0.2%	1.7%	0.9%	2.6%	0.0%	0.2%	0.5%	0.5%	0.6%
Sixth	\$100,043 - \$123,955	151,967	16,829,927	4.4%	0.2%	1.6%	0.8%	2.4%	0.0%	0.2%	0.4%	0.4%	0.5%
Seventh	\$123,956 - \$165,492	119,506	16,837,380	4.8%	0.2%	1.4%	0.8%	2.2%	0.0%	0.2%	0.3%	0.4%	0.4%
Eighth	\$165,493 - \$269,845	82,514	16,852,152	5.1%	0.2%	1.8%	1.0%	2.8%	0.0%	0.2%	0.3%	0.5%	0.4%
Ninth	\$269,846 - \$700,500	42,468	16,810,770	5.5%	0.2%	1.1%	0.6%	1.7%	0.0%	0.2%	0.2%	0.4%	0.3%
Tenth	\$700,501 & over	9,634	16,828,929	6.3%	0.1%	0.3%	0.2%	0.5%	0.0%	0.1%	0.0%	0.1%	0.1%
<b>TOTALS</b>		<b>2,509,825</b>	<b>\$168,325,618</b>	<b>4.1%</b>	<b>0.2%</b>	<b>1.6%</b>	<b>0.9%</b>	<b>2.5%</b>	<b>-0.2%</b>	<b>0.2%</b>	<b>0.5%</b>	<b>0.4%</b>	<b>0.5%</b>
Top 5%	Over \$2,031,373	1,620	\$8,416,329	6.7%	0.0%	0.1%	0.1%	0.2%	0.0%	0.1%	0.0%	0.0%	0.1%
Top 1%	Over \$19,214,857	43	\$1,694,371	6.1%	0.0%	0.0%	0.1%	0.1%	0.0%	0.1%	0.0%	0.0%	0.0%

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Income Decile	Residential Local Property Taxes					Nonresidential Local Property Taxes	Other Local Taxes
	Homeowners Gross	Renters Gross	Owners of Rental Prop.	Total on Rental Prop.	Residential Total *		
First	2.7%	0.8%	0.3%	1.0%	3.9%	0.8%	0.1%
Second	2.4%	0.4%	0.2%	0.5%	3.0%	0.6%	0.1%
Third	2.3%	0.2%	0.2%	0.4%	2.7%	0.7%	0.1%
Fourth	2.3%	0.1%	0.2%	0.3%	2.7%	0.6%	0.1%
Fifth	2.2%	0.1%	0.1%	0.2%	2.4%	0.6%	0.1%
Sixth	2.0%	0.0%	0.1%	0.1%	2.3%	0.5%	0.1%
Seventh	1.9%	0.0%	0.1%	0.2%	2.1%	0.5%	0.1%
Eighth	1.6%	0.0%	0.2%	0.2%	1.9%	0.5%	0.1%
Ninth	1.1%	0.0%	0.2%	0.2%	1.3%	0.4%	0.1%
Tenth	0.4%	0.0%	0.1%	0.1%	0.5%	0.2%	0.0%
<b>TOTALS</b>	<b>1.9%</b>	<b>0.2%</b>	<b>0.2%</b>	<b>0.3%</b>	<b>2.3%</b>	<b>0.5%</b>	<b>0.1%</b>
Top 5%	0.2%	0.0%	0.1%	0.1%	0.3%	0.1%	0.0%
Top 1%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%

Local Taxes Total	Total State Taxes			Total State and Local Taxes
	Total on Individuals	Total on Businesses	State Taxes Total	
4.9%	2.4%	4.0%	6.4%	11.3%
3.8%	5.0%	2.9%	7.9%	11.7%
3.5%	5.7%	2.7%	8.3%	11.8%
3.4%	6.0%	2.5%	8.5%	11.9%
3.1%	6.3%	2.3%	8.6%	11.7%
2.8%	6.4%	2.1%	8.5%	11.3%
2.6%	6.6%	1.9%	8.5%	11.1%
2.5%	7.4%	2.2%	9.6%	12.1%
1.8%	6.9%	1.4%	8.3%	10.1%
0.7%	6.6%	0.5%	7.2%	7.9%
<b>2.9%</b>	<b>5.9%</b>	<b>2.2%</b>	<b>8.2%</b>	<b>11.1%</b>
0.4%	6.8%	0.3%	7.1%	7.6%
0.2%	6.2%	0.2%	6.4%	6.6%

\* Includes seasonal recreational residential (cabins)



**Table 4-5**  
**Suits Indices by Income and Population Deciles, 2002-2007**

<b>Tax Types</b>	<b>2002 Income Decile Suits Index</b>	<b>2007 Income Decile Suits Index</b>	<b>2002 Pop'n. Decile Suits Index</b>	<b>2007 Pop'n. Decile Suits Index</b>
<b>State Taxes</b>				
<b>Taxes on Income and Estates</b>				
Individual income tax	0.211	0.195	0.199	0.185
Corporation franchise tax <sup>1</sup>	-0.135	-0.146	-0.116	-0.126
Estate tax	0.214	0.214	0.281	0.271
<b>Total Income and Estate Taxes</b>	<b>0.193</b>	<b>0.179</b>	<b>0.184</b>	<b>0.170</b>
<b>Taxes on Consumption</b>				
Total sales tax	-0.165	-0.176	-0.143	-0.152
General sales/use tax	-0.165	-0.175	-0.143	-0.152
Sales tax on motor vehicles	-0.169	-0.180	-0.145	-0.155
Motor fuels excise taxes	-0.262	-0.274	-0.240	-0.251
Alcoholic beverage excise taxes	-0.190	-0.202	-0.170	-0.182
Cigarette and tobacco excise taxes	-0.517	-0.526	-0.515	-0.523
Insurance premiums taxes	-0.151	-0.160	-0.131	-0.138
Gambling taxes	-0.369	-0.369	-0.350	-0.359
MinnesotaCare taxes	-0.290	-0.290	-0.266	-0.276
<b>Total Consumption Taxes</b>	<b>-0.195</b>	<b>-0.205</b>	<b>-0.174</b>	<b>-0.183</b>
<b>Taxes on Property</b>				
Residential recreational property tax	-0.200	-0.200	-0.179	-0.189
Commercial property tax	-0.119	-0.121	-0.105	-0.106
Industrial property tax	0.155	0.185	0.120	0.145
Utility property tax	-0.153	-0.164	-0.132	-0.142
<b>Total Property Taxes</b>	<b>-0.117</b>	<b>-0.125</b>	<b>-0.104</b>	<b>-0.112</b>
<b>Other Taxes</b>				
Motor vehicle registration tax	-0.133	-0.146	-0.107	-0.119
Mortgage and deed taxes	-0.133	-0.131	-0.111	-0.118
Solid waste management taxes	-0.192	-0.203	-0.170	-0.180
<b>Total Other Taxes</b>	<b>-0.137</b>	<b>-0.146</b>	<b>-0.113</b>	<b>-0.123</b>
<b>Property Tax Refunds</b>				
Homeowners	0.669	0.669	0.675	0.681
Renters	0.850	0.850	0.874	0.878
<b>Total Property Tax Refunds</b>	<b>0.762</b>	<b>0.746</b>	<b>0.777</b>	<b>0.765</b>
<b>Total State Taxes</b>	<b>0.020</b>	<b>0.019</b>	<b>0.027</b>	<b>0.026</b>
<b>Local Taxes</b>				
Property taxes (Pay 2000)	-0.193	-0.203	-0.174	-0.183
General property tax (gross - credits)	-0.194	-0.203	-0.175	-0.183
Homeowners (gross)	-0.172	-0.185	-0.148	-0.160
Residential recreational property	-0.200	-0.200	-0.179	-0.189
Commercial <sup>2</sup>	-0.119	-0.121	-0.105	-0.106
Industrial	0.155	0.185	0.120	0.145
Farm (other than residence) <sup>3</sup>	-0.330	-0.305	-0.310	-0.289
Rental housing	-0.373	-0.362	-0.370	-0.363
Utility	-0.153	-0.164	-0.132	-0.142
Minerals <sup>4</sup>	0.034	0.053	0.021	0.036
Mining production taxes (taconite)	0.190	0.222	0.149	0.176
Local sales taxes	-0.165	-0.175	-0.143	-0.152
Local gross earnings taxes	-0.153	-0.164	-0.132	-0.142
<b>Total Local Taxes</b>	<b>-0.192</b>	<b>-0.202</b>	<b>-0.173</b>	<b>-0.182</b>
<b>Total State and Local Taxes</b>	<b>-0.028</b>	<b>-0.039</b>	<b>-0.018</b>	<b>-0.029</b>

<sup>1</sup> Includes taconite/iron ore occupation tax.

<sup>2</sup> Includes resorts and railroads.

<sup>3</sup> Includes timber.

<sup>4</sup> Amount less than \$500,000.

### **An Alternative Methodology: Adjusting for the Federal Tax Offset**

In estimating the incidence of existing Minnesota taxes, this study has made no adjustment for the “federal tax offset” due to the deductibility of Minnesota taxes in calculating the federal income tax. Individuals can generally deduct what they pay in state income tax and homeowner property taxes (and a portion of their motor vehicle registration tax) as itemized deductions. Those who itemize deductions pay less federal income tax as a result. For a taxpayer in the 28 percent federal tax bracket, each additional dollar of itemized deductions lowers federal income tax by 28 cents. As a result, 28 percent of deductible state and local taxes would be borne by the federal government in lower tax revenue. If no adjustment is made for this federal tax offset, the Minnesota tax burden would be overstated. Because itemizing deductions is more common for higher income households (and because they face higher federal tax rates), the federal tax offset will reduce taxes by much more in the upper deciles. A tax system that looks proportional in the absence of such an adjustment might look quite regressive after such an adjustment is made.

This same reasoning applies to business taxes. If an additional dollar in business taxes lowers business income (rather than being passed forward to consumers in higher prices), this reduces the federal income tax paid by the corporation, partnership, or sole proprietor. A portion of the burden on Minnesota business owners would be borne by the federal government in lower tax revenue.

There is a strong argument, however, against making such an adjustment in this study. This study estimates the burden of Minnesota taxes in a multistate context. The incidence of Minnesota taxes depends on the level of taxes in other states. If all states levy deductible taxes, then the federal government presumably makes up for the lost revenue by raising the federal tax rate. It is unlikely that the deductibility of state and local taxes actually lowers the total federal tax burden on Minnesota residents. Minnesota’s share of itemized deductions is roughly equal to its share of federal income tax payments. Whether the combination of deductible taxes and higher tax rates reduces a particular decile’s tax burden is unknown; it depends on how the federal tax structure has been adjusted to make up for the lost tax revenue.

The results presented in this study include no adjustment for the federal tax offset. The impact of such an adjustment is shown only in this section.

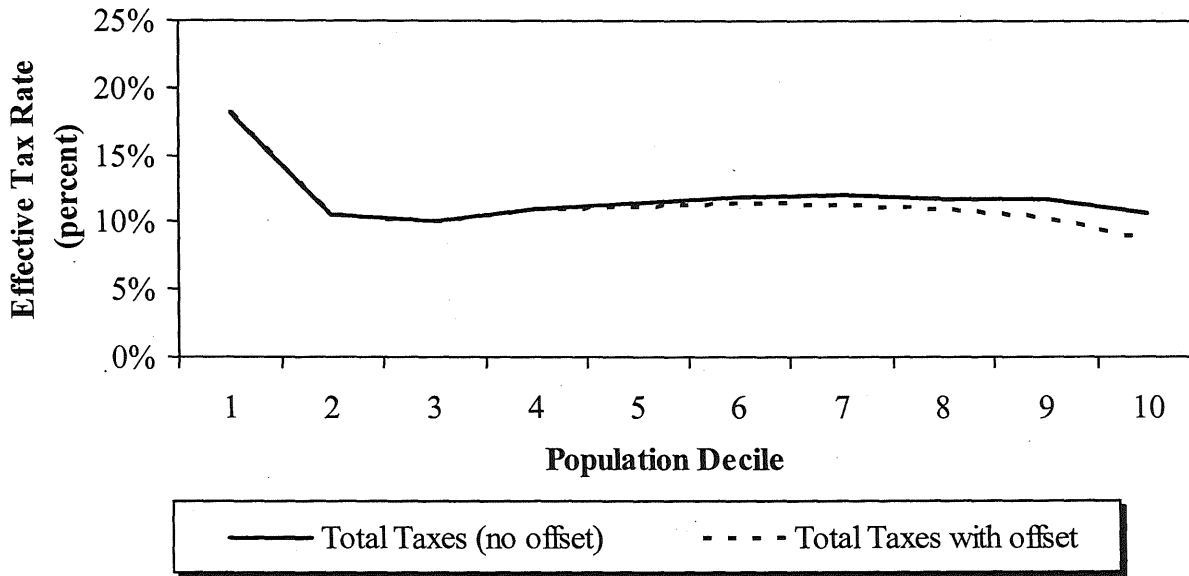
The impact of the federal tax offset is shown in *Tables 4-6 and 4-7*, and *Figure 4-1*. For all households combined, the federal offset would reduce the effective tax rate from 11.3 percent to 10.1 percent of income. There are small changes in the lowest deciles, which include few who itemize deductions. As expected, the impact of the federal tax offset rises with income. Despite the limitation on itemized deductions for high-income taxpayers, the effective tax rate in the tenth decile would fall from 10.7 percent to 8.7 percent. The adjusted tax burden is noticeably more regressive.

In summary, the federal tax offset (even if limited to individual taxes) would have a significant impact on the distribution of the Minnesota tax burden. Because a strong argument can be made against such an adjustment in a study of this kind, however, no federal tax offset is included in the results presented elsewhere in this study.

**Table 4-6**  
**Impact of Federal Tax Offset on Effective**  
**State and Local Tax Rates by Population Decile**  
**(Minnesota Residents, 2002)**

Population Decile	Income Range	Effective Tax Rate		
		No Federal Tax Offset	Change Due To Federal Tax Offset	Adjusted for Federal Tax Offset
First	\$ 8,354 & Under	18.2%	0.1%	18.1%
Second	8,355 - 14,065	10.5	0.0	10.5
Third	14,066 - 20,714	10.1	0.1	10.0
Fourth	20,715 - 27,703	11.0	0.1	10.9
Fifth	27,704 - 35,683	11.4	0.3	11.1
Sixth	35,684 - 45,436	11.9	0.5	11.5
Seventh	45,437 - 57,589	12.0	0.7	11.3
Eighth	57,590 - 74,189	11.8	0.9	10.9
Ninth	74,190 - 102,426	11.7	1.4	10.3
Tenth	\$102,427 & Over	10.7	2.0	8.7
Total		11.3%	1.2%	10.1%
Top 5%	\$139,652 & Over	10.5%	2.1%	8.4%
Top 1%	\$323,340 & Over	9.0%	2.2%	6.8%

**Figure 4-1**  
**Effective Tax Rates for 2002**  
**With and Without Federal Tax Offset**



**Table 4-7**  
**Suits Index With and Without Federal Tax Offset**

	Without Offset	With Offset
Income Tax	+0.199	+0.148
All Taxes	-0.018	-0.060

**The Tax System Not Including Return Flow Payments**

The results presented so far in this report derive from a “net” concept of the tax system; that is, tax amounts that incorporate not only dollar flows from taxpayers to governments, but also dollar flows from the state back to the taxpayers. These latter include the various refundable income tax credits: the working family credit, the dependent care credit and the K-12 education credit; property tax refunds payable to homeowners and renters; and most recently the Sustainable Forest Incentive payment program.

Most of these return flow payments are intended to make the tax system more progressive than it otherwise would be. To evaluate their effectiveness in accomplishing that, it is useful to compare the current system to the tax system that would exist without those return flow payments. Such a comparison is presented in *Tables 4-8, 4-9 and 4-10*. *Table 4-8* shows the magnitudes of the various return flow payments in 2002 and the projected amounts for 2007. That table also shows the Suits index values for each of the major categories of return flow payments. (The Suits index for the Sustainable Forest Incentive payment program is not available; however, the small size of that program compared to the other two implies that the overall Suits index for 2007 would not be much affected if the Sustainable Forest Incentive program Suits index were known and could be included in the computation.)

**Table 4-8**  
**Suits Index for Payments, 2002 - 2007**

Payments	2002		2007	
	Amount \$ (000's)	Suits Index	Amount \$ (000's)	Suits Index
<b>Income Tax Credits*</b>				
Working Family Credit	\$117,669		\$139,365	
Dependent Care Credit	11,659		13,211	
K-12 Education Credit	13,806		14,807	
Subtotal	\$143,134	0.878	\$167,383	0.881
<b>Property Tax Refund</b>				
Homeowners	\$130,686		\$206,560	
Renters	137,132		154,300	
Subtotal	\$267,818	0.777	\$360,860	0.765
<b>Sustainable Forest Incentive Program**</b>	\$0		\$2,332	
<b>Total</b>	<b>\$410,952</b>	<b>0.812</b>	<b>\$530,575</b>	<b>0.799</b>

\* Source: Sample (for 2002), HITS (for 2007)

\*\* Suits index is not available.

*Table 4-9* provides a comparison of effective tax rates from the current system and from a no return flow system. As expected, effective rates rise in the latter case, and rise most notably for households in the lower deciles. For example, the effective tax rate for the second decile rises from -0.6 percent to 0.4 percent for the individual income tax and from 10.5 percent to 11.6 percent for all taxes, while the effective rates for households in the tenth decile are unchanged in each case.

**Table 4-9**  
**Effective Tax Rates, Current System**  
**Compared To One With No Return Flows**

Decile	Current System			Refundable Credits	No Credits	
	Household Income	Individual Income Tax	Effective Tax Rate		Individual Income Tax	Effective Tax Rate
1	\$1,235,590	-\$14,087	-1.1%	\$15,284	\$1,197	0.1%
2	2,610,954	-16,966	-0.6%	28,031	11,065	0.4%
3	4,077,633	14,495	0.4%	42,474	56,969	1.4%
4	5,684,091	80,626	1.4%	40,652	121,278	2.1%
5	7,369,943	188,428	2.6%	14,739	203,166	2.8%
6	9,435,329	304,785	3.2%	1,115	305,900	3.2%
7	11,996,892	432,605	3.6%	200	432,804	3.6%
8	15,304,686	614,973	4.0%	638	615,611	4.0%
9	20,167,679	895,566	4.4%	2	895,567	4.4%
10	49,428,632	2,728,934	5.5%	1	2,728,934	5.5%
<b>Total</b>	<b>\$127,311,429</b>	<b>\$5,229,358</b>	<b>4.1%</b>	<b>\$143,134</b>	<b>\$5,372,492</b>	<b>4.2%</b>

Decile	Current System			Refundable Credits	No Credits or PTR		
	Household Income	Total State, Local Taxes	Effective Tax Rate		Property Tax Refund	Total State, Local Taxes	Effective Tax Rate
1	\$1,235,590	\$224,628	18.2%	\$15,284	\$37,272	\$239,912	19.4%
2	2,610,954	275,307	10.5%	28,031	45,303	303,338	11.6%
3	4,077,633	410,613	10.1%	42,474	55,789	453,087	11.1%
4	5,684,091	625,419	11.0%	40,652	45,582	666,071	11.7%
5	7,369,943	839,596	11.4%	14,739	32,006	854,335	11.6%
6	9,435,329	1,127,018	11.9%	1,115	20,611	1,128,133	12.0%
7	11,996,892	1,440,840	12.0%	200	13,345	1,441,040	12.0%
8	15,304,686	1,808,250	11.8%	638	7,331	1,808,888	11.8%
9	20,167,679	2,354,894	11.7%	2	5,138	2,354,896	11.7%
10	49,428,632	5,305,799	10.7%	1	5,440	5,305,800	10.7%
<b>Total</b>	<b>\$127,311,429</b>	<b>\$14,412,365</b>	<b>11.3%</b>	<b>\$143,134</b>	<b>\$267,818</b>	<b>\$14,555,500</b>	<b>11.4%</b>

Table 4-10 presents the tax system for 2002 without including refundable income tax credits or property tax refunds. (The Sustainable Forest Incentive payment program did not begin until later.) The Suits index for the individual income tax in this case declines from 0.199 to 0.169, while the Suits index for the overall tax system declines from -0.018 to -0.042.

**Table 4-10**  
**2002 Tax Collection Amounts (No Payments or Credits)**  
**(\$ Millions)**

Tax Type	Total	As Imposed			After Shifting		Suits Index <sup>5</sup>
		MN HH's	NR	Business	Minnesota	Exported	
<b>State Taxes</b>							
<b>Taxes on Income and Estates</b>							
Individual income tax	\$5,551	\$5,368	\$183		\$5,368	\$183	0.169
Corporate franchise tax <sup>1</sup>	560			\$560	297	263	-0.116
Estate tax	97	97			97		0.281
<b>Total Income and Estate Taxes</b>	<b>\$6,208</b>	<b>\$5,465</b>	<b>\$183</b>	<b>\$560</b>	<b>\$5,761</b>	<b>\$446</b>	<b>0.156</b>
<b>Taxes on Consumption</b>							
Total sales tax	\$4,438	\$2,357	\$146	\$1,936	\$3,659	\$779	-0.143
General sales/use tax	3,829	1,953	146	1,731	3,146	683	-0.143
Sales tax on motor vehicles	609	404		205	513	96	-0.145
Motor fuels excise taxes	632			632	516	117	-0.240
Alcoholic beverage excise taxes	61			61	54	6	-0.170
Cigarette and tobacco excise taxes	178			178	173	5	-0.515
Insurance premiums taxes	202			202	150	53	-0.131
Gambling taxes	57			57	55	2	-0.350
MinnesotaCare taxes	191			191	166	25	-0.266
<b>Total Consumption Taxes</b>	<b>\$5,760</b>	<b>\$2,357</b>	<b>\$146</b>	<b>\$3,258</b>	<b>\$4,773</b>	<b>\$987</b>	<b>-0.174</b>
<b>Taxes on Property</b>							
Residential recreational	\$28	\$22	\$5		\$22	\$5	-0.179
Commercial	369	0	0	\$369	194	175	-0.105
Industrial	125	0	0	125	14	111	-0.120
Utility	64	0	0	64	40	24	-0.132
<b>Total Property Taxes</b>	<b>\$585</b>	<b>\$22</b>	<b>\$5</b>	<b>\$558</b>	<b>\$270</b>	<b>\$316</b>	<b>-0.100</b>
<b>Other Taxes</b>							
Motor vehicle registration tax	\$483	\$391		\$92	\$440	\$43	-0.107
Mortgage and deed taxes	263	168		96	221	42	-0.111
Solid waste management taxes	56	22		34	53	4	-0.170
<b>Total Other Taxes</b>	<b>\$803</b>	<b>\$581</b>		<b>\$221</b>	<b>\$714</b>	<b>\$89</b>	<b>-0.113</b>
<b>Total State Taxes</b>	<b>\$13,365</b>	<b>\$8,425</b>	<b>\$334</b>	<b>\$4,597</b>	<b>\$11,518</b>	<b>\$1,838</b>	<b>-0.003</b>
<b>Local Taxes</b>							
Property taxes (Pay 2002)	\$4,071	\$2,004	\$17	\$2,050	\$3,179	\$892	-0.174
General property tax (gross-credits)	4,009	2,004	17	1,988	3,178	830	-0.175
Homeowners (gross)	1,936	1,936			1,936	0	-0.148
Residential recreational	84	68	17		68	17	-0.179
Commercial <sup>2</sup>	882			882	463	419	-0.105
Industrial	296			296	32	264	-0.120
Farm (other than residence) <sup>3</sup>	212			212	208	4	-0.310
Rental housing	416			416	358	59	-0.370
Utility	181			181	114	68	-0.132
Minerals <sup>4</sup>	0			0	0	0	0.021
Mining production taxes (taconite)	62			62	1	62	0.149
Local sales taxes	114	58	4	52	94	20	-0.143
Local gross earnings taxes	45			45	28	17	-0.132
<b>Total Local Taxes</b>	<b>\$4,229</b>	<b>\$2,062</b>	<b>\$21</b>	<b>\$2,146</b>	<b>\$3,301</b>	<b>\$929</b>	<b>-0.173</b>
<b>Total State and Local Taxes</b>	<b>\$17,585</b>	<b>\$10,487</b>	<b>\$355</b>	<b>\$6,743</b>	<b>\$14,818</b>	<b>\$2,767</b>	<b>-0.041</b>

<sup>1</sup>Includes taconite/iron ore occupation tax.

<sup>3</sup>Includes Timber.

<sup>2</sup>Includes resorts and railroads.

<sup>4</sup>Amount less than \$500,000.

## Appendix

### The Incidence Study Database

The 2002 incidence study database includes detailed information on income and taxes for a stratified random sample of 63,808 Minnesota households. This sample is then “blown up” to represent over 2.3 million Minnesota households. Individual income tax returns and property tax refund returns filed with the Department of Revenue were the primary sources of information and were supplemented with data on nontaxable income obtained from various sources. The additional nontaxable income information provides a more accurate measure of total income, particularly for low-income households who did not meet tax filing requirements.

The use of social security numbers to merge income data from different sources for specific individuals is a unique and important aspect of this study. Income data was matched, for example, with property tax and market value information for individual homeowners. Because of these “hard matches,” the need to impute estimated values of income and tax variables to households in the database was minimized.

The incidence study database was constructed from a number of different sources. First, data were taken from state and federal income tax returns filed with Minnesota. To this was added data taken from property tax refund returns. Information concerning property taxes on homestead properties came from data supplied to the Department of Revenue by Minnesota counties. Additional income type amounts and data of other sorts were added from databases at several state agencies. Information obtained from the American Community Survey of the United States Bureau of the Census was used to calibrate a number of items, notably nontaxable income and property tax-related variables. American Community Survey data were also used to estimate annual rent expenditures for renter households. Finally, estimates of household spending patterns were obtained from United States Department of Labor Consumer Expenditure Survey data.



For further explanation regarding creation of this database and related tax calculations, please refer to the 1999 Tax Incidence Study which can be located at [www.taxes.state.mn.us/reports/reports.html](http://www.taxes.state.mn.us/reports/reports.html).

## **Measurement of Household Income**

An appropriate measure of income is critical to any study of tax incidence. By definition, a tax incidence study compares taxes paid to some measure of a household's economic well-being or ability to pay. In this study, tax burdens are expressed as ratios of taxes paid to a broad measure of household money income. This comprehensive measure of money income includes not only income taxable on income tax returns but also nontaxable income, such as public assistance payments, tax-exempt interest, and nontaxable social security and pension income.

The definition of household in this study varies from that used by the Census. There are significantly more households than reported by the Census, and median income is considerably lower as a result. Despite the difference in definition, the count of incidence households is consistent with past studies. The definition used here is more appropriate when describing the distribution of the tax burden.

For a further discussion regarding definitions of households and income, please refer to the 1999 Minnesota Tax Incidence Study cited above.

## **Tax Incidence Analysis**

### ***Introduction***

The results of any incidence study are determined by the study's incidence assumptions. This section explains both the incidence assumptions used in this study and the method of allocating tax burdens to specific households. This study's incidence assumptions are summarized as follows:

## 1. Incidence of Taxes on Households

- The personal income tax is paid by individual taxpayers, and the incidence is the same as the initial impact of the tax.
- Taxes on purchases by consumers (sales, solid waste management) are borne by consumers of the taxed items.
- The property tax on homeowners is borne by the homeowner.
- The motor vehicle registration tax on vehicles owned by households is borne by the owner of the vehicle.
- Mortgage registration and deed transfer taxes on homes are borne by homeowners.

## 2. Incidence of Taxes on Business

Most taxes on business property, business purchases, and corporate income are partially shifted to consumers and workers. However, excise taxes - those on motor fuels (bought by consumers), tobacco, and alcohol - are assumed fully shifted to consumers, as are the taxes on consumer purchases of insurance, MinnesotaCare taxes, and taxes on gambling. Since these are fully shifted to consumers, the nature of the analysis for each of these taxes is discussed below under taxes on households category.

The amount of tax shifting varies by tax and by business sector, depending on the scope of the product market (local or national) and the magnitude of Minnesota's tax rates compared to those in other states. To shift a tax, the individual or business legally liable to pay the tax must alter its economic behavior because of the tax. For example, a property tax paid by a business firm may lead the firm to raise its prices, lower its pay to employees, or the business owner may experience reduced profits.

The rationale for this study's incidence assumptions is discussed in the next two sections. First, taxes on households are discussed. The incidence of business taxes, which is discussed next, is much more complex. Many issues are unsettled, and a wide variety of approaches have been used in incidence studies other than Minnesota's approach. As a result, this section provides an extended discussion of the methodology underlying this study's approach to business tax incidence.

## Taxes on Households

### *Taxes on Income or Wealth*

*Individual Income Tax.* This study assumes that the burden of the individual income tax is not amenable to shifting through changes in either wages or interest rates. This assumption is correct if total hours worked and savings rates are unresponsive to after-tax returns and the package of public spending and taxes in Minnesota (compared to other states) does not cause significant migration. Given this assumption, the state income tax burden equals each household's tax liability, as listed in the study's database.

*Estate Tax.* Defining the incidence of the estate tax presents unique problems; the impact of the tax is on the estate, not on a currently acting economic entity (person or firm) as is true of all other taxes. There is no consensus among economists as to whether the incidence of the tax properly applies to the decedent or to the estate beneficiaries, and arguments can be made for either position. Given the information that was available for analysis, the computations reported here were carried out assuming that the incidence of the estate tax was on the decedent.

In order to eliminate the chance that decedent incomes were understated due to lack of a full year's income in the year of death, estate tax returns were matched against income tax returns for the two years prior to the year the estate tax return was filed. For this study we again used 1999 estate tax return data; resource constraints precluded developing more recent information.

The distribution of estate taxes by decile reported here should be viewed with some caution. Estimates of the estate tax Suits index for the United States as a whole range from about 0.70 to about 0.80, far greater than the 0.28 obtained in this study. A possible reason for this is that in 1999 Minnesota did not receive estate tax returns from the kind of extremely wealthy estates that would produce the national Suits index numbers mentioned above. Nationally, a number of such estate tax returns would be expected every year; in Minnesota they would appear intermittently at best.

## *Taxes on Consumer Purchases*

*Sales and Excise Taxes.* This study, like most other incidence studies, assumes that businesses legally liable for sales and excise taxes on final products and services will be able to raise product prices by the full amount of the tax, leaving wages and the return to capital unchanged. Therefore, the tax burden is fully shifted to consumers in higher prices. The sales and excise tax burdens were allocated in proportion to each household's consumption of taxed items, as estimated in the study's database.

*Insurance Premiums Taxes.* The insurance premiums tax equals a flat percentage of the premium paid on selected types of insurance. This tax was assumed to raise insurance premiums by the full amount of the tax, so its burden was distributed in proportion to each household's purchase of insurance subject to the tax. For auto, life, and household insurance, the tax burden allocation was in proportion to expenditures as estimated from the *Consumer Expenditure Survey*.

The premiums tax on insurance provided through employers (most health and workers' compensation) was assumed borne by the employee. By raising the cost of these fringe benefits, the tax either reduced cash wages or other fringe benefits. The tax on health insurance premiums was assigned according to the distribution of total health insurance premiums. In Minnesota, workers' compensation policies are purchased from private insurers. Given the structure of medical and wage replacement benefits, the premium per employee was assumed to increase with wages, subject to a minimum (for workers earning less than half the average state wage) and a maximum (for those earning more than 150 percent of the average state wage).

*Gambling Taxes.* Gross receipts taxes on pulltabs, tipboards, bingo, raffles, and horse racing were assumed to be borne by the bettor. A survey by the Minnesota Lottery (1994) provided substantial information about how gambling varies by income level. The pattern of expenditures on pulltabs (the primary source of revenue) was similar to that for the lottery, so the more detailed distributional information about lottery expenditures was used to distribute these gambling taxes.

*MinnesotaCare Taxes.* The 1.5 percent gross receipts tax on most medical bills (including hospital, physician, dental, and laboratory services along with prescription drugs) was assumed to be paid by consumers in higher out-of-pocket medical costs or higher costs for insurance (except for Medicare premiums). The higher costs of employer-provided health insurance were assumed to be borne by households in reduced wages or other fringe benefits. MinnesotaCare taxes were distributed in proportion to the sum of the cost of health insurance plus out-of-pocket costs for medical services and prescription drugs.

### ***Property Taxes on Non-Business Property***

*Homeowner Property Taxes.* The homeowner is both the owner and consumer of housing. As a result, the homeowner bears the full tax burden, regardless of how the burden is split between consumers and owners. The tax burden on the household was assumed to be the total property tax paid on the homestead, as identified in the incidence study database. Similarly, the property tax on cabins was assumed borne by the owners.

*Motor Vehicle Registration Tax.* The registration tax on motor vehicles owned by households was assumed to be fully borne by the owner. The tax is generally proportional to the market value of the vehicle. Lacking data on the distribution of vehicle stock by income level, this study used the distribution of vehicle purchases (before subtracting trade-in) as an approximation. The tax burden was allocated in proportion to the average gross vehicle expenditures by households of the same size and income level.

*Mortgage Registration and Deed Transfer Taxes.* The homeowner portion of these taxes was assumed to be borne by the owner of the home. Given a lack of information about the identity of those buying homes or obtaining mortgages in 2002, the burden of the mortgage registration tax was distributed over all mortgage holders (in proportion to mortgage interest paid in 2002); the deed transfer tax burden was distributed over all homeowners (in proportion to the estimated market value of the home).

## *Adjustment for Burdens on Nonresident Households*

The proportion of the total receipts from each of these taxes that was allocated to Minnesota households was given in *Table 1-2*. For the general sales and use tax and the excise taxes, the Minnesota household share was estimated by the Minnesota Consumption Tax Model. For the other taxes (insurance premiums tax, property tax on cabins, gambling taxes, MinnesotaCare taxes, motor vehicle registration tax, and mortgage and deed taxes), the total burden on Minnesota households was defined as total collections minus the estimated taxes paid by business and nonresident visitors and tourists.

Some incidence studies reduce state and local tax burdens to reflect the “federal tax offset.” State income taxes and homeowner property taxes are both deductible in calculating federal income tax liability, so households paying these Minnesota taxes will pay less in federal income tax (if they itemize deductions). A portion of these deductible taxes is sometimes considered to be shifted to the federal government in lower federal tax revenue. Although no such adjustment is included in this study’s general results, the impact of such an adjustment (and the arguments for and against it) are presented earlier. (See *Tables 4-6 and 4-7*.)

## **Taxes on Business**

### *Introduction*

This study includes over \$6.7 billion in business taxes, as summarized in *Table 2-1*. These business taxes (including rental property taxes) account for a significant percent of Minnesota’s state and local tax revenue. Business taxes include both taxes on capital (structures, capital equipment, and land) and taxes on business purchases of short-lived intermediate inputs (such as gasoline and restaurant meals).

This study estimated the incidence of each of these business taxes. While the initial impact of these taxes is on business, they are partially shifted forward to consumers in higher prices or backward to labor in lower wages. Much of the tax is paid by nonresidents, either as consumers of goods and services produced in Minnesota or as owners of capital and land located in Minnesota. This section summarizes how this study estimated the incidence of business taxes, and how business tax burdens were allocated to Minnesota households.

## *The Conceptual Structure*

The following six principles define this study's approach to estimating the incidence of Minnesota's existing business taxes.

1. *Capital moves to where it earns the highest return.* If a tax on capital in a single state (or industry) reduces the after-tax rate of return, investors will move their capital to lower-tax locations (or industries). As production falls, prices will rise or costs (including wages) will fall until the after-tax rate of return is again equal to the after-tax rate of return elsewhere. Only the average tax on all forms of capital in all states — a tax which owners of capital cannot avoid — will be fully borne by capital so long as capital is free to move in search of the highest rate of return.
2. *Minnesota's taxes do not occur in isolation.* Every state levies business taxes. The incidence of a tax levied at the same rate in all states differs greatly from the incidence of a tax levied only in Minnesota. For example, a one percent tax levied on business capital in only Minnesota will be largely shifted to consumers and workers; capital is unlikely to bear much of the final burden due to the ease of capital movement. In contrast, if all states impose the identical one percent tax on the value of all business capital, investors cannot escape the tax. Such a "national" tax on capital is much more likely to be borne by capital, reducing the after-tax rate of return on capital throughout the nation.

This distinction between a single-state tax and a nation-wide tax is crucial to the results of this study. The incidence of a particular Minnesota tax on business depends on how Minnesota's tax rate compares to those of other states. If, for example, a particular Minnesota business tax rate is 10 percent above the national average, the incidence of this 10 percent "Minnesota differential" will differ greatly from the incidence of the remainder of the tax.

3. *Minnesota's tax structure evolved over time.* In describing the incidence of existing business taxes, this study assumes that businesses, consumers, and workers have fully adjusted to tax differences across states.

4. *Some businesses, depending on their market, can shift Minnesota business taxes forward to consumers in higher prices.* Given time for full adjustment, the ability to shift taxes forward to consumers depends on the nature of the product being sold. Some producers, such as restaurants, compete only with other Minnesota companies; tax increases would affect all restaurants equally, and prices would rise to cover this higher cost. In contrast, a higher Minnesota tax on manufacturers is much harder to shift to consumers because firms compete in a national market. Therefore, Minnesota manufacturers cannot raise prices to cover higher state taxes. In this study, producers of “local market products” are assumed to pass tax differentials on to consumers but producers of “national market products” cannot.
5. *A tax that reduces the competitiveness of Minnesota businesses will be borne by immobile resources — those either unable or unwilling to leave the state.* If capital is mobile and prices cannot be increased (due to competition), the burden of business taxes will reduce payments to inputs that are geographically tied to the state, including labor and land.
6. *An increase in taxes reflects an increase in state and local government spending.* This study assumes that workers do not move between Minnesota and other states in response to changes in state taxes, because tax changes are offset by expenditure changes, leaving the net benefits to Minnesota taxpayers unchanged. In other words, labor (along with land) is assumed to be immobile. In contrast, changes in taxes on business income are assumed not to be offset by changes in benefits from government expenditures.

In summary, these six concepts have guided this study’s approach to estimating the incidence of Minnesota’s existing business taxes. The study provides an answer to the question: What is the burden of Minnesota taxes on Minnesota residents, in a multistate context where Minnesota’s taxes coexist with those of other states, assuming that producers and consumers have fully adjusted to existing tax rate differences?

### *Allocation of Business Taxes*

The six concepts discussed above are used in this section to determine the allocation of business taxes among the four major taxpayer categories: Minnesota consumers, capital and labor, and nonresidents. The methodology used in this step is discussed in detail before the results are presented:



Several major features of the tax incidence approach used in this study are important to keep in mind. First, this study emphasizes the importance of Minnesota tax rates relative to those in other states. In estimating the incidence of existing business taxes, it is the relative tax rate that matters, not the absolute level of taxes. The incidence of a property tax on manufacturers, for example, depends on how heavily other states tax such property.

Second, this study emphasizes the difference between the incidence of existing business taxes and the incidence of an incremental increase in those taxes. Much of an existing business tax is matched by taxes in other states. The incidence of an increase in such a tax (unmatched by increases in other states) would be quite different. The tax incidence results in this study measure the distribution of existing taxes, not the distribution of increasing Minnesota taxes relative to other states.

Third, this study estimates the burden of business taxes after businesses, consumers, and workers have fully adjusted to them in the long run. For example, relatively high tax rates on capital may reduce wages of Minnesota workers through less capital investment. This long-term perspective is appropriate for estimating the incidence of existing taxes.

### **Allocation of Business Taxes: An Example**

To understand the allocation approach used in this study, suppose that Minnesota levied a \$120 million tax on capital — manufacturing equipment, for example. The owners of that capital are legally liable for the tax, but who would bear the ultimate burden? The first step in answering this question is to determine how shifting spreads the tax to capital owners, consumers and labor.

#### ***Allocating the Burden Among Capital, Consumers, and Labor***

For each of the business taxes on capital, the tax paid by a particular economic sector is divided into three parts:

- The portion representing the *national average tax rate on all capital*.
- The portion representing the *national sector differential*.
- The portion representing the *Minnesota sector differential*.

This 3-part division of the tax is based on the answers to three questions. The approach is summarized in *Figure 5-1*, using the example of a \$120 million property tax on capital in the manufacturing sector.

*Question 1.* What portion of this \$120 million Minnesota tax represents the national average tax on all capital? If all states levied an identical tax on *all* forms of capital, capital would be unable to shift that tax to others and the entire burden would be borne by capital. Given the variation in rates among the states, it is the “average national tax rate on capital” which is borne by capital owners.

The average tax rate on all capital is measured in this study as the average state tax rate on all capital — total tax revenue (in all states) divided by the total national stock of capital. If the Minnesota tax rate on a particular sector is equal to the national average tax rate on all capital, then the tax will be borne entirely by the owners of capital; if the Minnesota tax rate exceeds the national average tax rate the remainder of the Minnesota tax would be shifted either forward to consumers or backward to labor and other immobile inputs.

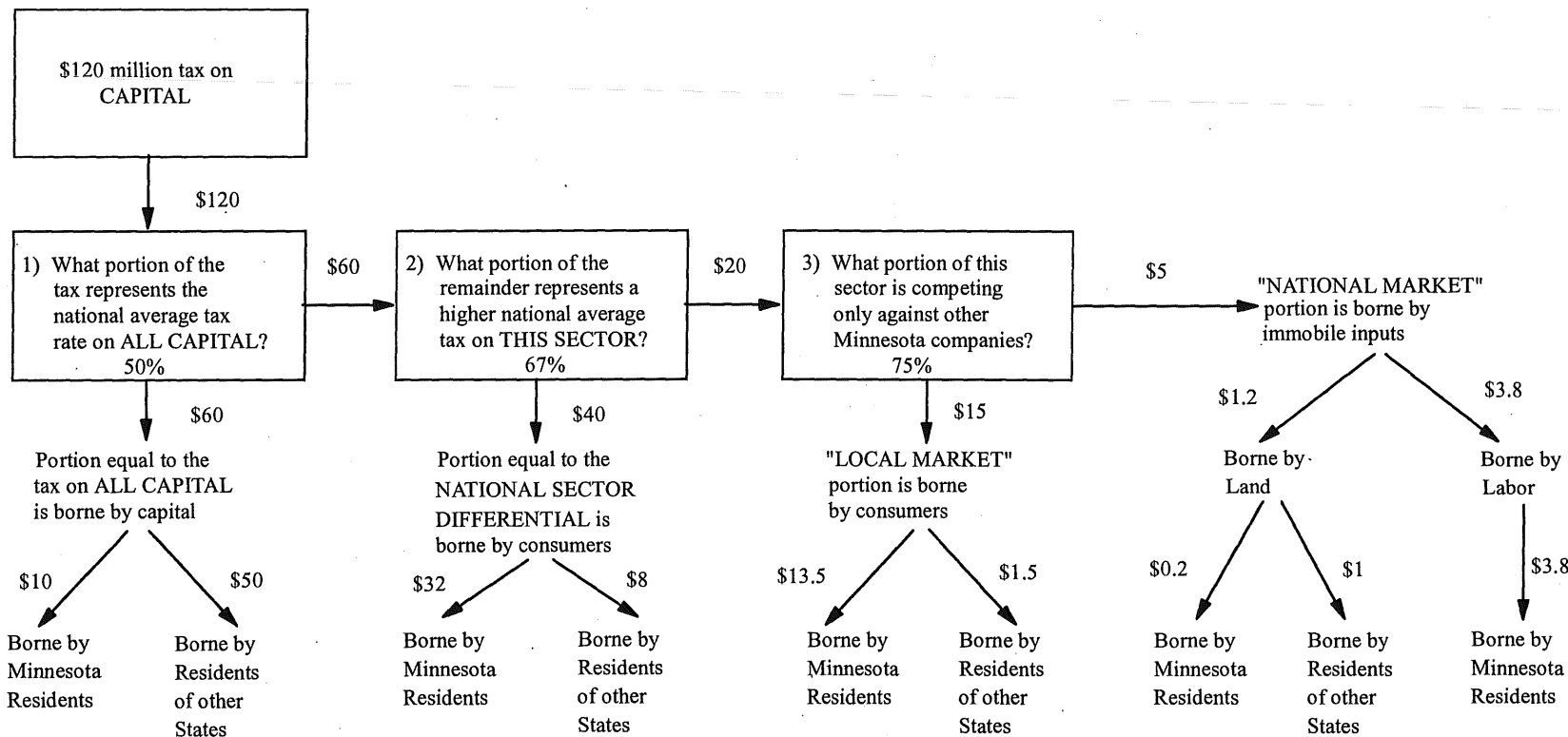
For each particular tax on capital, this study estimates the average national tax rate on all capital. If the Minnesota tax rate on a particular form of capital is twice the national average (as is assumed hypothetically in *Figure 5-1*), then the burden of the first half of the tax is assumed to fall on capital. What happens to the remaining half (\$60 million) depends on the answers to the next two questions.

*Question 2.* What portion of the remaining \$60 million in taxes on capital equipment represents a higher national average tax on this particular sector? Because capital taxes are levied at different rates on different forms of capital, some forms of capital are taxed in all states at a higher rate than all capital. For example, commercial property is taxed at a considerably higher rate than manufacturing property, and both are taxed more heavily than agriculture. In this example, suppose the national tax rate in the manufacturing sector is 1.67 times as high as the national average tax on all capital. This 67 percent higher-than-average tax rate difference for the manufacturing sector is referred to as its “national sector differential.”

Despite these heavier taxes, however, the after-tax rate of return in manufacturing cannot remain lower (with mobile capital) than the rate of return available in other sectors. As firms adjust by reducing output, the portion of a tax on capital equal to this “national sector differential” is borne entirely by consumers in the form of higher prices. For each tax on capital, this study estimates the average national tax rate on capital invested in each sector. The share of the Minnesota tax representing the “national sector differential” is allocated to consumers of products produced in Minnesota. (See *Figure 5-1*.)

**Figure 5-1**

**Incidence of a Hypothetical \$120 Million Tax on Capital**



Summary of Tax Incidence (\$ Millions)			
<u>Taxpayer Category</u>	<u>Total</u>	<u>Minnesota Residents</u>	<u>Residents of Other States</u>
Capital*	\$61.2	\$10.2	\$51.0
Consumers	55.0	45.5	9.5
Labor	3.8	3.8	0.0
<b>Total</b>	<b>\$120.0</b>	<b>\$59.5</b>	<b>\$60.5</b>

\*Capital includes land.

The remaining tax (if any) is the “Minnesota sector differential” — the amount by which Minnesota’s tax rate on capital invested in this sector exceeds the national average tax rate in this sector. To determine who bears the burden of this “Minnesota differential,” it is necessary to answer the third question.

*Question 3.* What portion of this sector’s producers compete only against other Minnesota producers in “local markets”? For products sold in local markets, the Minnesota differential will result in higher prices to consumers.

In contrast, prices for products that compete in national markets (including most manufactured products) are determined nationally. A “Minnesota sector differential” on producers of such national market products cannot usually be shifted to consumers, so that the burden of the tax must fall on immobile resources, land and labor. This study assumes that immobile labor and landowners share the burden of any Minnesota sector differential for national market products in proportion to their relative shares in production.

In summary, to allocate the burden of taxes among capital owners, consumers, and labor, this study divides the tax into three parts (the percentages refer to the example in *Figure 5-1*):

1. The portion representing the “national average tax on all capital” is borne by capital (50 percent).
2. The portion representing the “national sector differential” is borne by consumers (33 percent).
3. The portion representing the “Minnesota sector differential” is borne by:
  - Consumers for products sold in “local markets” (13 percent);
  - Labor and landowners for products sold in “national markets” (4 percent).

This approach requires an estimate, for each tax, of the national average tax on all capital. For each tax and each sector, it requires an estimate of the Minnesota differential — the excess of Minnesota taxes over the national average for that sector. The study also needs to estimate, for each sector, the extent to which its products are sold in local as opposed to national markets.

## *Allocating the Burden between Minnesota Residents and Nonresidents*

*Exported Tax Burden.* A large amount of capital located in Minnesota is owned by nonresidents. For the portion of any tax borne by capital and land, much of the burden will fall on residents of other states. This study assumed that nonresidents own 90 percent of the stock in corporations subject to Minnesota tax, and 20 percent of most noncorporate businesses (but only 5 percent of non-homestead residential property). As such, in sectors which are predominantly corporate, most of the burden falling on capital was exported.

Consumers located in other states will pay some of the “national sector differential” on Minnesota firms that is shifted forward in higher prices. In addition, nonresident visitors bear some of the tax shifted to in-state consumption. For each sector, this study estimated the proportion of sales made to (1) out-of-state consumers and (2) visitors.

The burden on labor (in the form of reduced wages) was assumed to fall entirely on Minnesota residents.

*Imported Tax Burden.* Both Minnesota consumers and Minnesota owners of capital and land located in other states pay taxes to other states. However, taxes that Minnesota residents pay to other states are ignored here; this study estimates and analyzes the incidence of Minnesota taxes on Minnesota residents.

*Federal Tax Offset.* In estimating the incidence of existing Minnesota taxes, this study makes no adjustment for the “federal tax offset” due to the deductibility of Minnesota business taxes in calculating federal taxable income. Given the “multistate” approach taken in this study, the federal tax offset is most likely to be quite small. All 50 states levy business taxes. Since approximately one-third of every state’s business taxes are offset by a reduction in federal revenues, the federal government has essentially replaced this lost tax revenue through higher federal tax rates. A state’s “net” federal tax offset would be its “gross” federal tax offset minus the state’s share of those increased federal tax payments. As a result, the net offset for the average state would be zero; with above average business taxes, Minnesota’s would be positive. However, given the offset’s small and uncertain size, this study simply assumes it is zero.

The same argument also applies to the federal tax offset for non-business taxes (the individual income tax, homeowner property tax, and motor vehicle registration tax) deductible in calculating federal individual income tax liability; the net offset for the average state is again zero. Given the multistate perspective of this study, no federal tax offset for household taxes is included. For informational purposes, however, the impact of the federal tax offset for non-business taxes is presented in *Tables 4-6 and 4-7*.

### ***Taxes on Intermediate Business Inputs***

The incidence of a tax on short-lived intermediate business inputs like gasoline, business meals, lodging, or liquor, is different from the incidence of a tax on capital. While a uniform national tax on all capital would be borne by capital, a uniform national tax on business purchases of gasoline, for example, would not. It would almost certainly be shifted forward to consumers in higher prices. Taxes on short-lived intermediate products raise the cost of production, but they do not raise the cost of capital.

As a result, the approach to the incidence of such taxes skips the first of the three questions asked about capital taxes. The tax on intermediate business purchases is divided into only two parts:

1. The portion representing the “average national tax rate” on this sector is shifted forward to consumers in higher prices.
2. The portion representing the “Minnesota differential” is borne by:
  - a. Consumers for products sold in “local markets;”
  - b. Labor and landowners for products sold in “national markets.”

### **Business Tax Allocators**

After estimating the share of Minnesota business taxes borne by Minnesota owners of capital and land, consumers, and labor, the final step was to allocate those taxes to specific households based on each household’s characteristics contained in the database records. In most cases, the study allocated to each household the average tax burden for households with the same characteristics. *Table 5-1* summarizes the allocators used in this final step.

**Table 5-1**  
**Business Tax Allocators**

Allocator	Used to Distribute Tax Borne By:
Dividend income	Corporate owners
Noncorporate capital ownership	Noncorporate owners
Total consumer expenditures	Consumers
Labor income	Workers
Adjusted farm property tax	Farmers using their own land
Farm rents	Farmers leasing their land

*Burden on Consumers.* Taxes shifted forward to consumers were allocated to consumers based on their share of total consumer expenditures, as estimated from the *Consumer Expenditure Survey*. Total expenditures for a particular household were estimated based on household income and size.

*Burden on Renters.* This is a particular case of the burden on consumers. In this case the total property tax for some renters is known directly, as it is reported on the form required to file for the property tax refund. The renter burden is calculated as a fraction of total rent (using the most recent census information) and this fraction is applied to the total property tax to obtain the renter share. For renters who do not file for the property tax refund, the property tax burden is assumed to be the same as for those renters who do file who have similar incomes and household characteristics.

*Burden on Corporate Capital.* The burden on corporate capital was allocated to households in proportion to taxable dividends received. This allocator was used to estimate the total income received by owners of corporate stock, both as dividends and as capital gains on appreciated stock. Although dividends received may not be a good measure of corporate ownership for particular individuals, the decile-by-decile distribution of dividend income should match the distribution of corporate capital fairly closely.

*Burden on Noncorporate Capital.* Noncorporate business capital includes capital owned by sole proprietors, partnerships, and S corporations. This study used a variety of information from Schedules C and E to develop a reasonable estimate of each household's ownership of noncorporate capital. The construction of this measure guaranteed that: (1) households with large business losses are assigned some capital ownership (based on either claimed depreciation or the size of claimed losses); and (2) the shares of capital ownership imputed to those with sole proprietor income, rental income, and partnership and S corporation income are roughly proportional to each income source's aggregate share of claimed depreciation.

*Burden on Farmers.* Rental land accounts for about one third of Minnesota farm land. Approximately half of all farm property taxes were paid on rented land, reflecting higher classification rates on non-homestead farms. Therefore about half of the farm property tax burden was allocated in proportion to farm homestead property taxes, with the rest allocated in proportion to farm rents (reported on Schedule E).

*Burden on Labor.* The burden on labor (through lower wages) was allocated based on each household's share of earned income, defined as the sum of wages and salaries.

A summary description of the incidence results for the distribution of each business tax to consumers, capital and labor (both residents and nonresidents) is provided in *Table 5-2*. The business tax allocators used to estimate the business tax burden for specific Minnesota households are discussed below. Further explanation of the incidence estimated for each of the business taxes can be found in the 1999 Tax Incidence Study.



**Table 5-2**  
**Distribution of Business Tax Burden by Taxpayer Category (2002)**

	Percent Borne by Minnesota Taxpayers			Percent Exported
	Consumers	Labor	Capital	
<b>Business Property Taxes</b>				
Commercial	32%	3%	17%	47%
Industrial	0%	0%	11%	89%
Farm	0%	0%	98%	2%
Public utility	57%	4%	2%	37%
Rental housing	42%	0%	44%	14%
All Sectors	28%	2%	26%	44%
<b>Sales Tax on Business Inputs</b>				
Agriculture	7%	1%	49%	42%
Mining	3%	2%	9%	86%
Construction	94%	0%	2%	4%
manufacturing	12%	0%	4%	84%
Trade, transportation, utilities	50%	7%	4%	40%
Information	58%	0%	3%	39%
Financial activities	60%	0%	8%	31%
Professional and business services	81%	0%	5%	13%
Educational and health services	68%	0%	18%	14%
Leisure and hospitality	62%	0%	8%	30%
Other Services	81%	0%	5%	15%
All Sectors	60%	2%	8%	31%
<b>Corporate Franchise Tax</b>				
Commercial	53%	8%	3%	37%
Manufacturing	12%	9%	3%	76%
Public utility	49%	8%	3%	40%
Mining	2%	17%	0%	81%
All Sectors	42%	8%	3%	47%
<b>Other Business Taxes</b>				
Motor fuels	60%	0%	0%	40%
Motor vehicle registration	28%	13%	12%	47%
Mortgage and deed taxes	20%	0%	36%	44%
Insurance premium	24%	0%	13%	63%

## Estimating the Impact of a Change in Business Taxes

This study estimates the burden of existing business taxes at current law levels. *The results presented here do not directly apply to changes in the level of business taxes.* As explained in this section, the first step in the incidence analysis was to divide existing business taxes into three parts: the national average tax on all capital, the sector differential, and the Minnesota differential. In contrast, a change in business taxes in Minnesota (unmatched by changes elsewhere) would consist of only one part; the Minnesota differential. As a result, distribution of the burden would be different.

Compared to the results presented in this study, the incidence of an increase or decrease in Minnesota business taxes would fall:

- less on nonresidents,
- less on Minnesota owners of capital,
- more on Minnesota consumers, and
- more on Minnesota labor.

Illustrations of the magnitude of these differences were presented in the 1993 edition of this study (Appendix B).



## Glossary of Tax Incidence Study Terms

**Consumer Expenditure Survey** – a database produced annually by the Bureau of Labor Statistics that contains information from a large nationwide sample of households on the amounts spent for a great variety of goods and services. Used to estimate consumption patterns for Minnesota households.

**Decile** – one tenth of an ordered list. In this study decile usually means a particular tenth of the total number of households in the state after those households have been ordered or ranked by income; sometimes referred to as a population decile. For example, the first decile means the tenth of the population ranking lowest in income; the tenth decile is the tenth of the population having the highest incomes. An alternative use of the term in this study means a tenth of the total income of the households so ranked; this is referred to as an income decile. For example, the tenth income decile refers to those households receiving the highest tenth of total income.

**Effective tax rate** – tax paid as a percentage of gross income. Effective tax rates can be calculated for single taxes or groups of taxes. In this study they are also calculated for business taxes by industry sector. Effective tax rates by decile are one of the main methods by which study results are presented. It should be noted that effective tax rates for the first decile are unreliable for several reasons. That decile includes households with temporarily low incomes or who consume based on wealth rather than current income (retirees, for example).

**Federal offset** – the reduction in federal taxes due to the reduction in federal taxable income that occurs when state taxes are included in itemized deductions. Because of this offset, the burden of state taxes would be lower than it otherwise appears, as long as federal rates are not increased to make up for the lower revenue.

**Gross state product (GSP)** – GSP is the value added in production by the labor and property located in the state. The value added of an industry is its gross output (sales, inventory increase, etc.) minus its intermediate inputs (goods and services purchased from other industries). GSP for a state is derived as the sum of the GSP originating in all industries in the state.

**Household** – for tax filers, in this study a household is defined as the one or two people entitled to file one income tax return or property tax refund return, plus any dependents. For the nonfilers in this study, a household means those people living at the same address who presumably would be entitled to file one income tax return if they were filers, plus any dependents. This definition differs from that used by the U.S. Census Bureau, which defines a household as any group of people who share living arrangements.

**Impact of tax** – refers to the initial burden of the tax, experienced by the person or firm legally obligated to pay the tax. The impact is distinguished from the incidence of the tax.

**Incidence of tax** – refers to the ultimate burden of the tax after the person or business firm legally obligated to pay the tax alters its behavior in response (if it does alter its behavior). In some cases, namely taxes imposed directly on households, both the impact and the incidence are the same. In other cases, such as taxes on businesses, the incidence is shifted from the business to others.

**Income** – for this study household income means all cash income received by anyone in the household, whether or not such income is taxable. Excluded from the definition is any noncash income, such as food stamps or income in kind. This is a broader measure of income than some others; for example, personal income as defined in the national income accounts does not include capital gains.

**Industry sectors** – in this study private production of goods and services is divided into ten sectors: agriculture; mining; construction; manufacture of durable goods; manufacture of nondurable goods; transportation, communication and public utilities (TCPU); finance, insurance and real estate (FIRE); services; retail trade; and wholesale trade.

**Progressive tax** – a tax for which the effective tax rate rises as income rises.

**Proportional tax** – a tax for which the effective rate does not change with income.

**Regressive tax** – a tax for which the effective tax rate falls as income rises.

**Suits index** – a numerical score ranging between  $-1$  and  $+1$  that indicates the extent to which a tax is progressive or regressive. Negative values indicate a regressive tax, positive values a progressive tax, and zero shows a proportional tax. The closer the Suits index is to  $+1$  or  $-1$ , the higher the degree of progressivity or regressivity.

**Tax shifting** – the process by which the incidence of a tax is translated from the economic entity legally obligated to pay the tax to those bearing the ultimate burden of the tax.

## Legislative Mandate

### 270.0682 Tax Incidence Reports

Subdivision 1. Biennial report. The commissioner of revenue shall report to the legislature by March 1 of each odd-numbered year on the overall incidence of the income tax, sales and excise taxes, and property tax. The report shall present information on the distribution of the tax burden (1) for the overall income distribution, using a systemwide incidence measure such as the Suits index or other appropriate measures of equality and inequality, (2) by income classes, including at a minimum deciles of the income distribution, and (3) by other appropriate taxpayer characteristics.

Subdivision 2. Bill analyses. At the request of the chair of the house tax committee or the senate committee on taxes and tax laws, the commissioner of revenue shall prepare an incidence impact analysis of a bill or a proposal to change the tax system which increases, decreases, or redistributes taxes by more than \$20,000,000. To the extent data is available on the changes in the distribution of the tax burden that are affected by the bill or proposal, the analysis shall report on the incidence effects that would result if the bill were enacted. The report may present information using systemwide measures, such as Suits or other similar indexes, by income classes, taxpayer characteristics, or other relevant categories. The report may include analyses of the effect of the bill or proposal on representative taxpayers. The analysis must include a statement of the incidence assumptions that were used in computing the burdens.

Subdivision 3. Income measure. The incidence analyses shall use the broadest measure of economic income for which reliable data is available.

History: 1990 c 604 art 10 s 9.



**Supplement**  
**2005 Minnesota Tax Incidence Study**  
**Comparative Data by Tax, 2002**

April 4, 2005



## Supplement

# 2005 Minnesota Tax Incidence Study

This Supplement contains detailed information on each of the taxes analyzed in the Tax Incidence Study. For each tax the total amount collected in 2002 is given as well as the breakdown of that amount by the sector – Minnesota households, nonresidents, and Minnesota businesses – on which the tax is imposed. Also shown is the amount of the tax borne by Minnesotans after tax shifting takes place, as well as the amount exported outside Minnesota.

For each individual tax the percentage allocation to each of four possible shifting destinations is given: the percentage amount of the tax imposed directly on Minnesota households (direct), the percentage shifted to Minnesota consumers in the form of higher prices (consumers), that shifted the input to production (labor), and the fraction borne by business owners (capital). For a complete discussion of shifting methodology see the Appendix in the 2005 Minnesota Tax Incidence Study.

Effective tax rates by population decile are shown in tabular and graphical form, both for the tax itself and for all taxes as a standard of comparison. Finally, the Suits indices for the individual tax and for the tax system as a whole are given.

Page 2 in this Supplement is a copy of *Table 2-1* in the Tax Incidence Study. This page also serves as a table of contents to enable a reader to locate the particular tax of interest.

A link to the complete report is:

[http://www.taxes.state.mn.us/taxes/legal\\_policy/research\\_reports/content/incidence.shtml](http://www.taxes.state.mn.us/taxes/legal_policy/research_reports/content/incidence.shtml)

A glossary of terms used is appended to this supplement.

**2002**  
**Tax Collection Amounts**  
(\$ Millions)

Page Number	Tax Type	Total	As Imposed			After shifting		Suits Index
			MN HH's	NR	Business	Minnesota	Exported	
	<b>State Taxes</b>							
	<b>Taxes on income and estates</b>							
3	Individual income tax	\$5,408	\$5,229	\$178		\$5,229	\$178	0.199
4	Corporation franchise tax	560			\$560	297	263	-0.116
5	Estate tax	97	97			97		0.281
6	<b>Total income and estate taxes</b>	<b>\$6,064</b>	<b>\$5,326</b>	<b>\$178</b>	<b>\$560</b>	<b>\$5,623</b>	<b>\$441</b>	<b>0.184</b>
	<b>Taxes on consumption</b>							
7	Total sales tax	\$4,438	\$2,357	\$146	\$1,936	\$3,659	\$779	-0.143
8	General sales/use tax	3,829	1,953	146	1,731	3,146	683	-0.143
9	Sales tax on motor vehicles	609	404		205	513	96	-0.145
10	Motor fuels excise taxes	632			632	516	117	-0.240
11	Alcoholic beverage excise taxes	61			61	54	6	-0.170
12	Cigarette and tobacco excise taxes	178			178	173	5	-0.515
13	Insurance premiums taxes	202			202	150	53	-0.131
14	Gambling taxes	57			57	55	2	-0.350
15	MinnesotaCare taxes	191			191	166	25	-0.266
16	<b>Total consumption taxes</b>	<b>\$5,760</b>	<b>\$2,357</b>	<b>\$146</b>	<b>\$3,258</b>	<b>\$4,773</b>	<b>\$987</b>	<b>-0.174</b>
	<b>Taxes on property</b>							
17	Residential recreational property tax	\$28	\$22	\$5		\$22	\$5	-0.179
18	Commercial property tax	\$369	\$0	\$0	\$369	\$194	\$175	-0.105
19	Industrial property tax	\$125	\$0	\$0	\$125	\$14	\$111	0.120
20	Utility property tax	\$64	\$0	\$0	\$64	\$40	\$24	-0.132
21	<b>Total property taxes</b>	<b>\$585</b>	<b>\$22</b>	<b>\$5</b>	<b>\$558</b>	<b>\$270</b>	<b>\$316</b>	<b>(0.10)</b>
	<b>Other taxes</b>							
22	Motor vehicle registration tax	\$483	\$391		\$92	\$440	\$43	-0.107
23	Mortgage and deed taxes	263	168		96	221	42	-0.111
24	Solid waste management taxes	56	22		34	53	4	-0.170
25	<b>Total other taxes</b>	<b>\$803</b>	<b>\$581</b>	<b>\$0</b>	<b>\$221</b>	<b>\$714</b>	<b>\$89</b>	<b>-0.113</b>
	<b>Property Tax Refunds</b>							
26	Homeowners	-\$131	-\$131			-\$131		0.675
27	Renters	-137	-137			-137		0.874
28	<b>Total property tax refunds</b>	<b>-\$268</b>	<b>-\$268</b>			<b>-\$268</b>		<b>0.777</b>
29	<b>Total state taxes</b>	<b>\$12,945</b>	<b>\$8,019</b>	<b>\$329</b>	<b>\$4,597</b>	<b>\$11,112</b>	<b>\$1,833</b>	<b>0.027</b>
	<b>Local Taxes</b>							
30	Property Taxes (Pay 2002)	\$4,071	\$2,004	\$17	\$2,050	\$3,179	\$892	-0.174
31	General Property Tax (gross - credits)	4,009	2,004	17	1,988	3,178	830	-0.175
32	Homeowners (gross of PTR)	1,936	1,936			1,936	0	-0.148
33	Residential recreational property	84	68	17		68	17	-0.179
34	Commercial	882			882	463	419	-0.105
35	Industrial	296			296	32	264	0.120
36	Farm (other than residence)	212			212	208	4	-0.310
37	Rental Housing	416			416	358	59	-0.370
38	Utility	181			181	114	68	-0.132
39	Minerals	0			0	0	0	0.021
40	Mining Production Taxes (taconite)	62			62	1	62	0.149
41	Local Sales Taxes	114	58	4	52	94	20	-0.143
42	Local Gross Earnings Taxes	45			45	28	17	-0.132
43	<b>Total local taxes</b>	<b>\$4,229</b>	<b>\$2,062</b>	<b>\$21</b>	<b>\$2,146</b>	<b>\$3,301</b>	<b>\$929</b>	<b>-0.173</b>
44	<b>Total state and local taxes</b>	<b>\$17,174</b>	<b>\$10,081</b>	<b>\$350</b>	<b>\$6,743</b>	<b>\$14,412</b>	<b>\$2,762</b>	<b>-0.018</b>

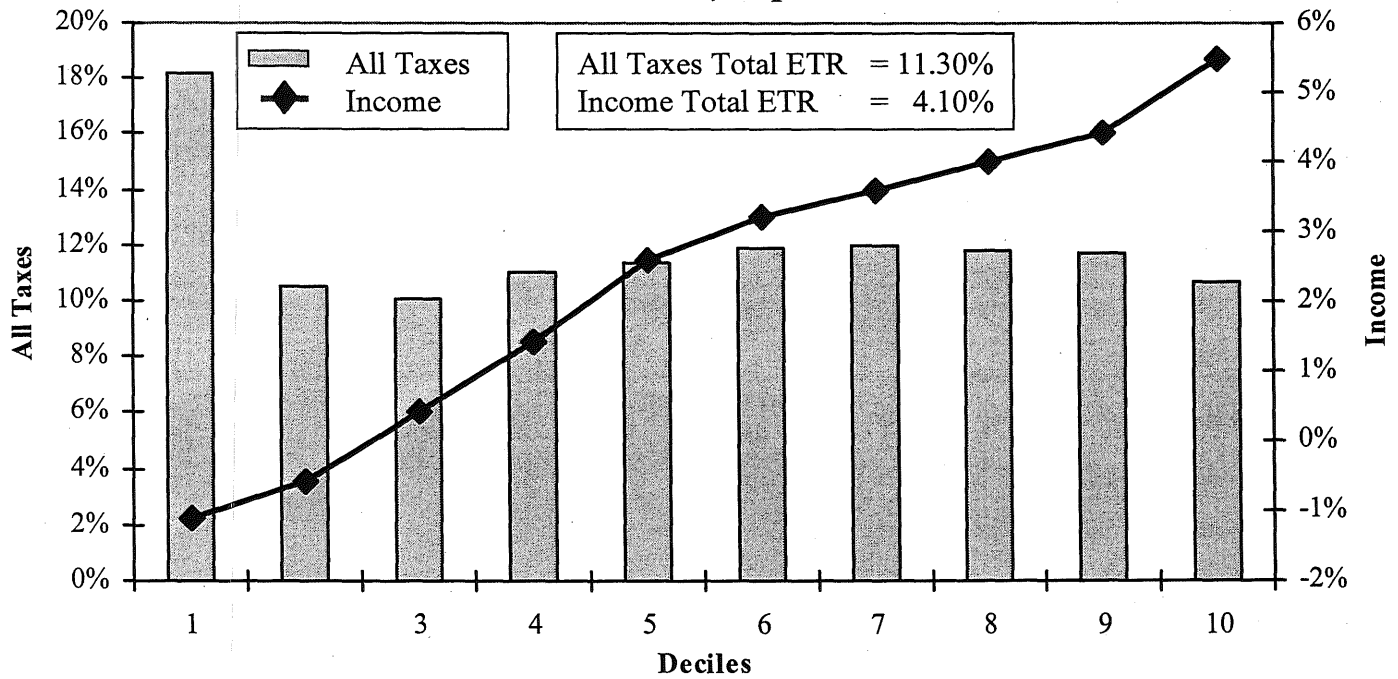
## 2002 Incidence Estimate for Individual Income Tax

### Tax Collection Amounts 2002 (\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
\$5,408	\$5,229	\$178	\$0	\$5,229	\$178

\*Shifting allocations: Direct = 100%, Consumers = 0%, Labor = 0%, Capital = 0%

### Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
Income	-1.1%	-0.6%	0.4%	1.4%	2.6%	3.2%	3.6%	4.0%	4.4%	5.5%	5.8%	6.3%	0.199

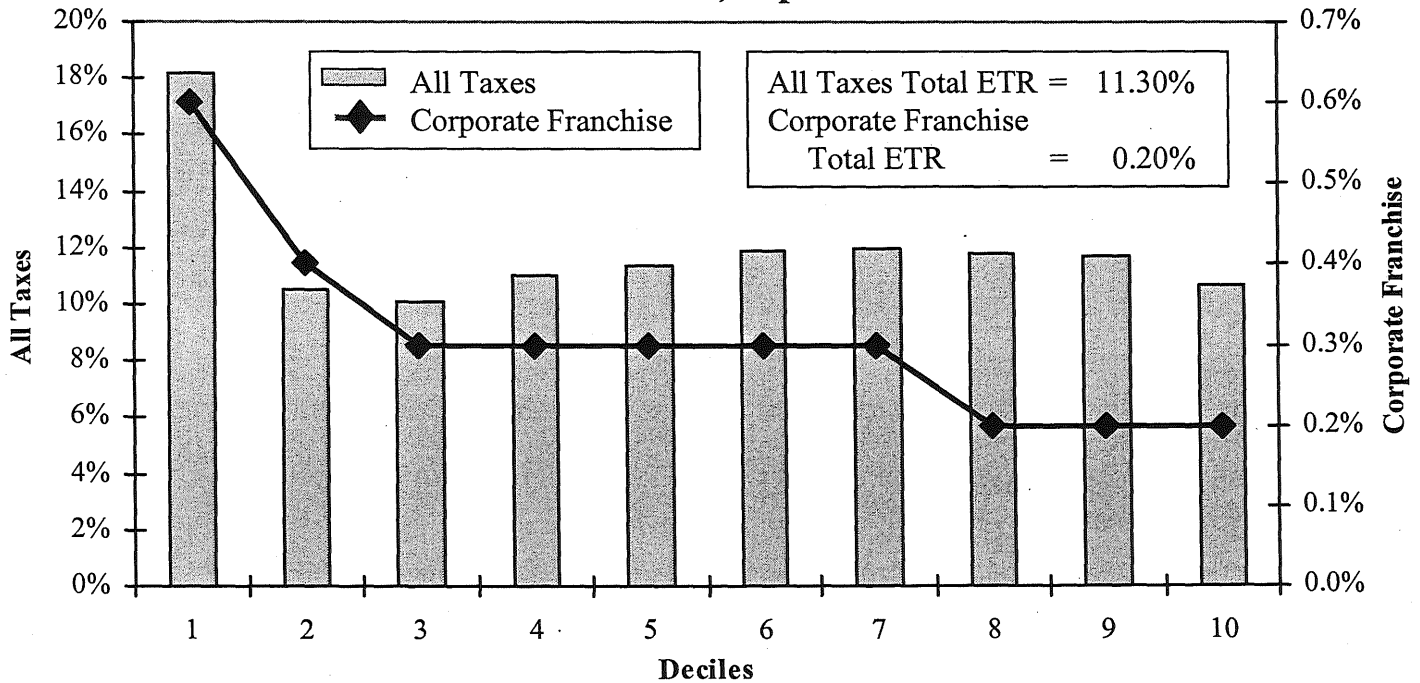
# 2002 Incidence Estimate for Corporation Franchise Tax

## Tax Collection Amounts 2002 (\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota**	Exported
\$560	\$0	\$0	\$560	\$297	\$263

\*\*Shifting allocations: Direct = 0%, Consumers = 79%, Labor = 15%, Capital = 6%

## Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
Corporate Franchise	0.6%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.1%	-0.116

\*Composed of the corporate franchise tax (\$559M) and the mining occupation tax (\$1M).

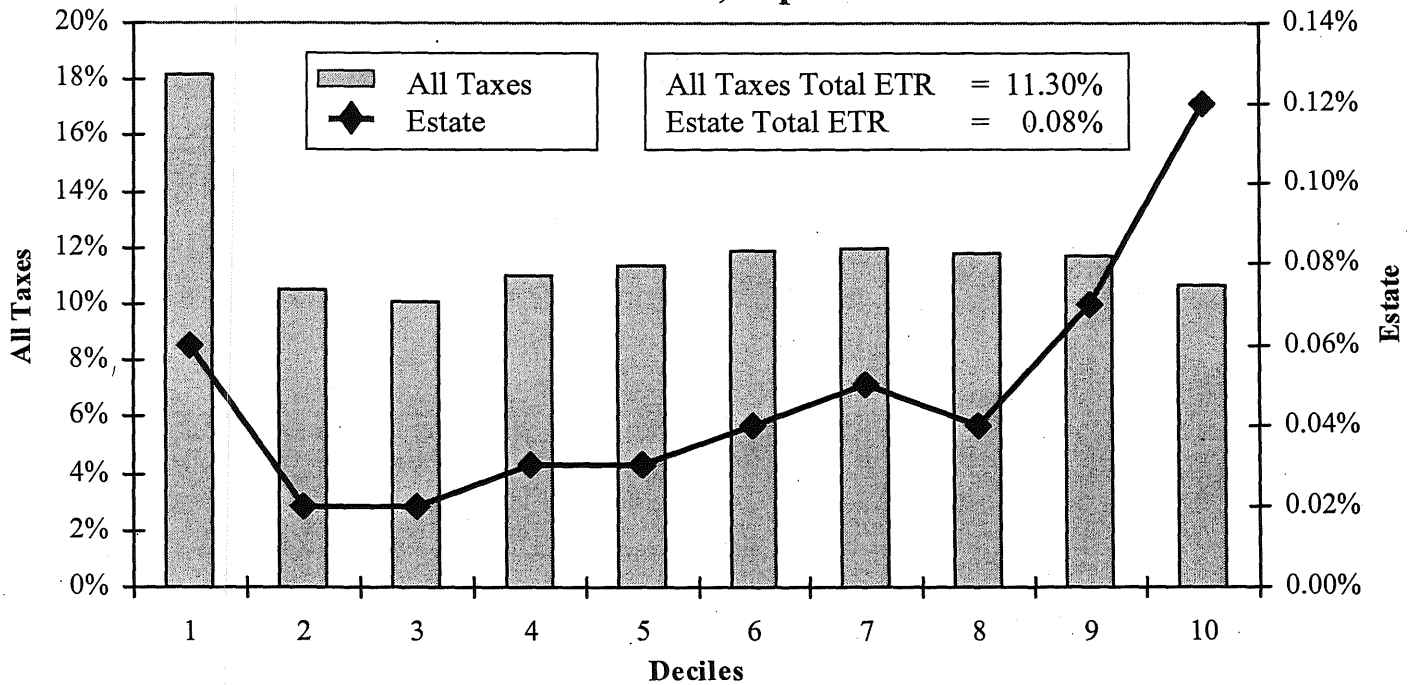
## 2002 Incidence Estimate for Estate Tax

### Tax Collection Amounts 2002 (\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
\$97	\$97	\$0	\$0	\$97	\$0

\*Shifting allocations: Direct = 100%, Consumers = 0%, Labor = 0%, Capital = 0%

### Effective Tax Rates, Population Deciles



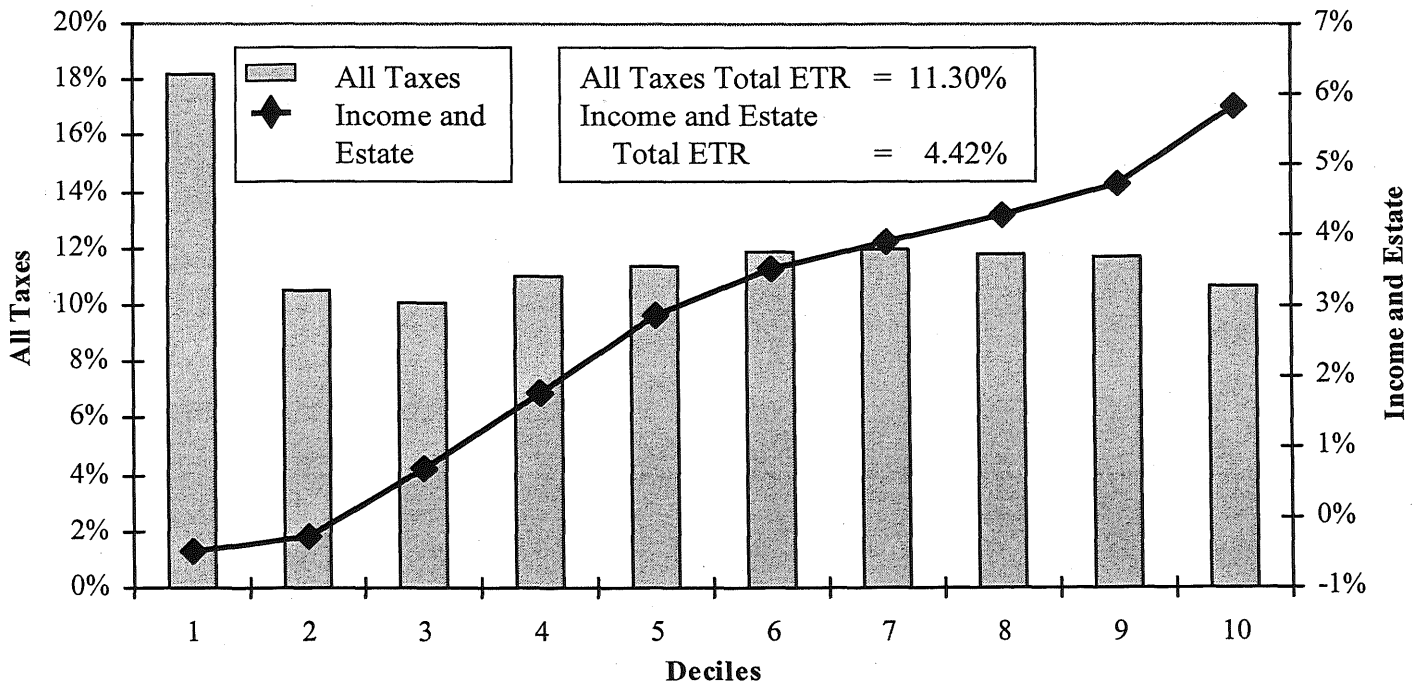
Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.07
Estate	0.06%	0.02%	0.02%	0.03%	0.03%	0.04%	0.05%	0.04%	0.07%	0.12%	0.11%	0.05%	0.28

## 2002 Incidence Estimate for Total Income and Estate Taxes

### Tax Collection Amounts 2002 (\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota	Exported
\$6,064	\$5,326	\$178	\$560	\$5,623	\$441

### Effective Tax Rates, Population Deciles



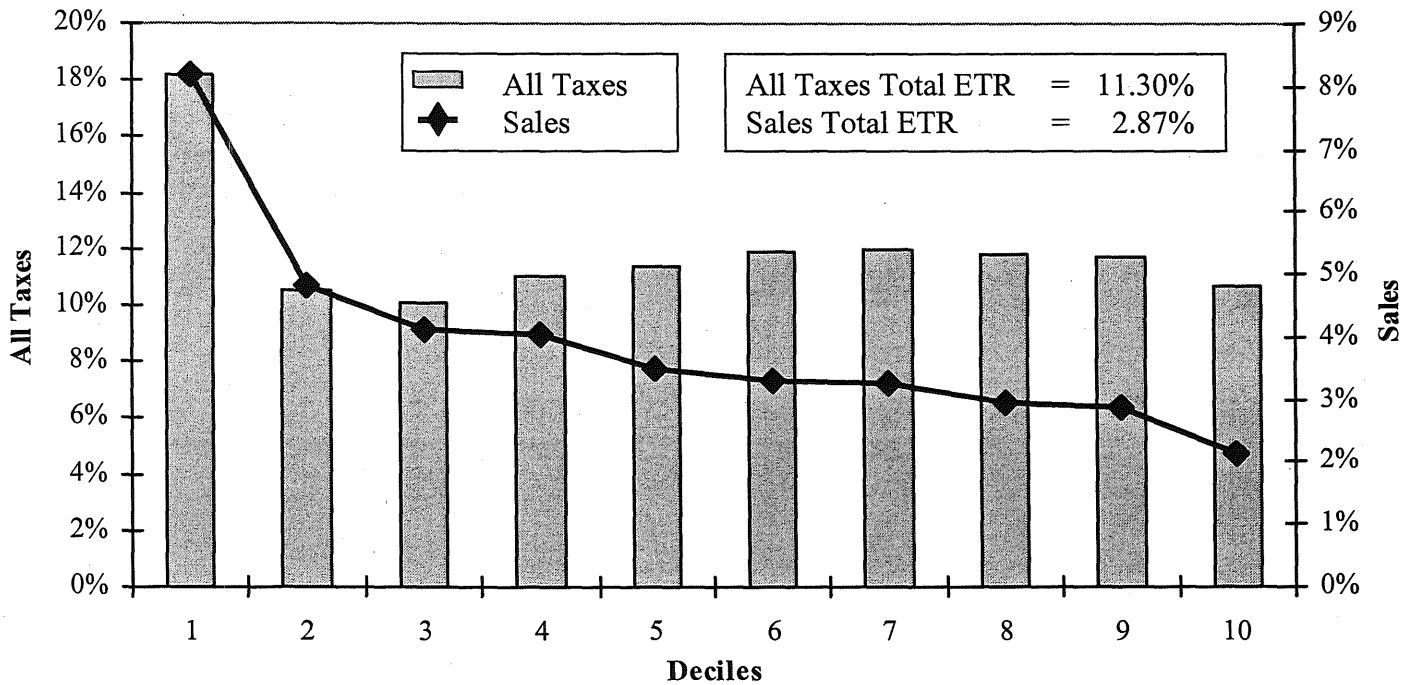
Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
Income and Estate	-0.47%	-0.28%	0.69%	1.75%	2.86%	3.53%	3.91%	4.29%	4.74%	5.83%	6.05%	6.46%	0.18

## 2002 Incidence Estimate for Total Sales Tax

### Tax Collection Amounts 2002 (\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota	Exported
\$4,438	\$2,357	\$146	\$1,936	\$3,659	\$779

### Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	72
Sales	8.20%	4.81%	4.13%	4.03%	3.50%	3.29%	3.27%	2.94%	2.86%	2.12%	1.98%	1.05%	-0.14

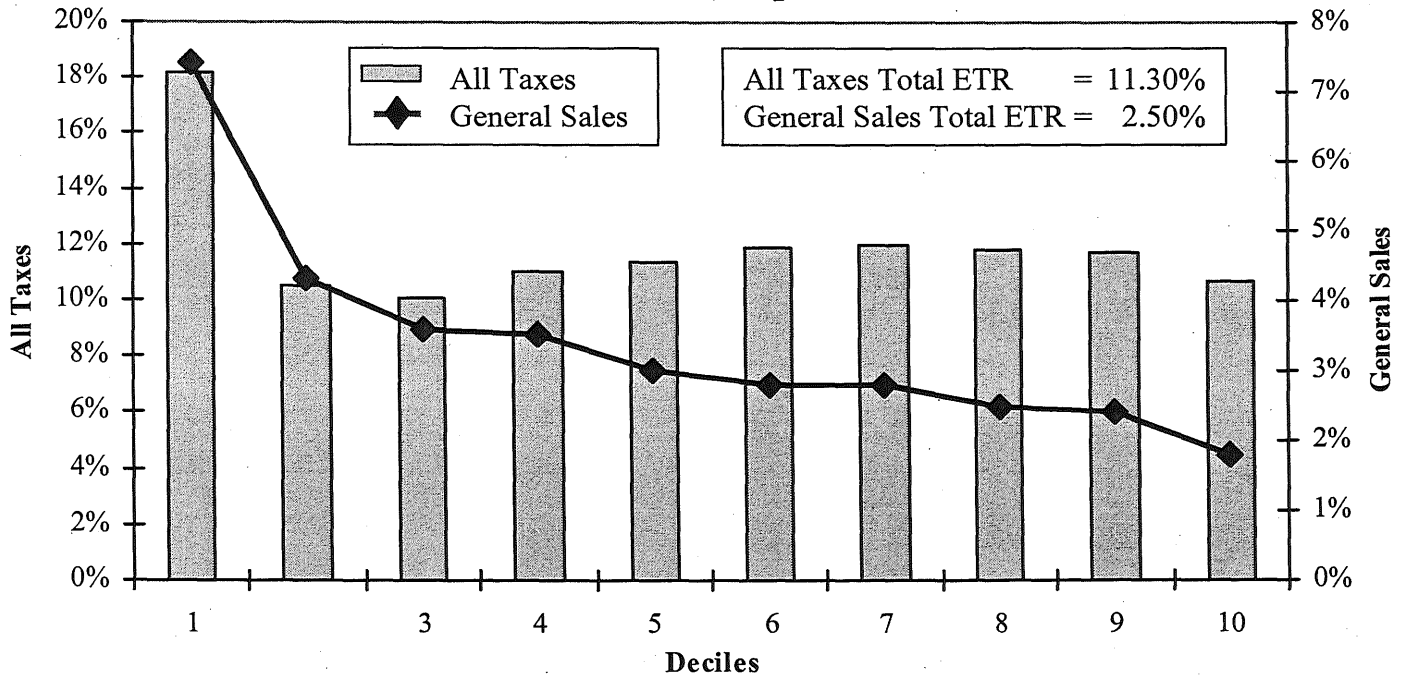
## 2002 Incidence Estimate for General Sales and Use Tax\*

### Tax Collection Amounts 2002 (\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota**	Exported
\$3,829	\$1,953	\$146	\$1,731	\$3,146	\$683

\*\*Shifting allocations: Direct = 62%, Consumers = 32%, Labor = 1%, Capital = 5%

### Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
General Sales	7.4%	4.3%	3.6%	3.5%	3.0%	2.8%	2.8%	2.5%	2.4%	1.8%	1.7%	0.9%	-0.143

\*Composed of the general sales tax (\$3,817M) and the motor vehicle rental tax (\$11M).



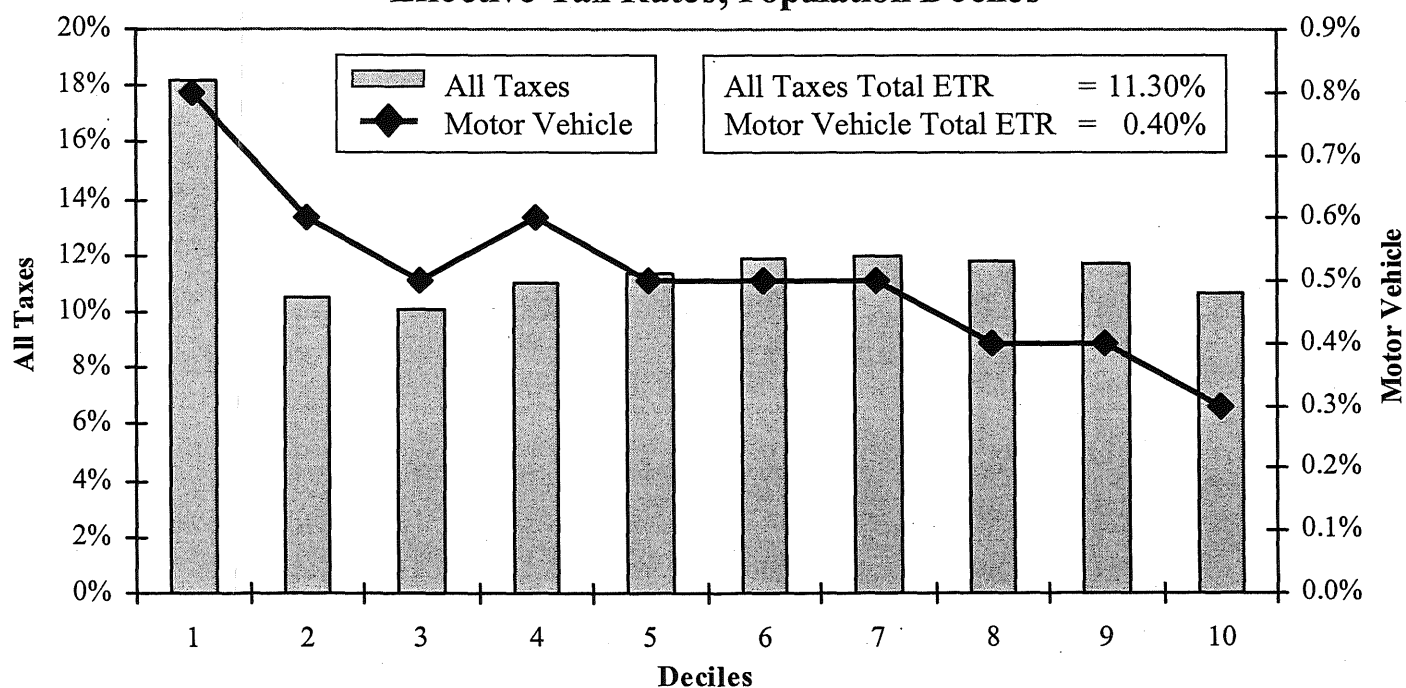
## 2002 Incidence Estimate for Sales Tax on Motor Vehicles

### Tax Collection Amounts 2002 (\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
\$609	\$404	\$0	\$205	\$513	\$96

\*Shifting allocations: Direct = 79%, Consumers = 11%, Labor = 7%, Capital = 3%

### Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.00
Motor Vehicle	0.8%	0.6%	0.5%	0.6%	0.5%	0.5%	0.5%	0.4%	0.4%	0.3%	0.3%	0.1%	-0.145

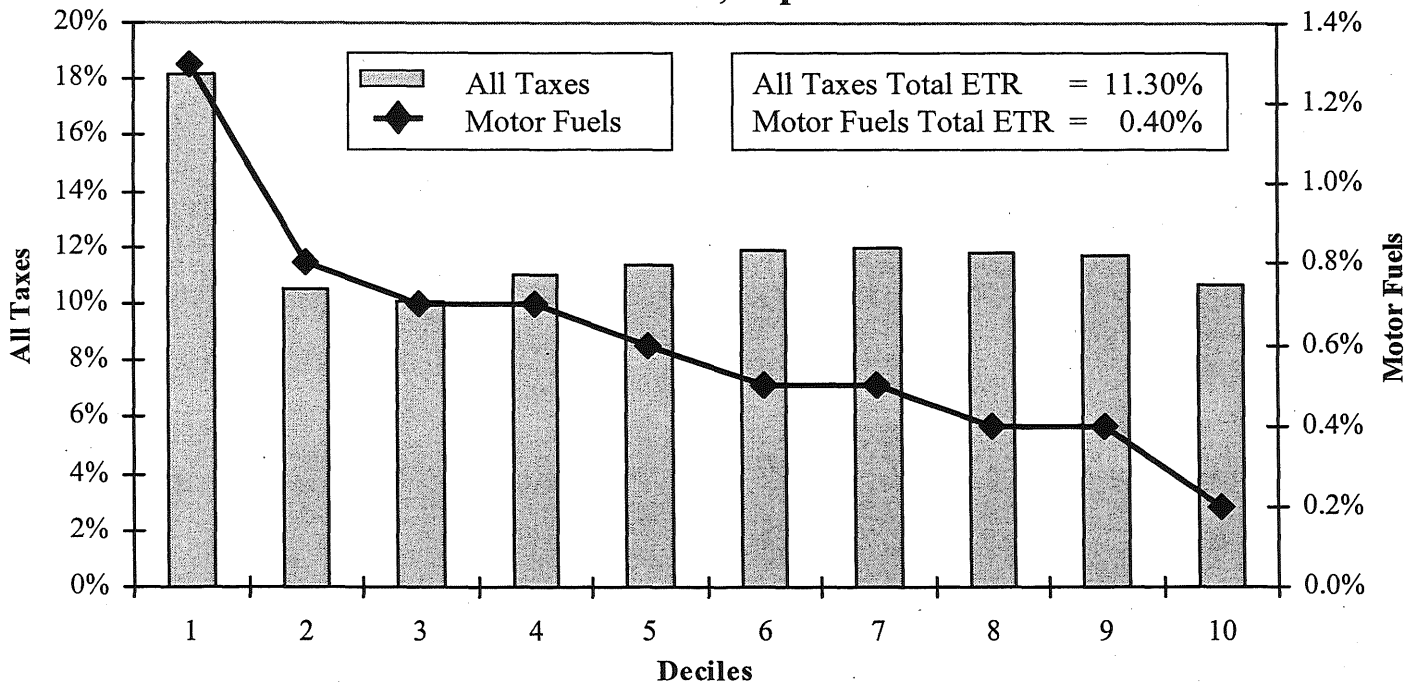
## 2002 Incidence Estimate for Motor Fuels Excise Taxes

**Tax Collection Amounts 2002  
(\$Millions)**

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
\$632	\$0	\$0	\$632	\$516	\$117

\*Shifting allocations: Direct = 71%, Consumers = 29%, Labor = 0%, Capital = 0%

**Effective Tax Rates, Population Deciles**



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
Motor Fuels	1.3%	0.8%	0.7%	0.7%	0.6%	0.5%	0.5%	0.4%	0.4%	0.2%	0.2%	0.1%	-0.24

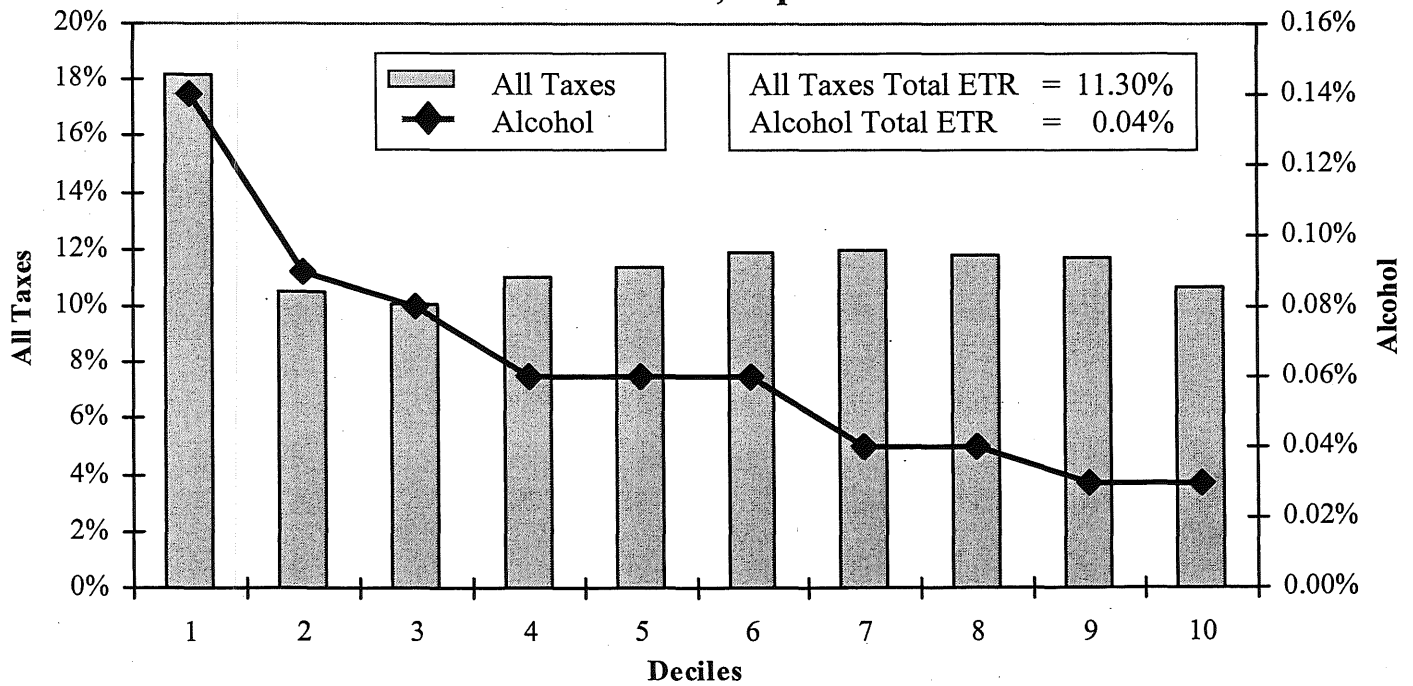
## 2002 Incidence Estimate for Alcoholic Beverage Excise Taxes

**Tax Collection Amounts 2002**  
(\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
\$61	\$0	\$0	\$61	\$54	\$6

\*Shifting allocations: Direct = 0%, Consumers = 100%, Labor = 0%, Capital = 0%

**Effective Tax Rates, Population Deciles**



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.07
Alcohol	0.14%	0.09%	0.08%	0.06%	0.06%	0.06%	0.04%	0.04%	0.03%	0.03%	0.03%	0.02%	-0.17

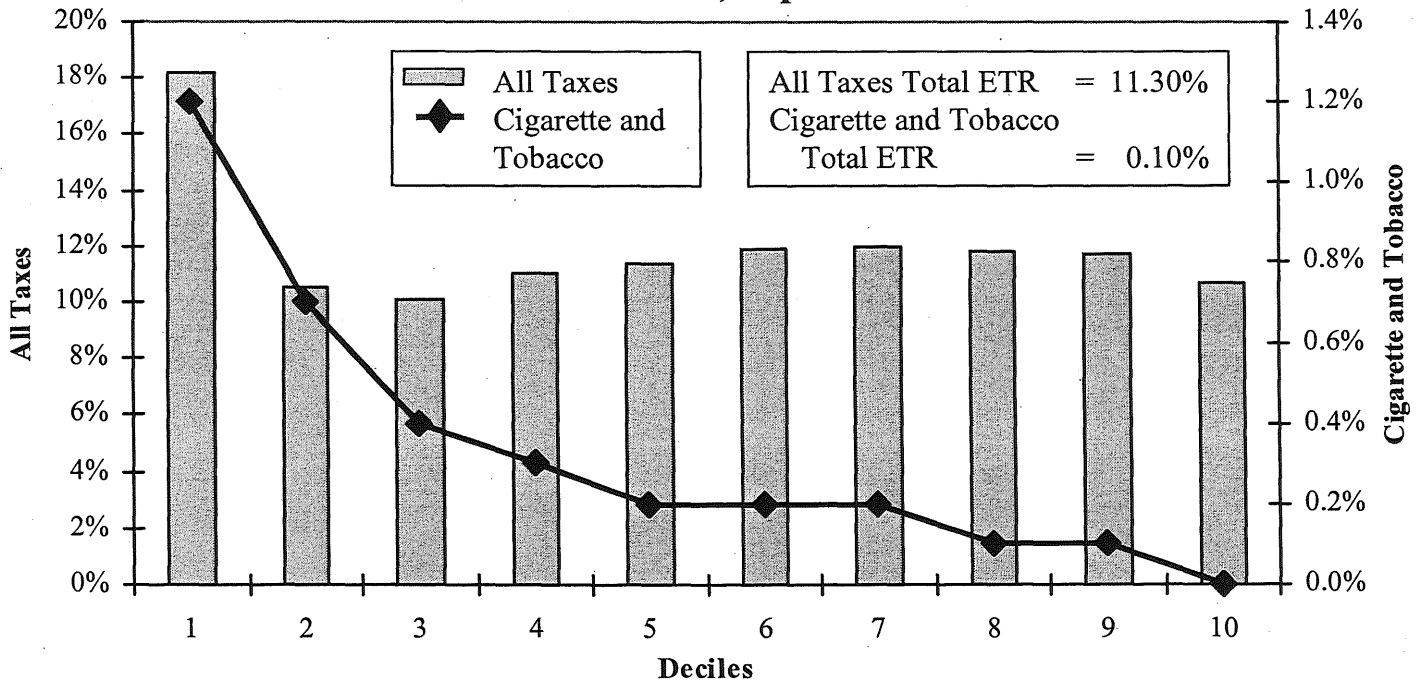
## 2002 Incidence Estimate for Cigarette and Tobacco Excise Taxes\*

### Tax Collection Amounts 2002 (\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota**	Exported
\$178	\$0	\$0	\$178	\$173	\$5

\*\*Shifting allocations: Direct = 0%, Consumers = 100%, Labor = 0%, Capital = 0%

### Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
Cigarette and Tobacco	1.2%	0.7%	0.4%	0.3%	0.2%	0.2%	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%	-0.52

\*Composed of the cigarette tax (\$161M) and the tobacco products tax (\$17M).

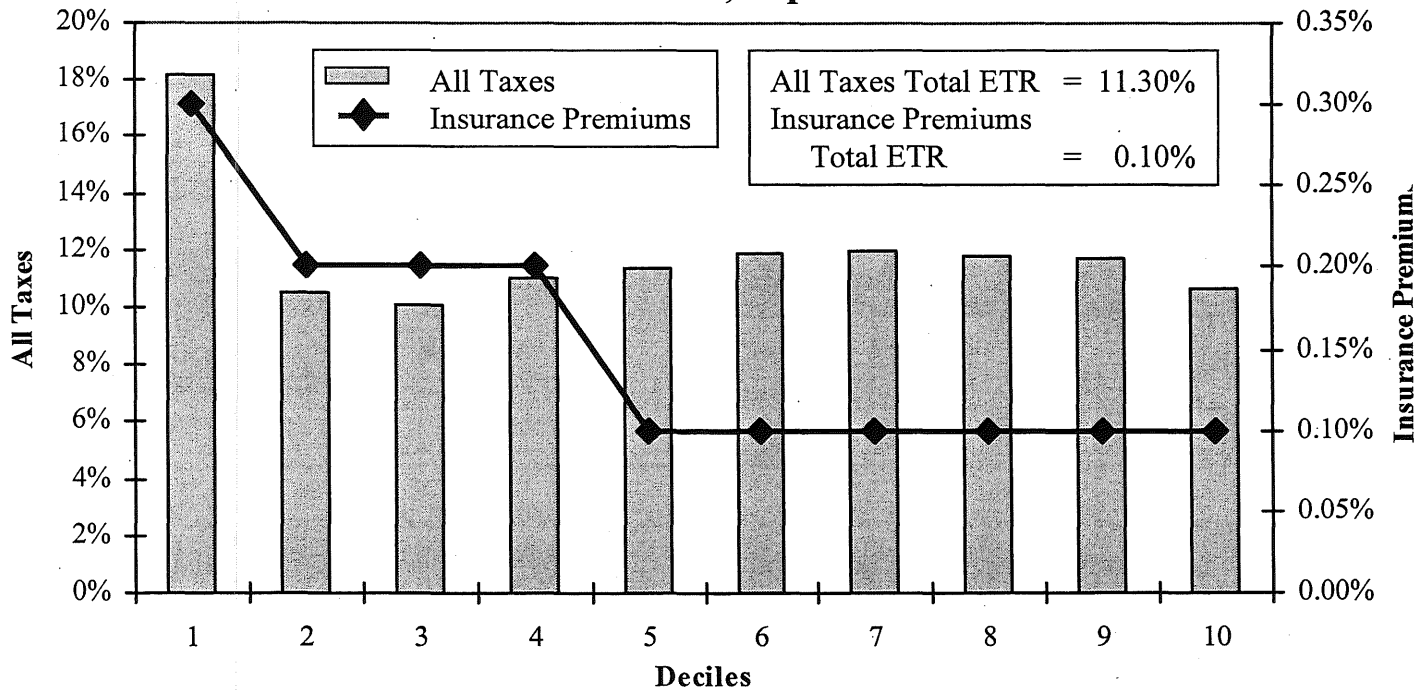
## 2002 Incidence Estimate for Insurance Premiums Taxes

### Tax Collection Amounts 2002 (\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
\$202	\$0	\$0	\$202	\$150	\$53

\*Shifting allocations: Direct = 79%, Consumers = 13%, Labor = 3%, Capital = 5%

### Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0
Insurance Premiums	0.3%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	-0.13

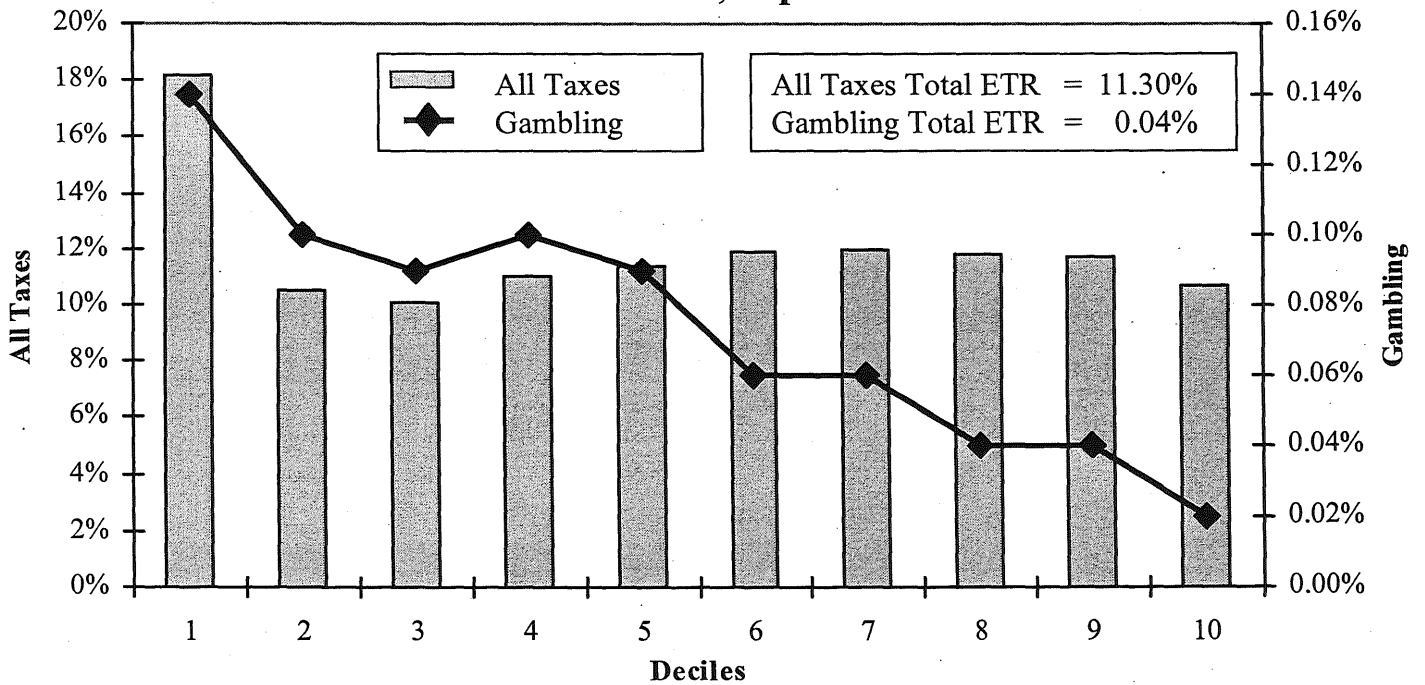
## 2002 Incidence Estimate for Gambling Taxes\*

### Tax Collection Amounts 2002 (\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota**	Exported
\$57	\$0	\$0	\$57	\$55	\$2

\*\*Shifting allocations: Direct = 0%, Consumers = 100%, Labor = 0%, Capital = 0%

### Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
Gambling	0.14%	0.10%	0.09%	0.10%	0.09%	0.06%	0.06%	0.04%	0.04%	0.02%	0.01%	0.01%	-0.35

\*Gambling taxes are composed of Lawful Gambling (\$2M), Pull Tab (\$26M), Combined Receipts (\$28M) and Pari-Mutual (\$1M).

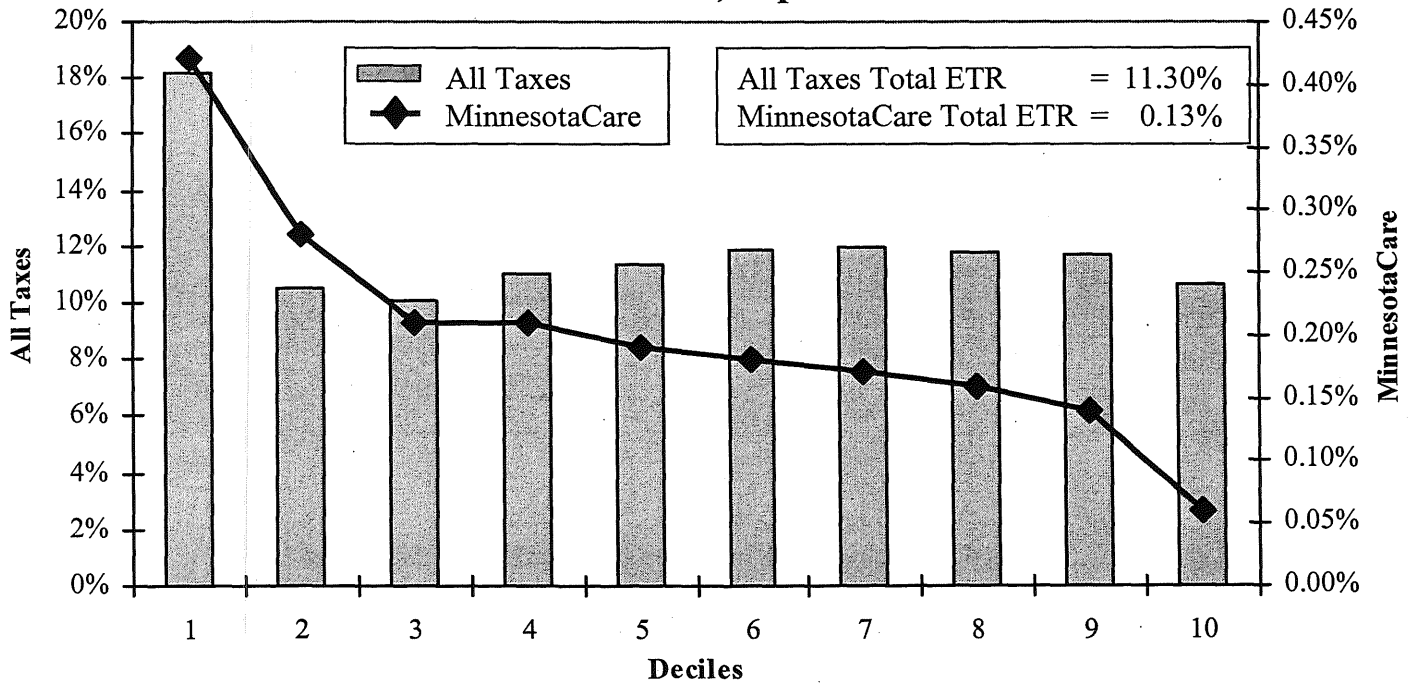
## 2002 Incidence Estimate for MinnesotaCare Taxes\*

### Tax Collection Amounts 2002 (\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota**	Exported
\$191	\$0	\$0	\$191	\$166	\$25

\*\*Shifting allocations: Direct = 0%, Consumers = 100%, Labor = 0%, Capital = 0%

### Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.7
MinnesotaCare	0.42%	0.28%	0.21%	0.21%	0.19%	0.18%	0.17%	0.16%	0.14%	0.06%	0.04%	0.02%	-0.27

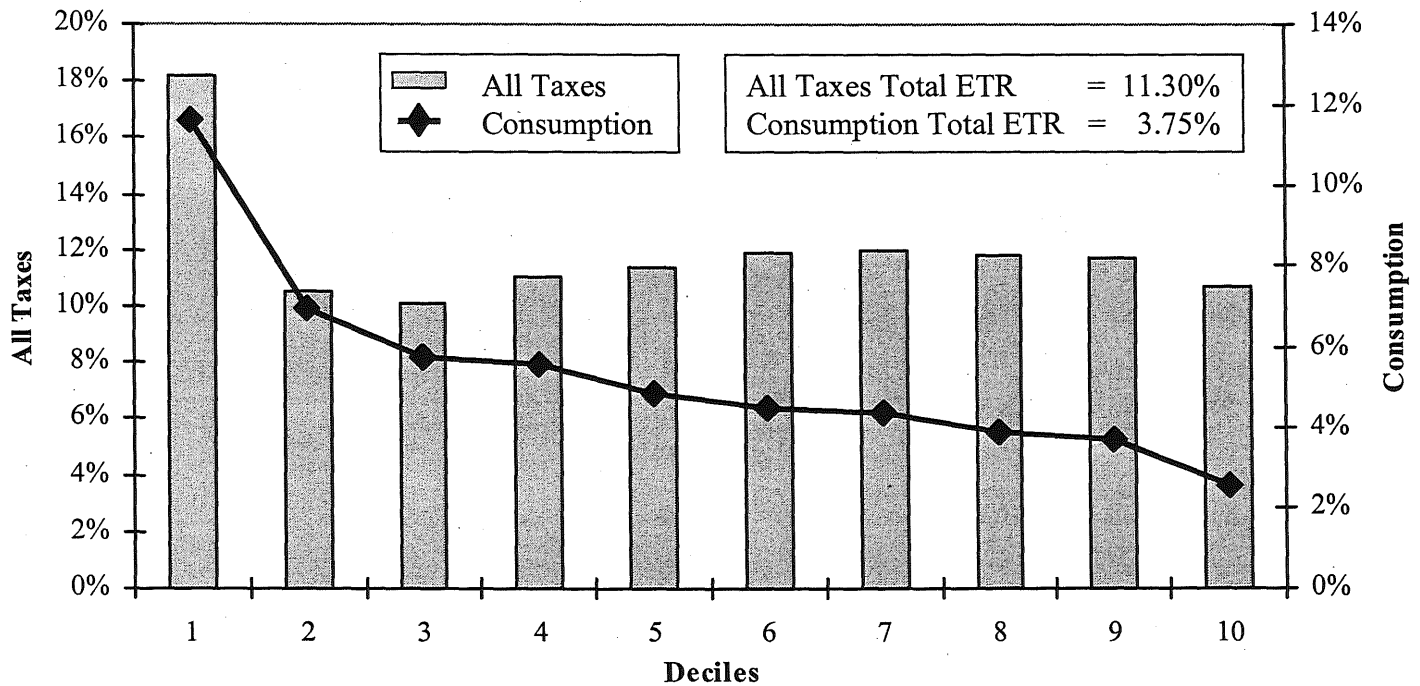
\*Composed of the providers tax (\$86M), the hospitals tax (\$60M) and the drug distributors tax (\$45M).

## 2002 Incidence Estimate for Total Consumption Taxes

**Tax Collection Amounts 2002**  
(Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota	Exported
\$5,760	\$2,357	\$146	\$3,258	\$4,773	\$987

**Effective Tax Rates, Population Deciles**



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
Consumption	11.66%	6.95%	5.76%	5.58%	4.82%	4.45%	4.34%	3.88%	3.67%	2.56%	2.35%	1.23%	-0.17



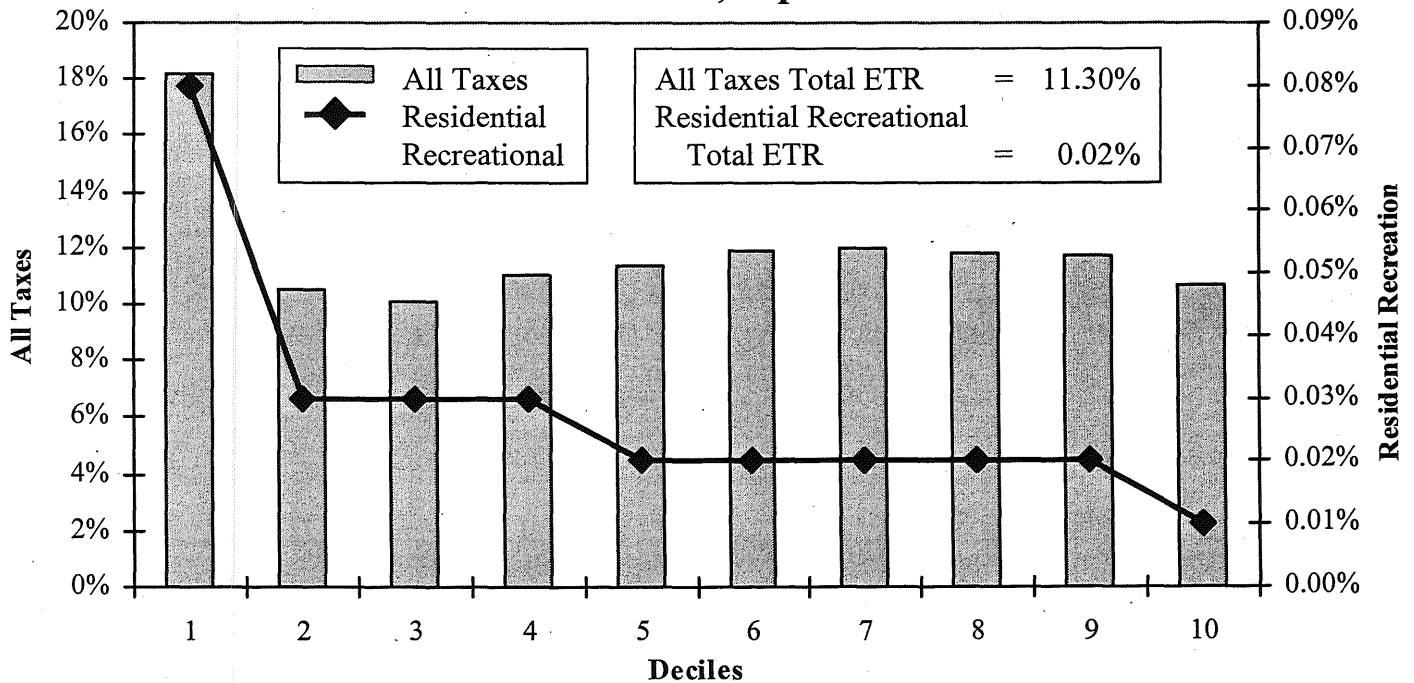
## 2002 Incidence Estimate for Residential Recreational Property Tax, State Portion

**Tax Collection Amounts 2002  
(\$Millions)**

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
\$28	\$22	\$5	\$0	\$22	\$5

\*Shifting allocations: Direct = 100%, Consumers = 0%, Labor = 0%, Capital = 0%

### Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.1
Residential Recreational	0.08%	0.03%	0.03%	0.03%	0.02%	0.02%	0.02%	0.02%	0.02%	0.01%	0.01%	0.01%	-0.18

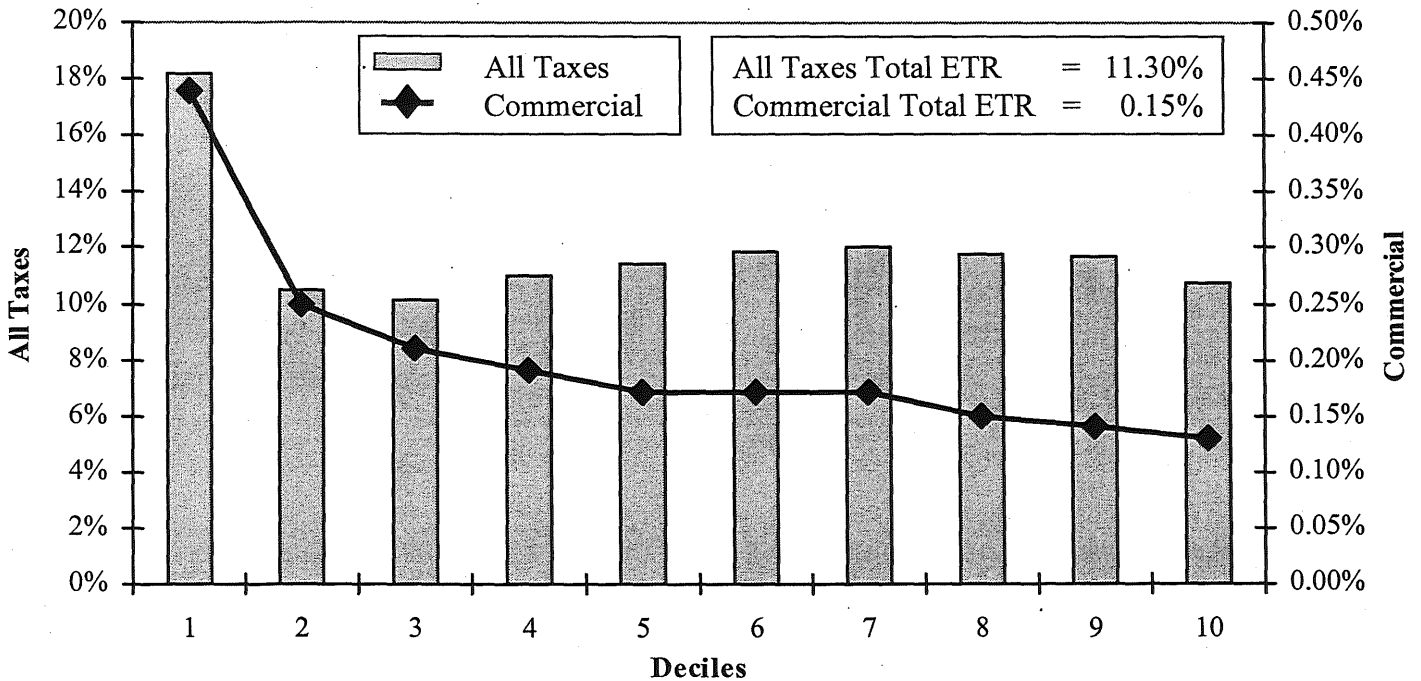
## 2002 Incidence Estimate for Commercial Property Tax, State Portion

### Tax Collection Amounts 2002 (\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
\$369	\$0	\$0	\$369	\$194	\$175

\*Shifting allocations: Direct = 0%, Consumers = 62%, Labor = 7%, Capital = 32%

### Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
Commercial	0.44%	0.25%	0.21%	0.19%	0.17%	0.17%	0.17%	0.15%	0.14%	0.13%	0.12%	0.09%	-0.11

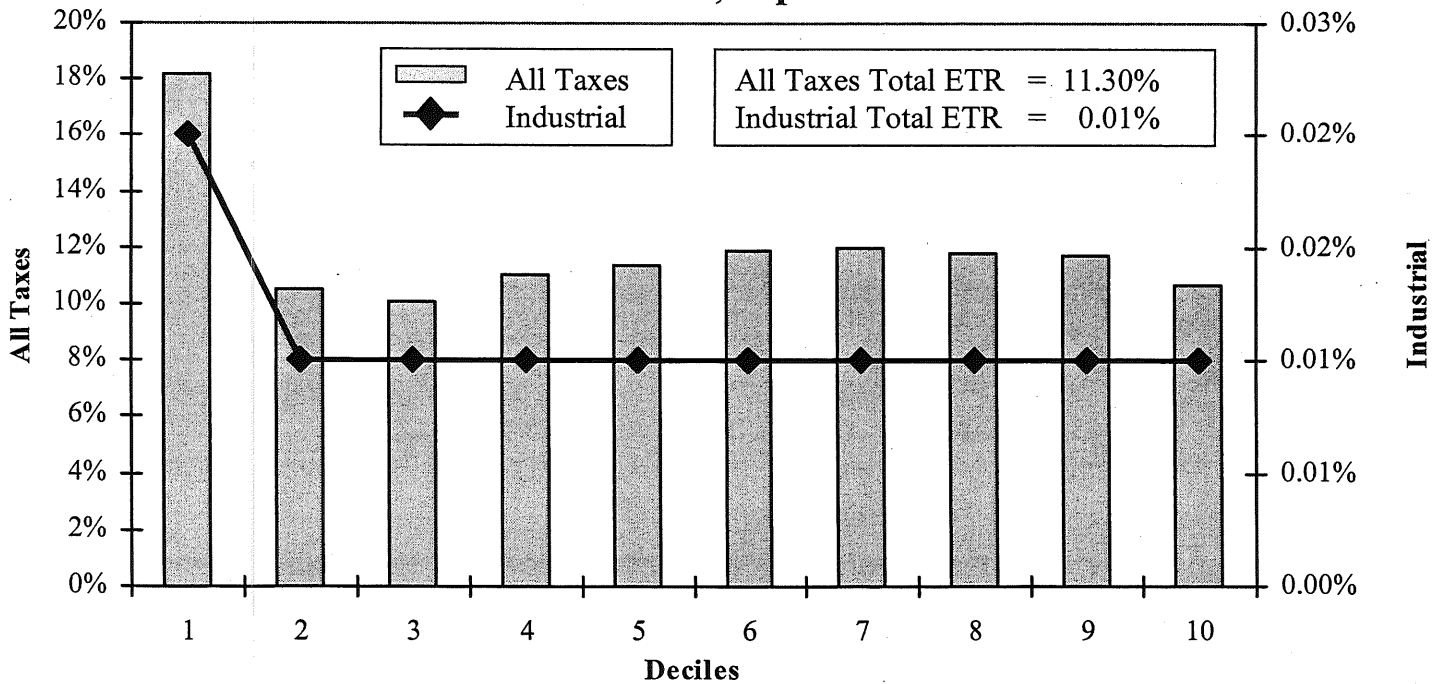
## 2002 Incidence Estimate for Industrial Property Tax, State Portion

**Tax Collection Amounts 2002**  
(\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
\$125	\$0	\$0	\$125	\$14	\$111

\*Shifting allocations: Direct = 0%, Consumers = 3%, Labor = 0%, Capital = 97%

**Effective Tax Rates, Population Deciles**



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
Industrial	0.02%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.02%	0.02%	0.12

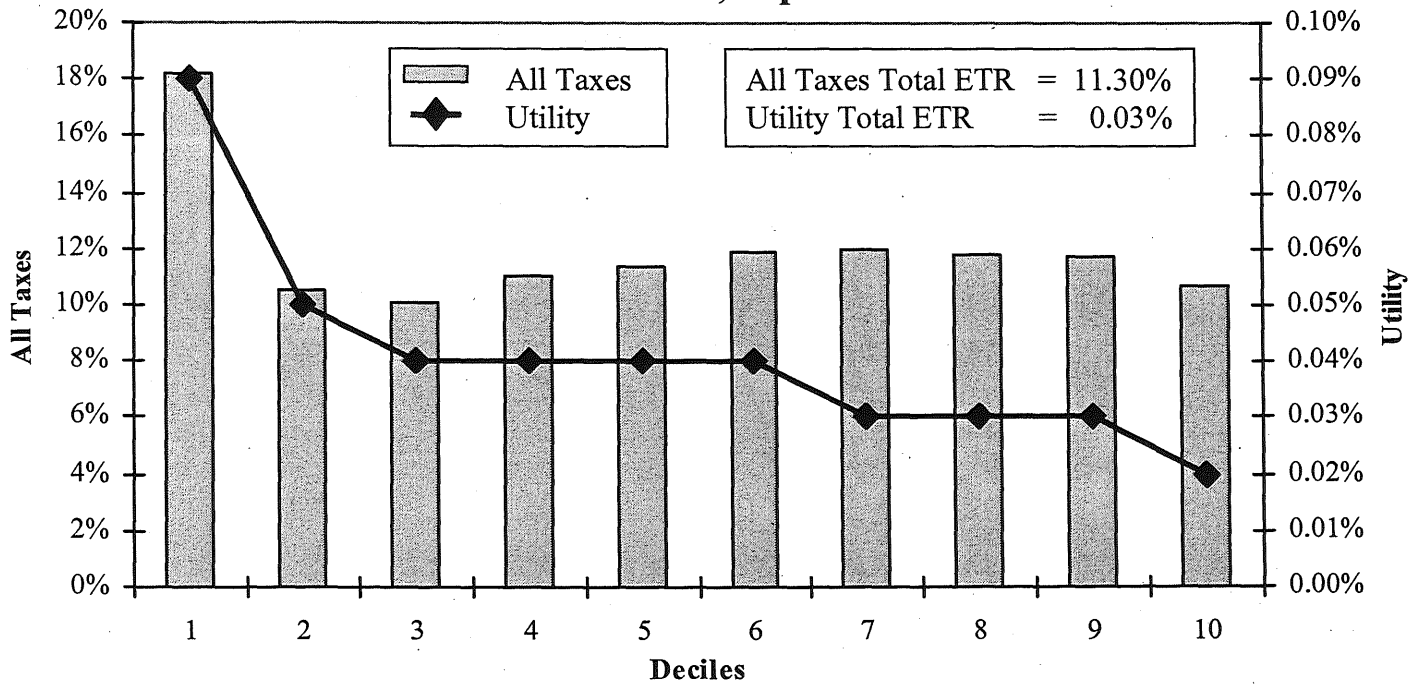
## 2002 Incidence Estimate for Utility Property Tax, State Portion

### Tax Collection Amounts 2002 (\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
\$64	\$0	\$0	\$64	\$40	\$24

\*Shifting allocations: Direct = 0%, Consumers = 91%, Labor = 6%, Capital = 4%

### Effective Tax Rates, Population Deciles



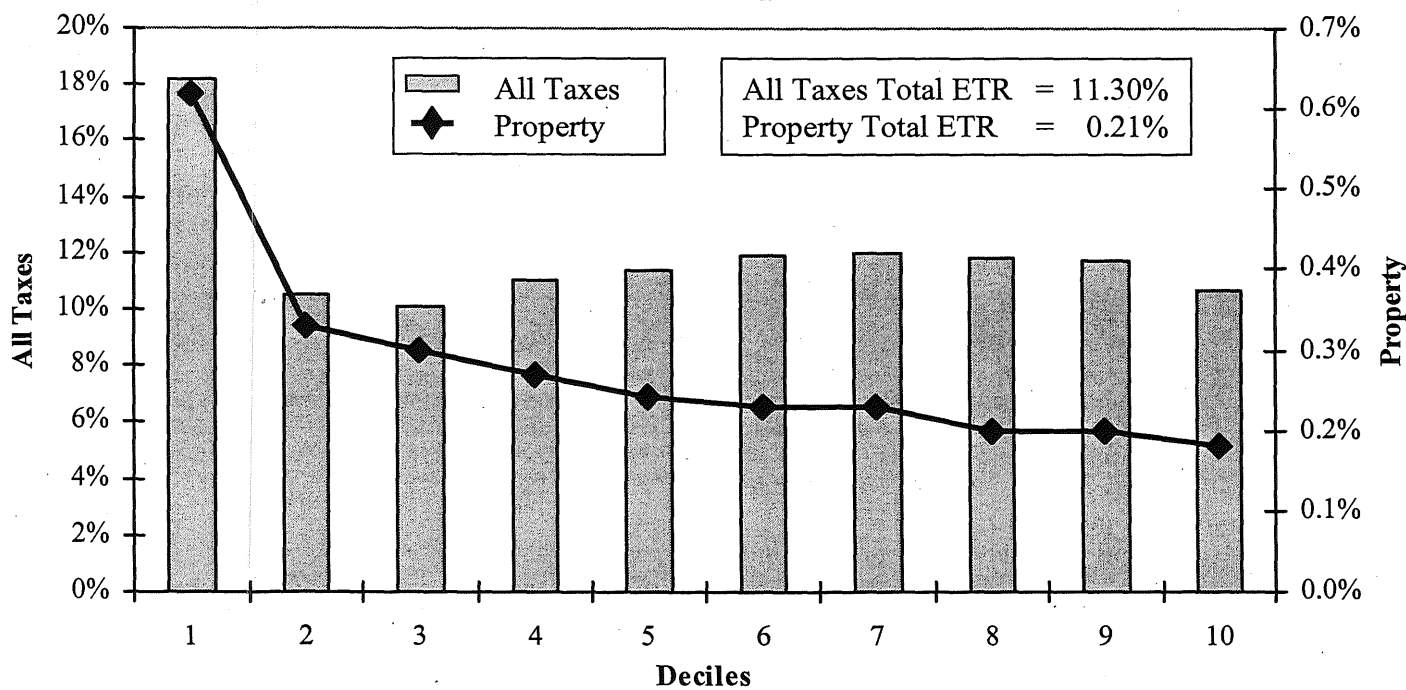
Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
Utility	0.09%	0.05%	0.04%	0.04%	0.04%	0.04%	0.03%	0.03%	0.03%	0.02%	0.02%	0.01%	-0.13

## 2002 Incidence Estimate for Total Property Taxes, State Portion

**Tax Collection Amounts 2002  
(\$Millions)**

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota	Exported
\$585	\$22	\$5	\$558	\$270	\$316

**Effective Tax Rates, Population Deciles**



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0
Property	0.62%	0.33%	0.30%	0.27%	0.24%	0.23%	0.23%	0.20%	0.20%	0.18%	0.17%	0.13%	-0.10

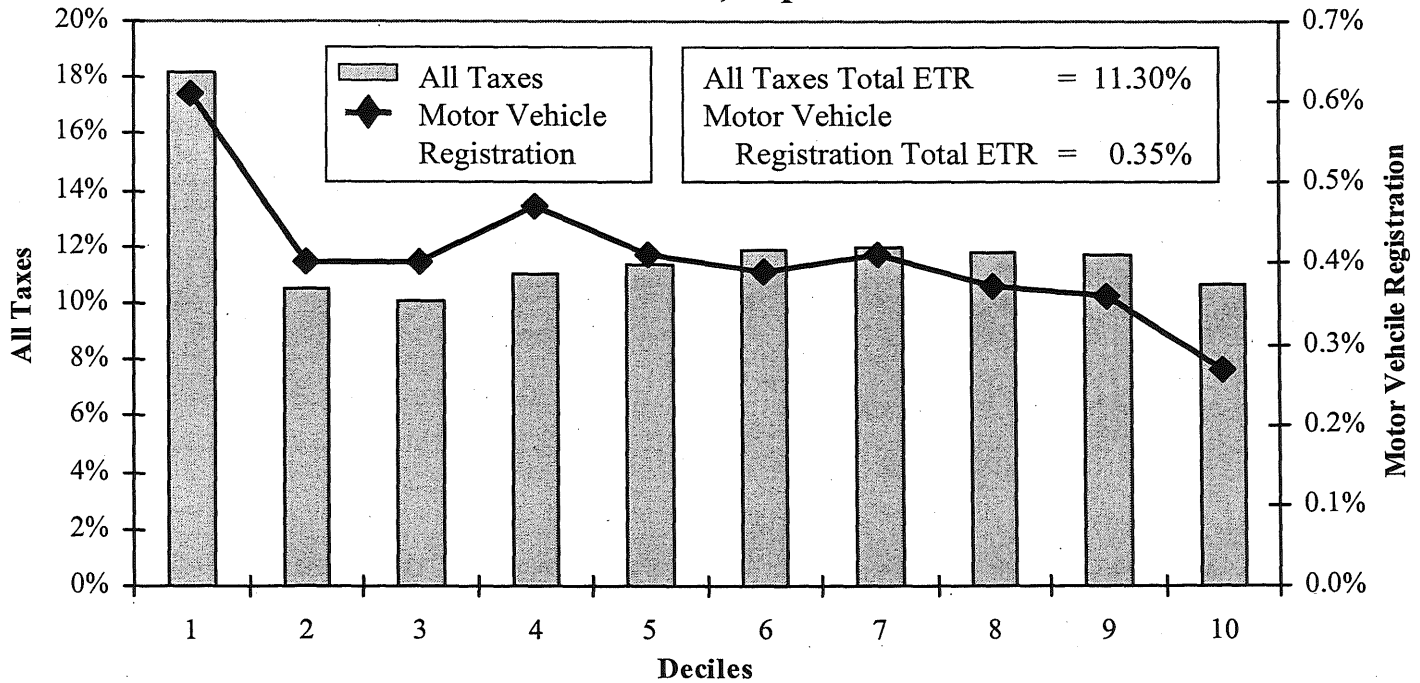
# 2002 Incidence Estimate for Motor Vehicle Registration Tax

## Tax Collection Amounts 2002 (\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
\$483	\$391	\$0	\$92	\$440	\$43

\*Shifting allocations: Direct = 79%, Consumers = 11%, Labor = 5%, Capital = 5%

## Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
Motor Vehicle Registration	0.61%	0.40%	0.40%	0.47%	0.41%	0.39%	0.41%	0.37%	0.36%	0.27%	0.25%	0.13%	-0.11

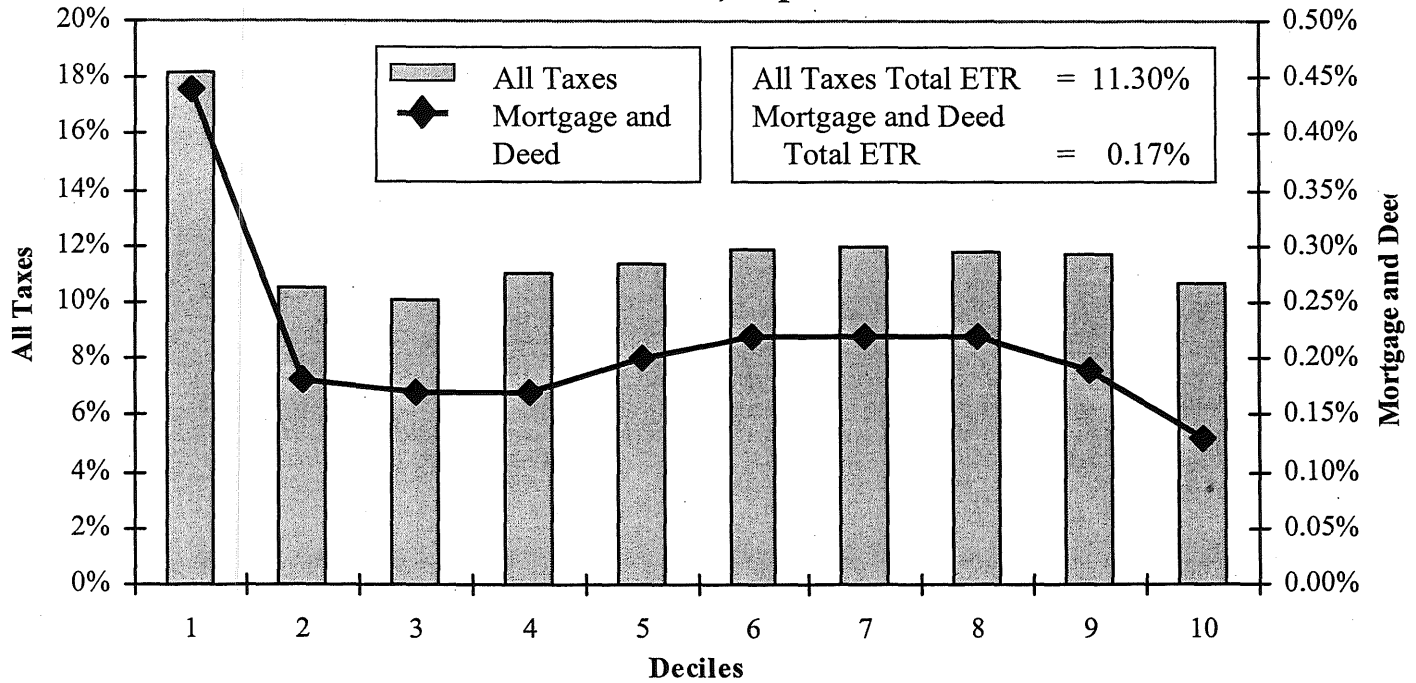
## 2002 Incidence Estimate for Mortgage and Deed Taxes\*

### Tax Collection Amounts 2002 (\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota**	Exported
\$263	\$168	\$0	\$96	\$221	\$42

\*\*Shifting allocations: Direct = 76%, Consumers = 9%, Labor = 0%, Capital = 16%

### Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
Mortgage and Deed	0.44%	0.18%	0.17%	0.17%	0.20%	0.22%	0.22%	0.22%	0.19%	0.13%	0.11%	0.07%	-0.11

\*Composed of the mortgage registration tax (\$173M) and the deed transfer tax (\$90M).

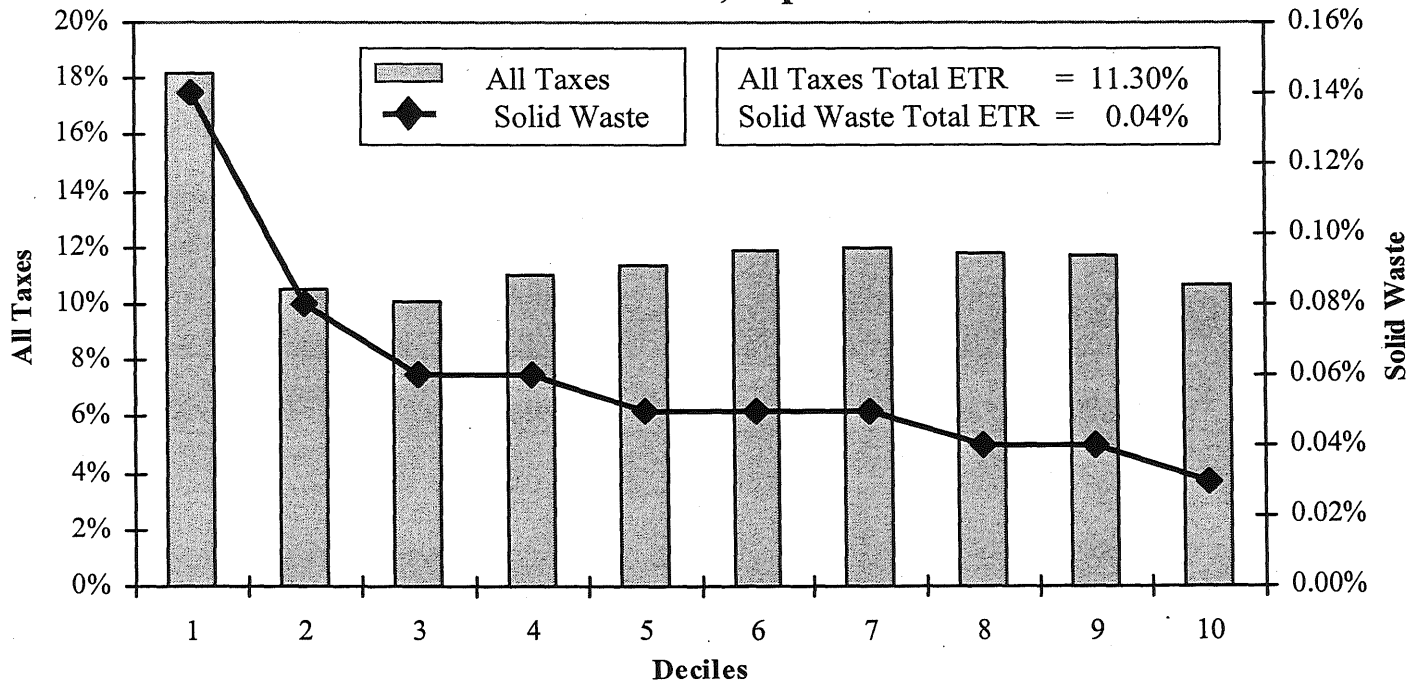
## 2002 Incidence Estimate for Solid Waste Management Taxes

**Tax Collection Amounts 2002  
(\$Millions)**

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
\$56	\$22	\$0	\$34	\$53	\$4

\*Shifting allocations: Direct = 43%, Consumers = 55%, Labor = 0%, Capital = 2%

**Effective Tax Rates, Population Deciles**



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
Solid Waste	0.14%	0.08%	0.06%	0.06%	0.05%	0.05%	0.05%	0.04%	0.04%	0.03%	0.03%	0.01%	-0.17

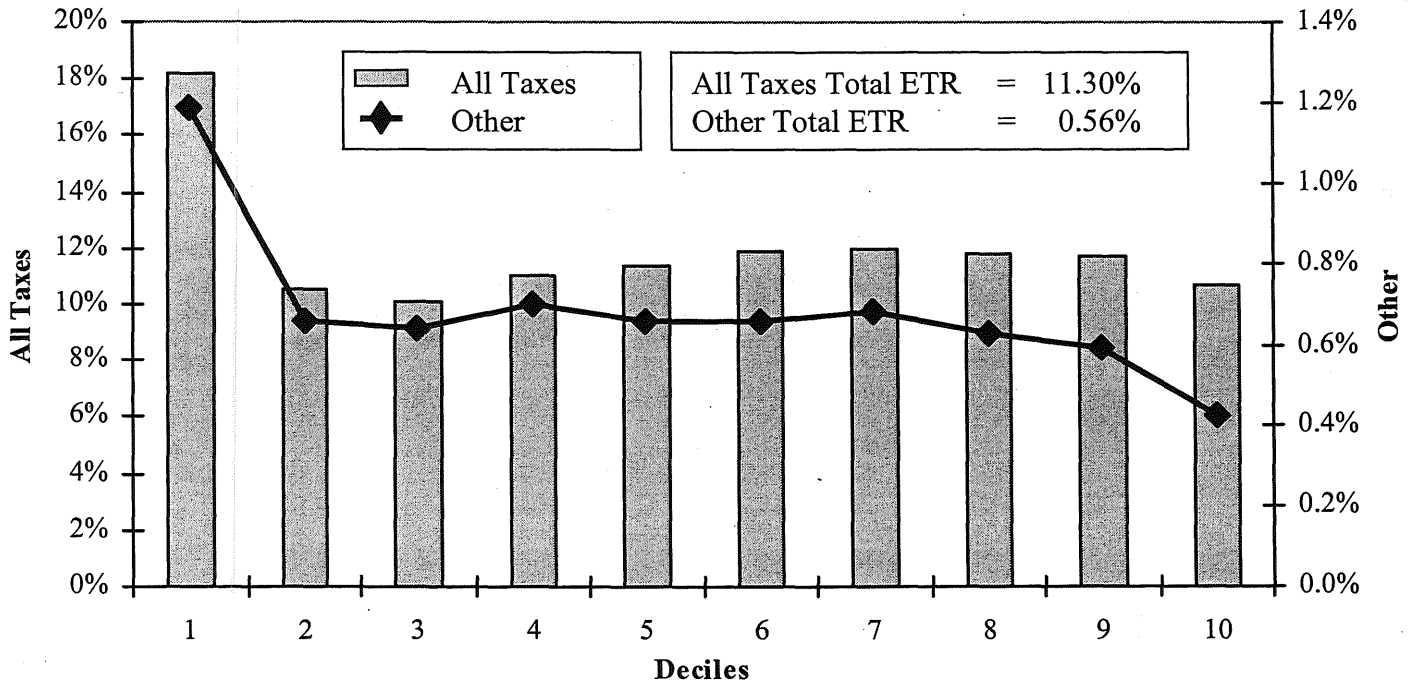


## 2002 Incidence Estimate for Total Other State Taxes

**Tax Collection Amounts 2002  
(\$Millions)**

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota	Exported
\$803	\$581	\$0	\$221	\$714	\$89

### Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	0.00
Other	1.19%	0.66%	0.64%	0.70%	0.66%	0.66%	0.68%	0.63%	0.59%	0.42%	0.38%	0.21%	-0.11

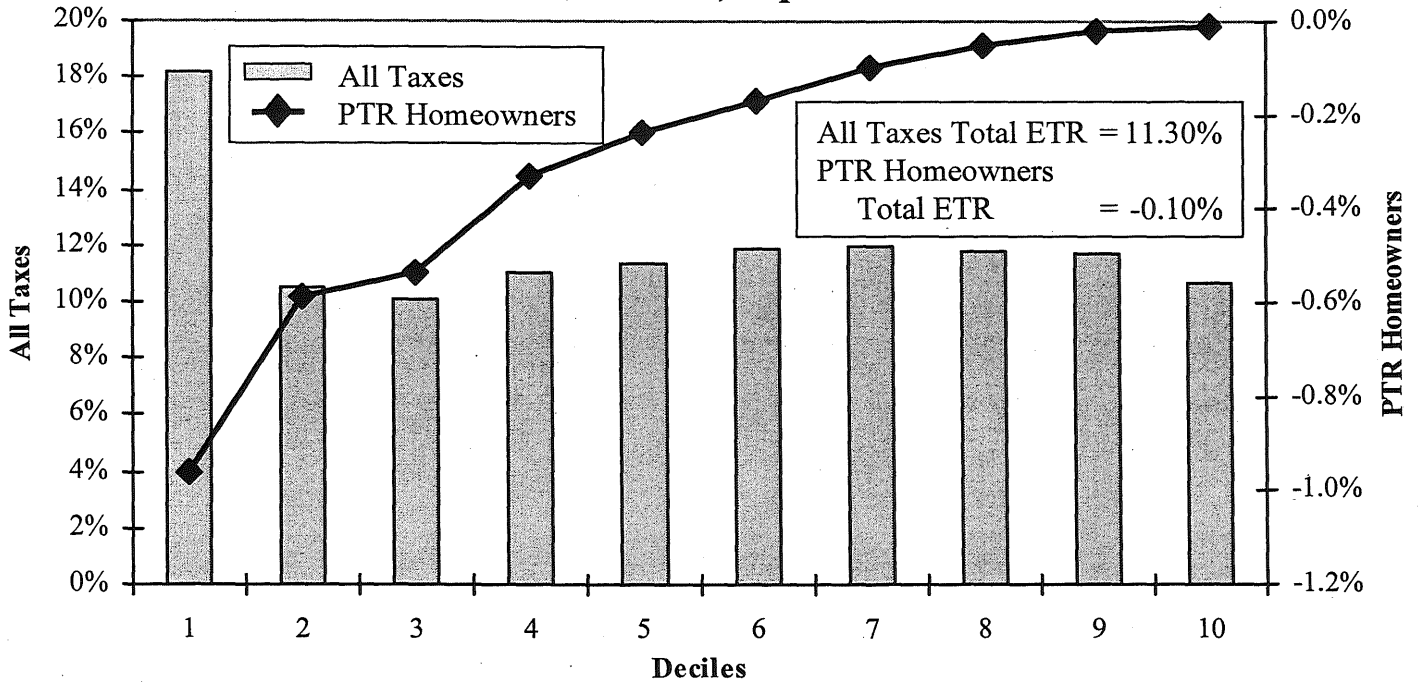
## 2002 Incidence Estimate for Property Tax Refund - Homeowners

### Tax Collection Amounts 2002 (\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
-\$131	-\$131	\$0	\$0	-\$131	\$0

\*Shifting allocations: Direct = 100%, Consumers = 0%, Labor = 0%, Capital = 0%

### Effective Tax Rates, Population Deciles



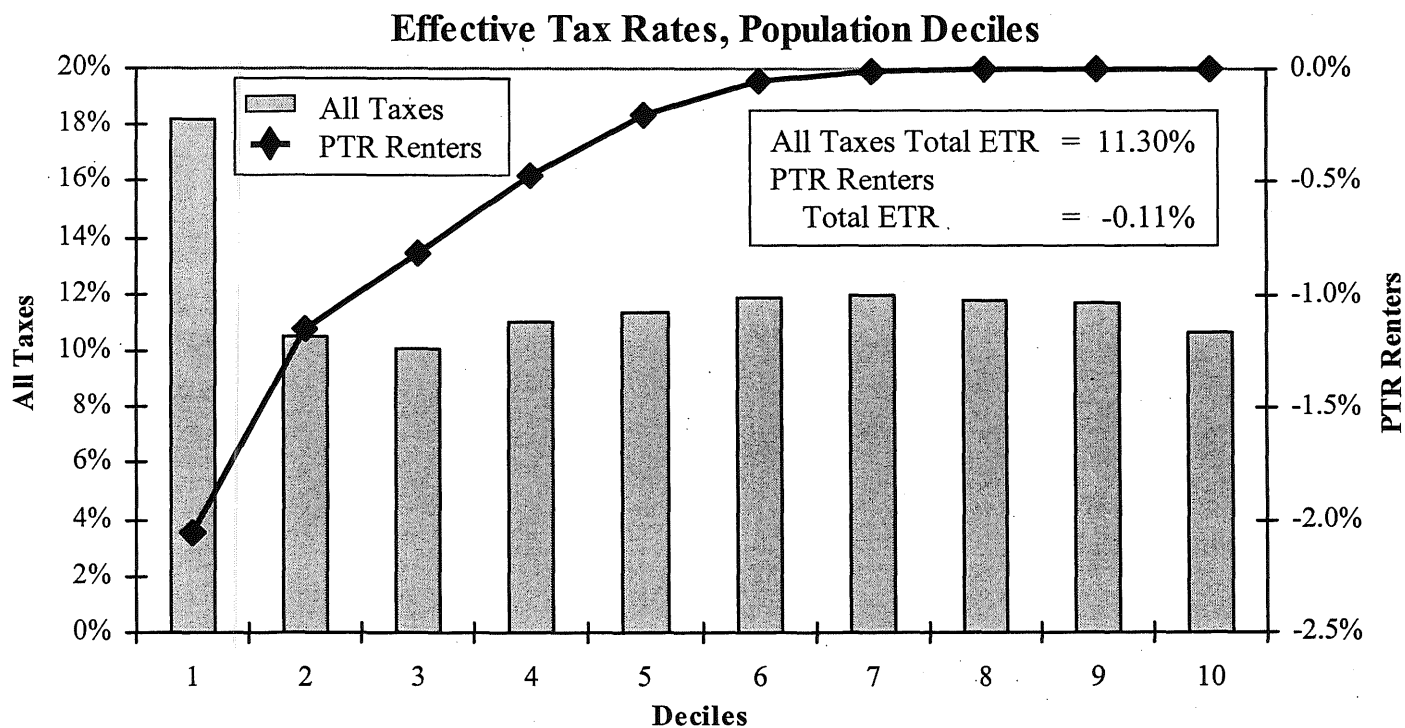
Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
PTR Homeowners	-0.96%	-0.59%	-0.54%	-0.33%	-0.24%	-0.17%	-0.10%	-0.05%	-0.02%	-0.01%	-0.01%	0.00%	0.68

## 2002 Incidence Estimate for Property Tax Refund - Renters

### Tax Collection Amounts 2002 (\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
-\$137	-\$137	\$0	\$0	-\$137	\$0

\*Shifting allocations: Direct = 100%, Consumers = 0%, Labor = 0%, Capital = 0%



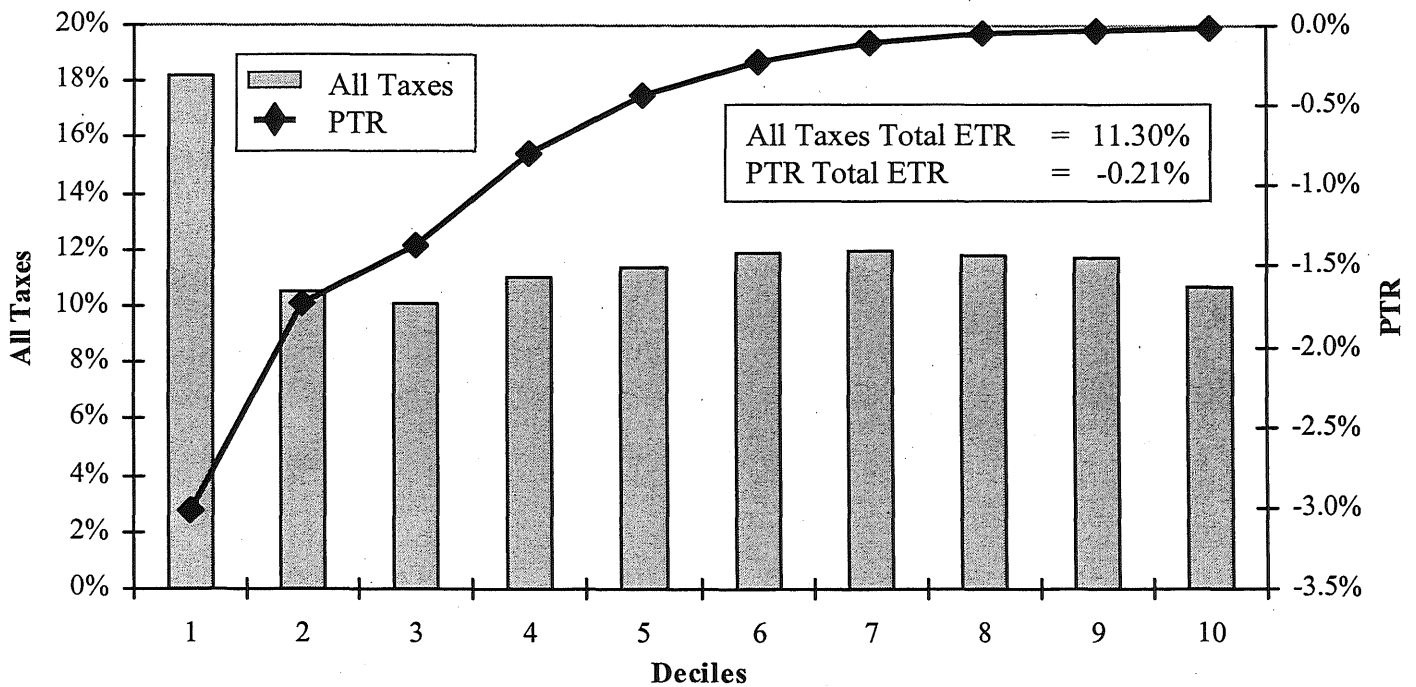
Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	0.92
PTR Renters	-2.06%	-1.15%	-0.82%	-0.47%	-0.20%	-0.05%	-0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.87

## 2002 Incidence Estimate for Total Property Tax Refund

### Tax Collection Amounts 2002 (\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota	Exported
-\$268	-\$268	\$0	\$0	-\$268	\$0

### Effective Tax Rates, Population Deciles



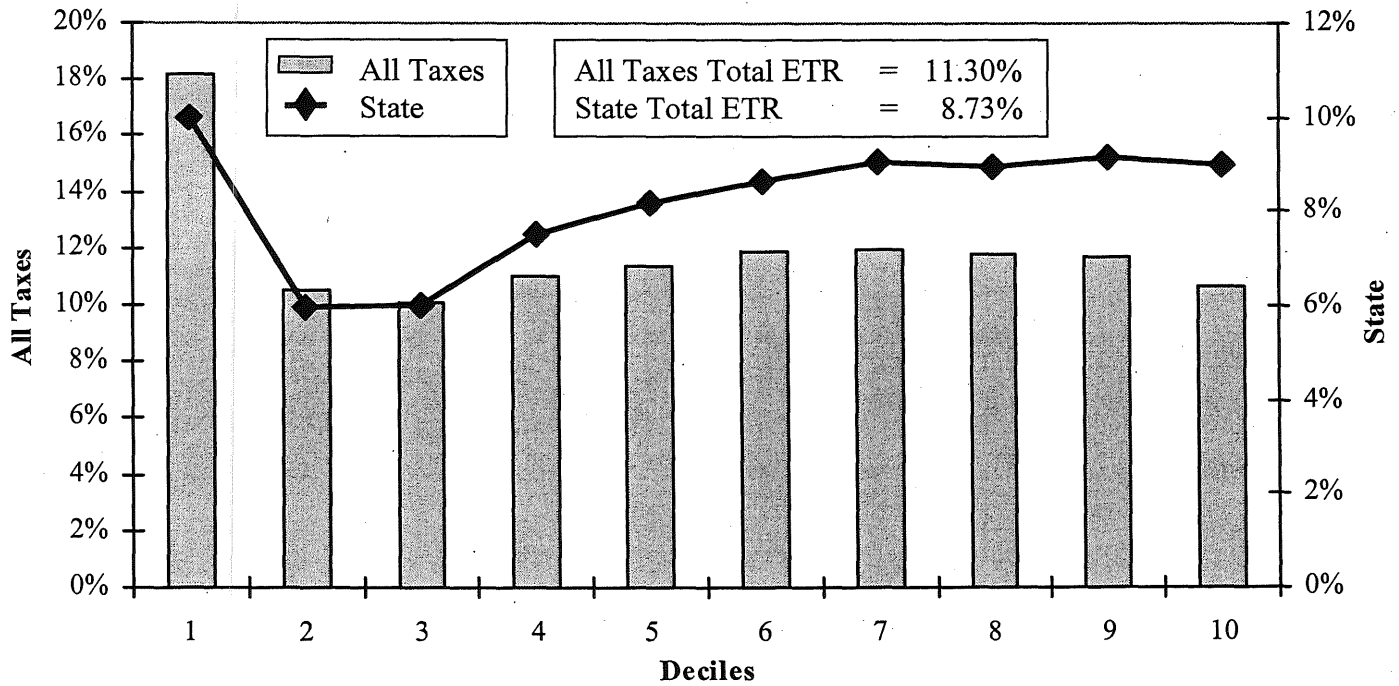
Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
PTR	-3.02%	-1.74%	-1.37%	-0.80%	-0.43%	-0.22%	-0.11%	-0.05%	-0.03%	-0.01%	-0.01%	0.00%	0.78

## 2002 Incidence Estimate for Total State Taxes

**Tax Collection Amounts 2002  
(\$Millions)**

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota	Exported
\$12,945	\$8,019	\$329	\$4,597	\$11,112	\$1,833

**Effective Tax Rates, Population Deciles**



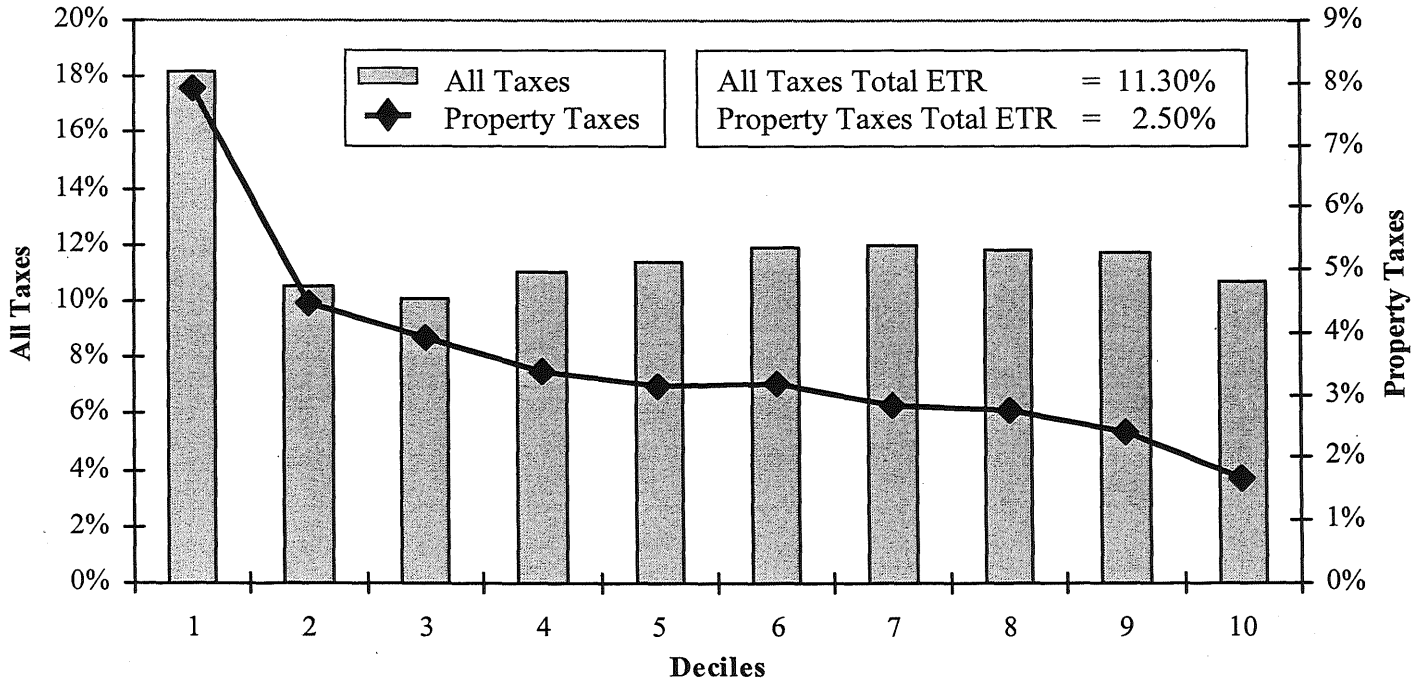
Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	
State	9.99%	5.93%	6.02%	7.50%	8.15%	8.66%	9.05%	8.96%	9.17%	8.98%	8.94%	8.03%	0.03

## 2002 Incidence Estimate for Local Property Taxes

**Tax Collection Amounts 2002**  
(\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota	Exported
\$4,071	\$2,004	\$17	\$2,050	\$3,179	\$892

**Effective Tax Rates, Population Deciles**



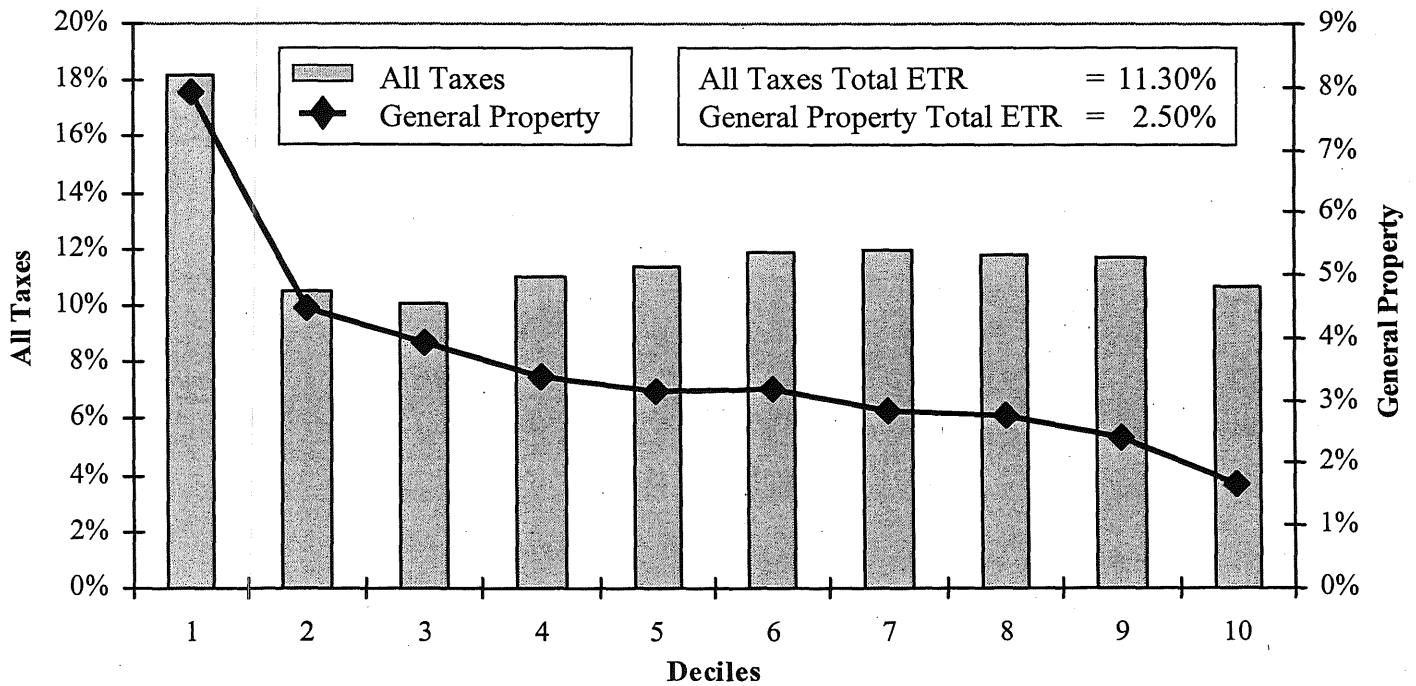
Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
Property Taxes	7.91%	4.45%	3.91%	3.37%	3.13%	3.18%	2.85%	2.76%	2.41%	1.68%	1.48%	0.97%	-0.17

## 2002 Incidence Estimate for General Local Property Tax (gross-credits)

**Tax Collection Amounts 2002  
(\$Millions)**

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota	Exported
\$4,009	\$2,004	\$17	\$1,988	\$3,178	\$830

**Effective Tax Rates, Population Deciles**



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	
General Property	7.91%	4.45%	3.91%	3.37%	3.13%	3.18%	2.85%	2.76%	2.41%	1.68%	1.47%	0.97%	-0.17

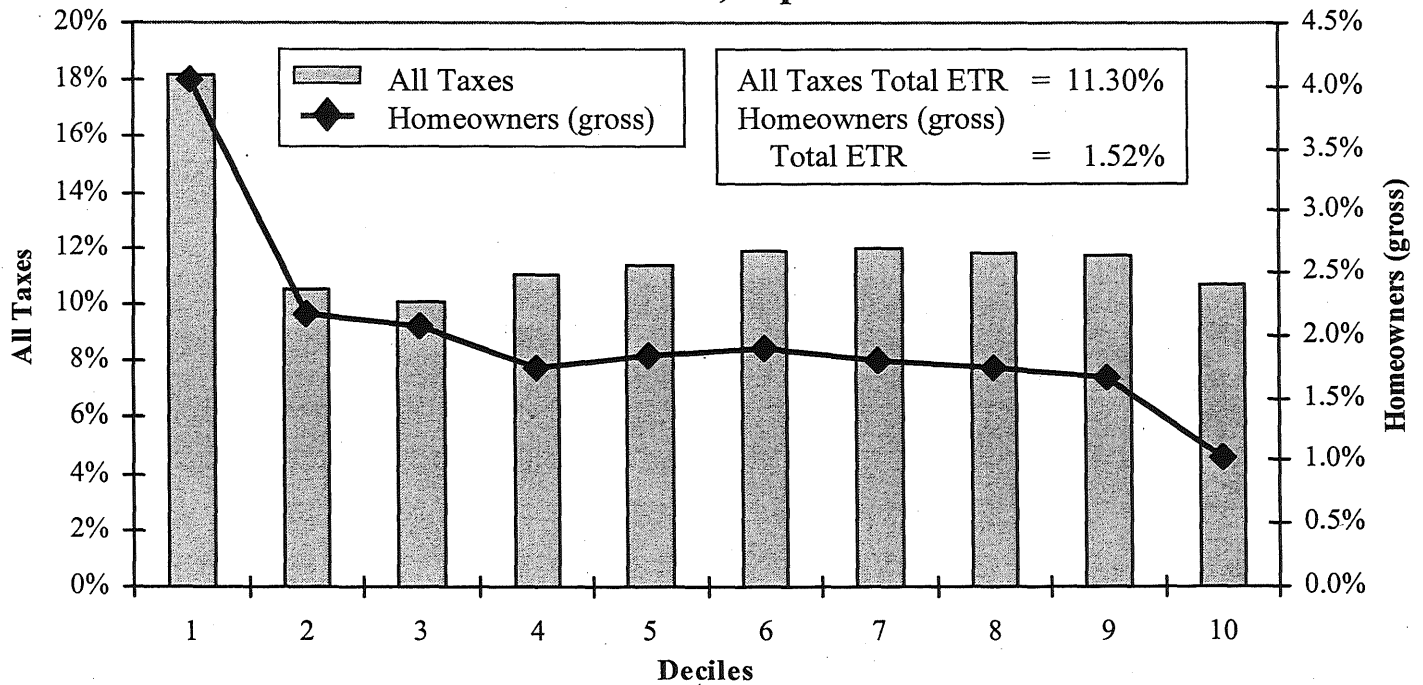
## 2002 Incidence Estimate for General Property Tax - Homeowners (gross of PTR)

**Tax Collection Amounts 2002  
(\$Millions)**

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
\$1,936	\$1,936	\$0	\$0	\$1,936	\$0

\*Shifting allocations: Direct = 100%, Consumers = 0%, Labor = 0%, Capital = 0%

**Effective Tax Rates, Population Deciles**



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
Homeowners (gross)	4.05%	2.18%	2.07%	1.75%	1.84%	1.91%	1.80%	1.75%	1.66%	1.03%	0.85%	0.51%	-0.15



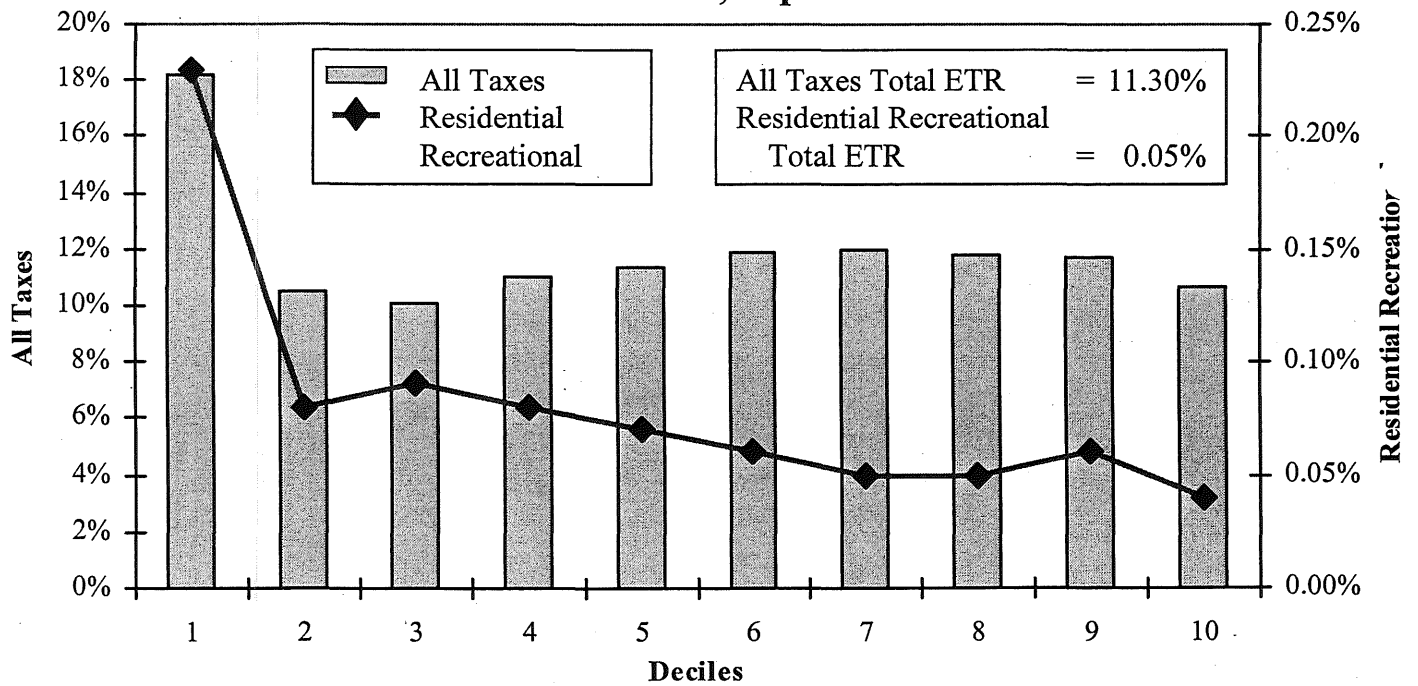
## 2002 Incidence Estimate for Residential Recreational Property Tax, Local Portion

**Tax Collection Amounts 2002  
(\$Millions)**

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
\$84	\$68	\$17	\$0	\$68	\$17

\*Shifting allocations: Direct = 100%, Consumers = 0%, Labor = 0%, Capital = 0%

**Effective Tax Rates, Population Deciles**



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.07
Residential Recreational	0.23%	0.08%	0.09%	0.08%	0.07%	0.06%	0.05%	0.05%	0.06%	0.04%	0.03%	0.02%	-0.18

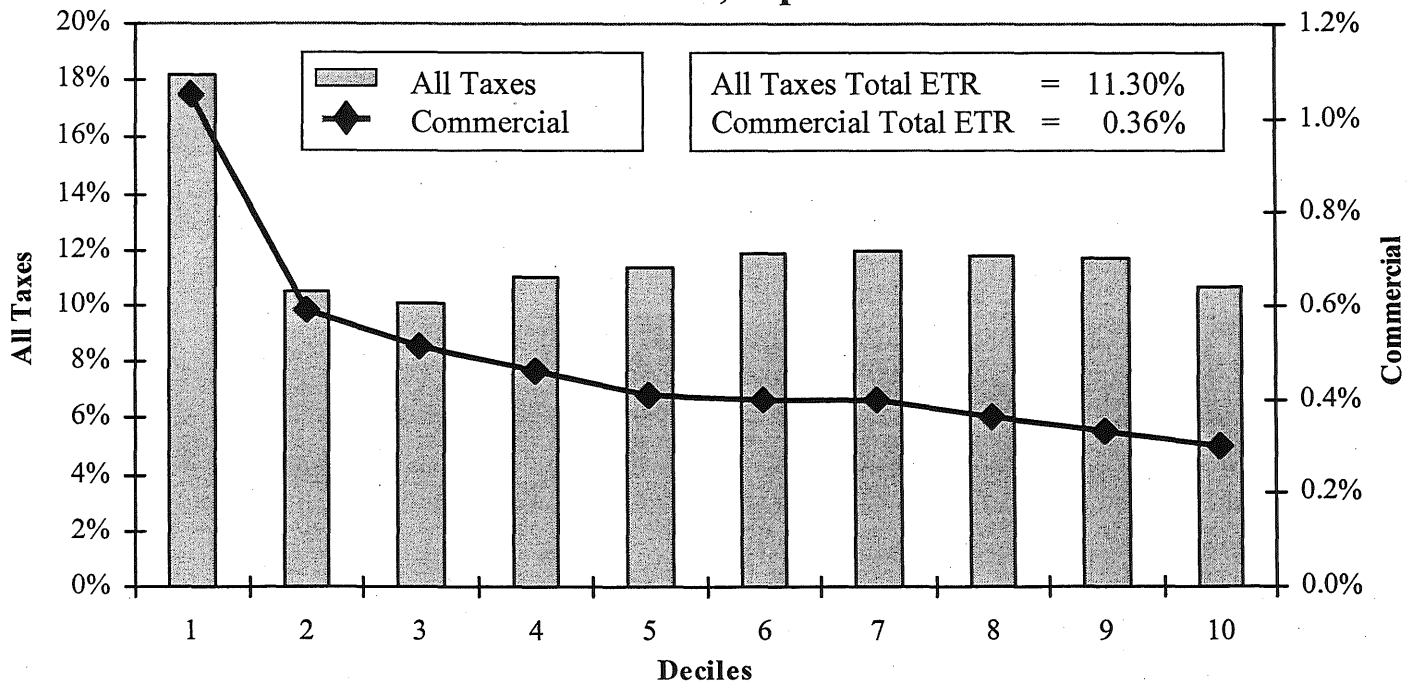
## 2002 Incidence Estimate for Commercial Property Tax, Local Portion

**Tax Collection Amounts 2002**  
(\\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
\$882	\$0	\$0	\$882	\$463	\$419

\*Shifting allocations: Direct = 0%, Consumers = 62%, Labor = 7%, Capital = 32%

**Effective Tax Rates, Population Deciles**



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
Commercial	1.05%	0.59%	0.51%	0.46%	0.41%	0.40%	0.40%	0.36%	0.33%	0.30%	0.30%	0.21%	-0.11

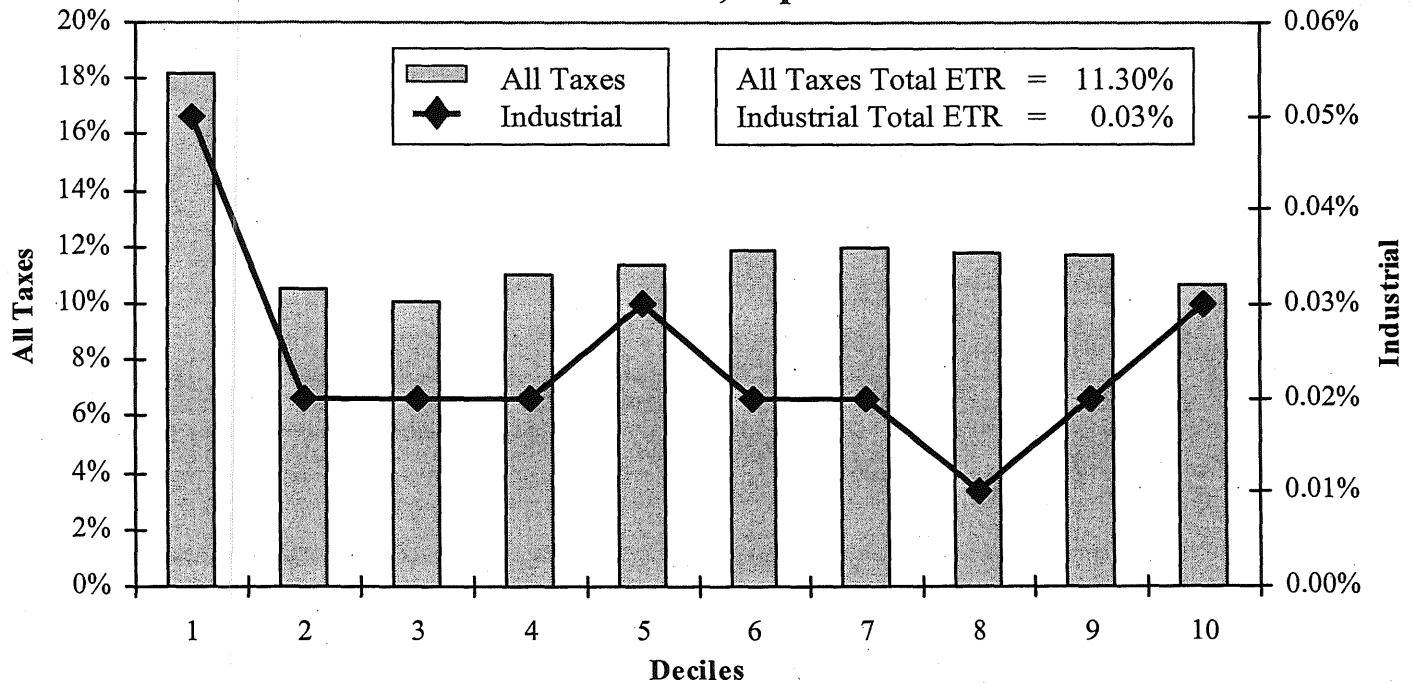
## 2002 Incidence Estimate for Industrial Property Tax, Local Portion

**Tax Collection Amounts 2002  
(\$Millions)**

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
\$296	\$0	\$0	\$296	\$32	\$264

\*Shifting allocations: Direct = 0%, Consumers = 3%, Labor = 0%, Capital = 97%

**Effective Tax Rates, Population Deciles**



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.0
Industrial	0.05%	0.02%	0.02%	0.02%	0.03%	0.02%	0.02%	0.01%	0.02%	0.03%	0.04%	0.05%	0.12

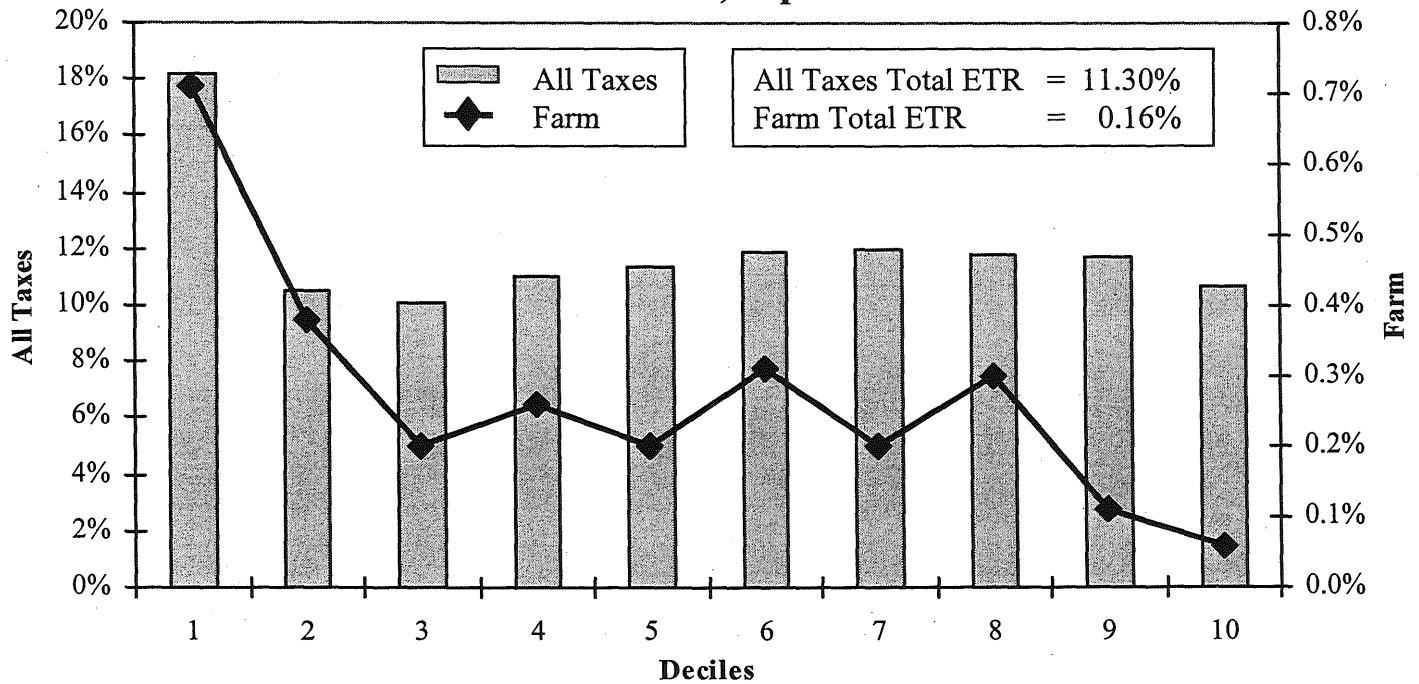
## 2002 Incidence Estimate for Farm Property Tax (other than residence)

**Tax Collection Amounts 2002  
(\$Millions)**

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
\$212	\$0	\$0	\$212	\$208	\$4

\*Shifting allocations: Direct = 0%, Consumers = 0%, Labor = 0%, Capital = 100%

**Effective Tax Rates, Population Deciles**



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
Farm	0.71%	0.38%	0.20%	0.26%	0.20%	0.31%	0.20%	0.30%	0.11%	0.06%	0.05%	0.03%	-0.31

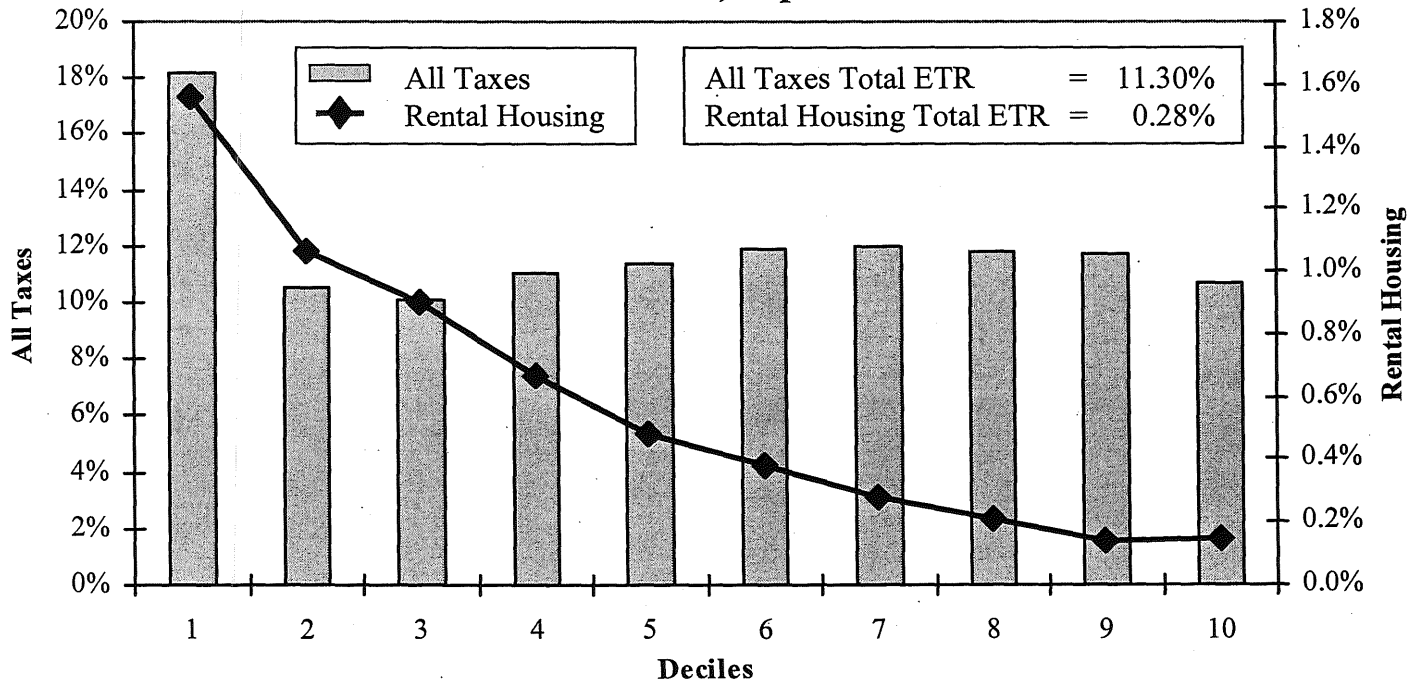
# 2002 Incidence Estimate for Rental Housing Property Tax

## Tax Collection Amounts 2002 (\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
\$416	\$0	\$0	\$416	\$358	\$59

\*Shifting allocations: Direct = 0%, Consumers = 49%, Labor = 0%, Capital = 51%

## Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	
Rental Housing	1.56%	1.06%	0.90%	0.67%	0.48%	0.38%	0.28%	0.21%	0.14%	0.15%	0.15%	0.12%	-0.37

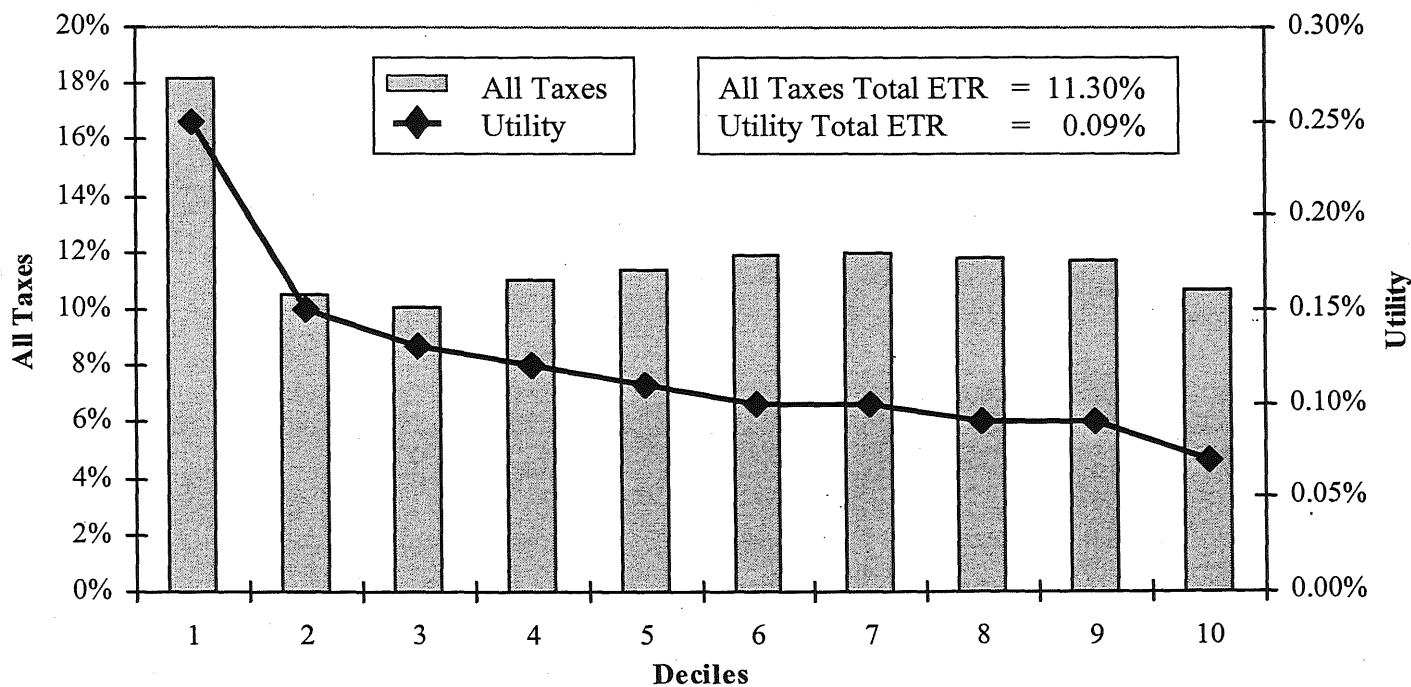
## 2002 Incidence Estimate for Utility Property Tax, Local Portion

### Tax Collection Amounts 2002 (\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
\$181	\$0	\$0	\$181	\$114	\$68

\*Shifting allocations: Direct = 0%, Consumers = 91%, Labor = 6%, Capital = 4%

### Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
Utility	0.25%	0.15%	0.13%	0.12%	0.11%	0.10%	0.10%	0.09%	0.09%	0.07%	0.06%	0.04%	-0.13

**2002 Incidence Estimate for  
Minerals Property Tax**

**Negligible Amounts**

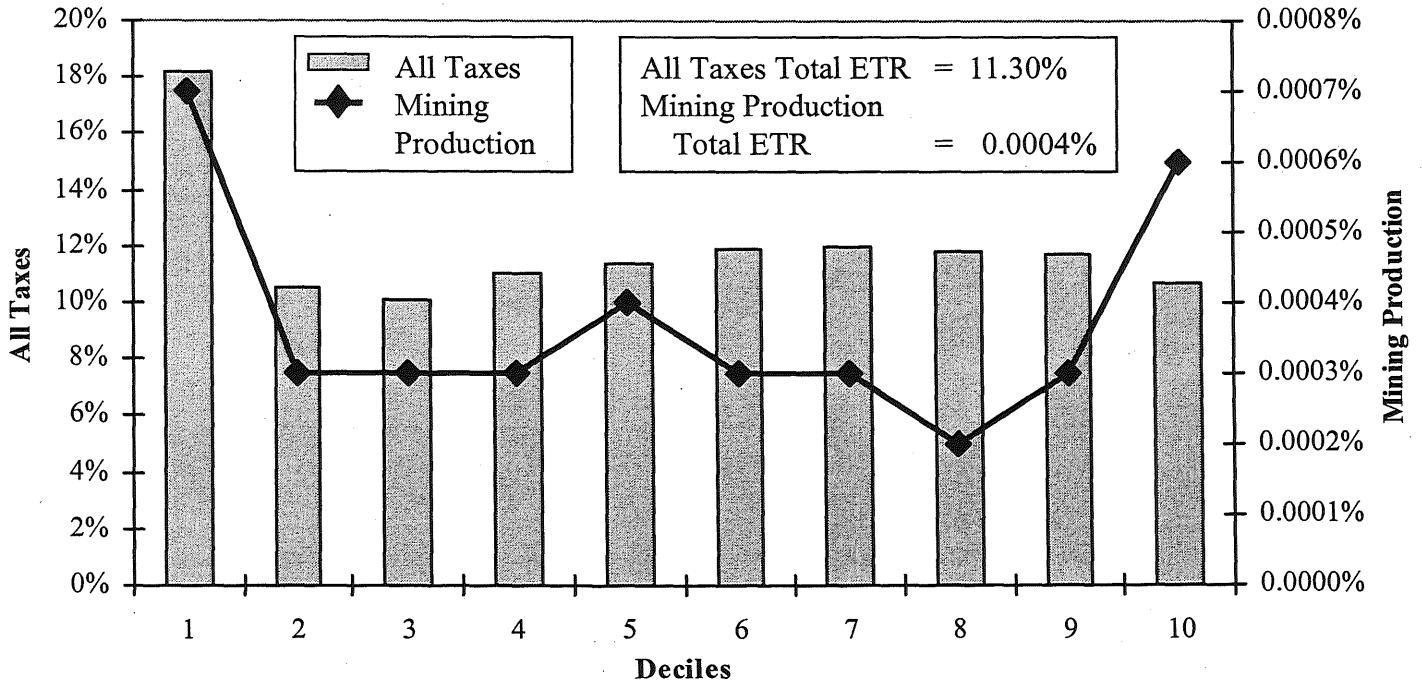
## 2002 Incidence Estimate for Mining Production Taxes (taconite)

**Tax Collection Amounts 2002**  
(\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
\$62	\$0	\$0	\$62	\$1	\$62

\*Shifting allocations: Direct = 0%, Consumers = 0%, Labor = 0%, Capital = 100%

### Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
Mining Prod.	0.0007%	0.0003%	0.0003%	0.0003%	0.0004%	0.0003%	0.0003%	0.0002%	0.0003%	0.0006%	0.0006%	0.0008%	0.15



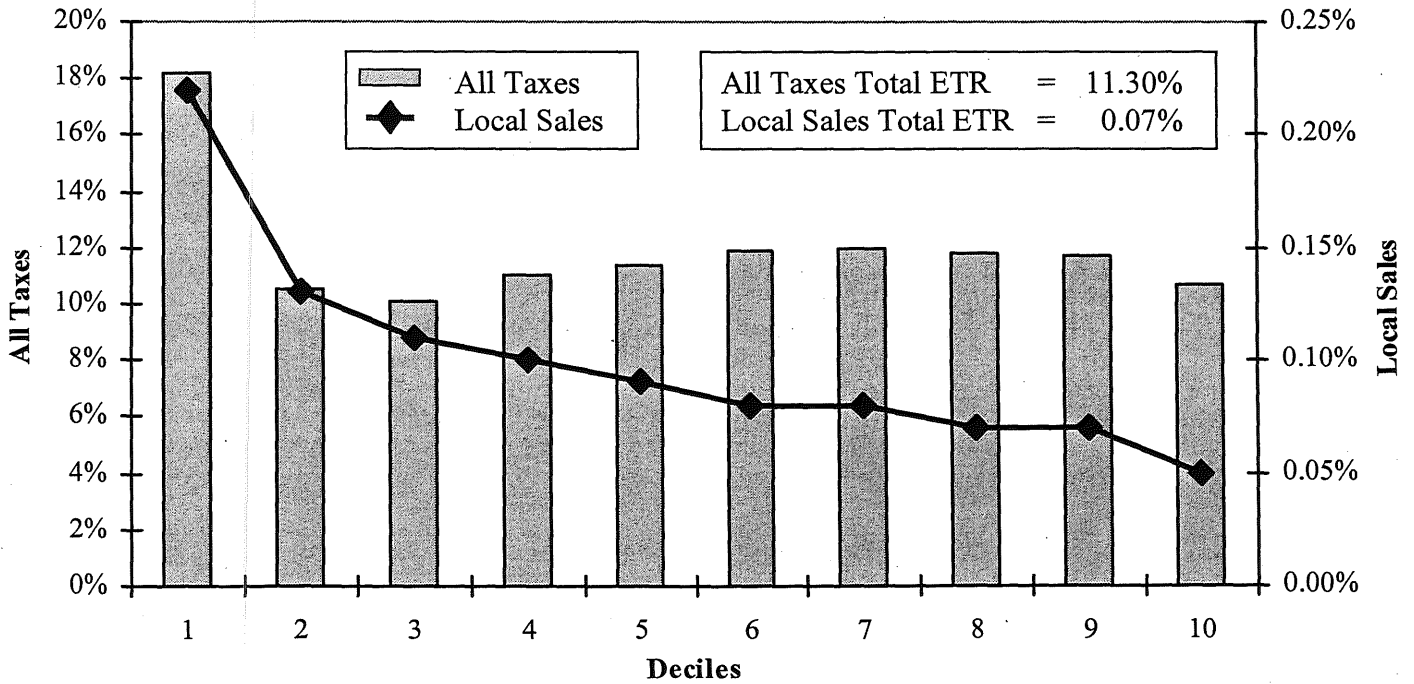
## 2002 Incidence Estimate for Local Sales Taxes

**Tax Collection Amounts 2002**  
(\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
\$114	\$58	\$4	\$52	\$94	\$20

\*Shifting allocations: Direct = 62%, Consumers = 32%, Labor = 1%, Capital = 5%

### Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	5
Local Sales	0.22%	0.13%	0.11%	0.10%	0.09%	0.08%	0.08%	0.07%	0.07%	0.05%	0.05%	0.03%	-0.14

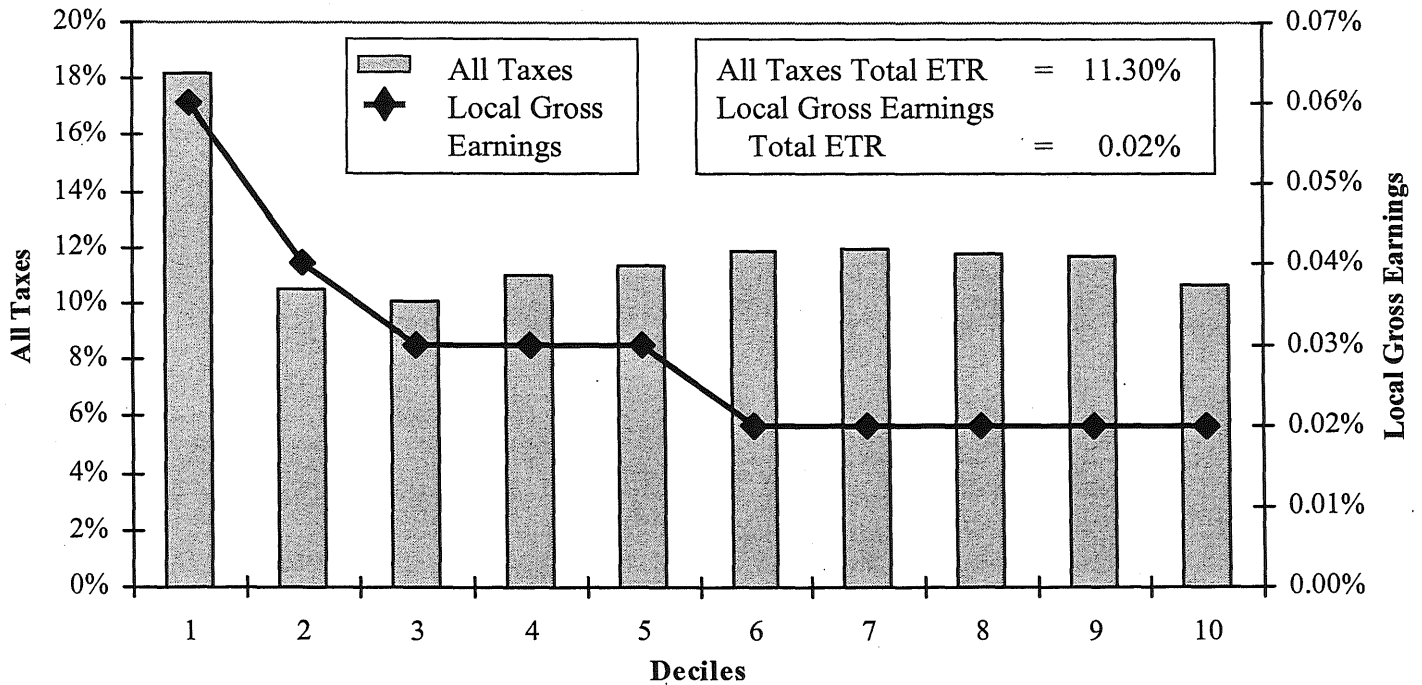
## 2002 Incidence Estimate for Local Gross Earnings Taxes

### Tax Collection Amounts 2002 (\$Millions)

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota*	Exported
\$45	\$0	\$0	\$45	\$28	\$17

\*Shifting allocations: Direct = 0%, Consumers = 91%, Labor = 6%, Capital = 4%

### Effective Tax Rates, Population Deciles



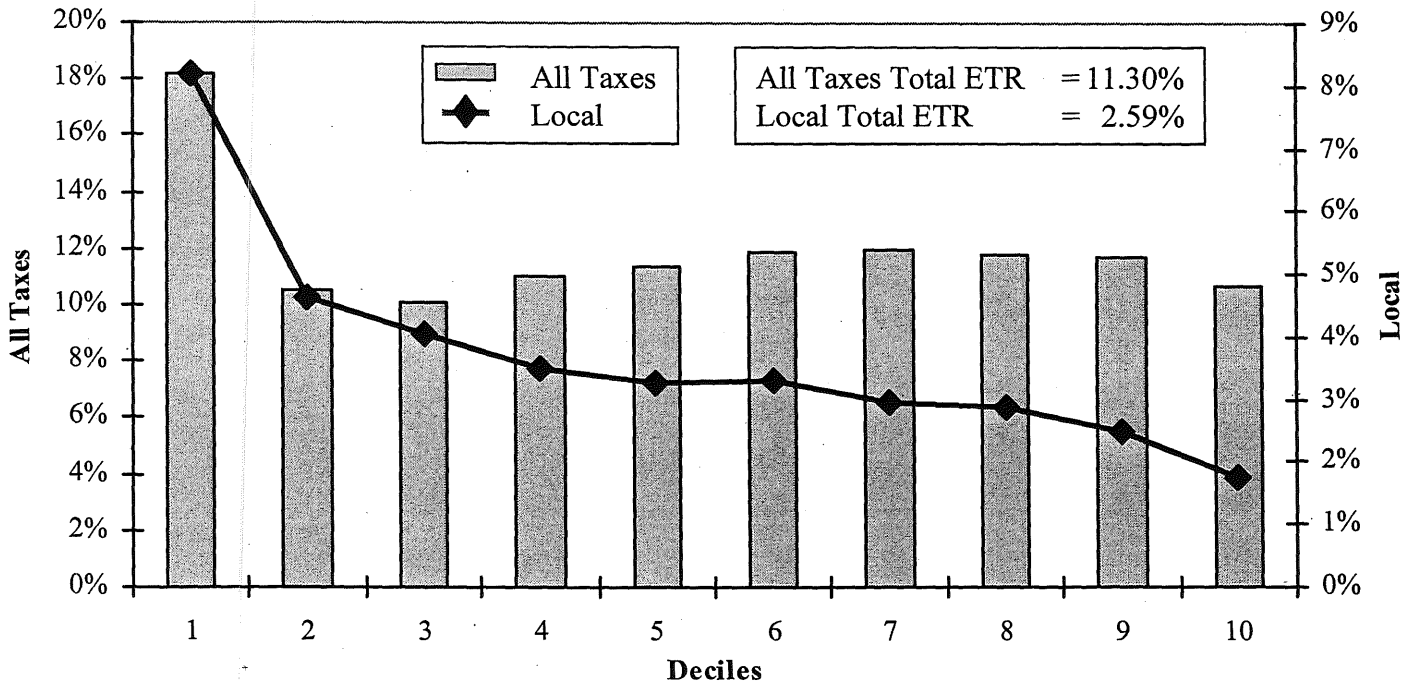
Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
Local Gross Earnings	0.06%	0.04%	0.03%	0.03%	0.03%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.01%	-0.13

## 2002 Incidence Estimate for Total Local Taxes

**Tax Collection Amounts 2002  
(\$Millions)**

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota	Exported
\$4,229	\$2,062	\$21	\$2,146	\$3,301	\$929

**Effective Tax Rates, Population Deciles**



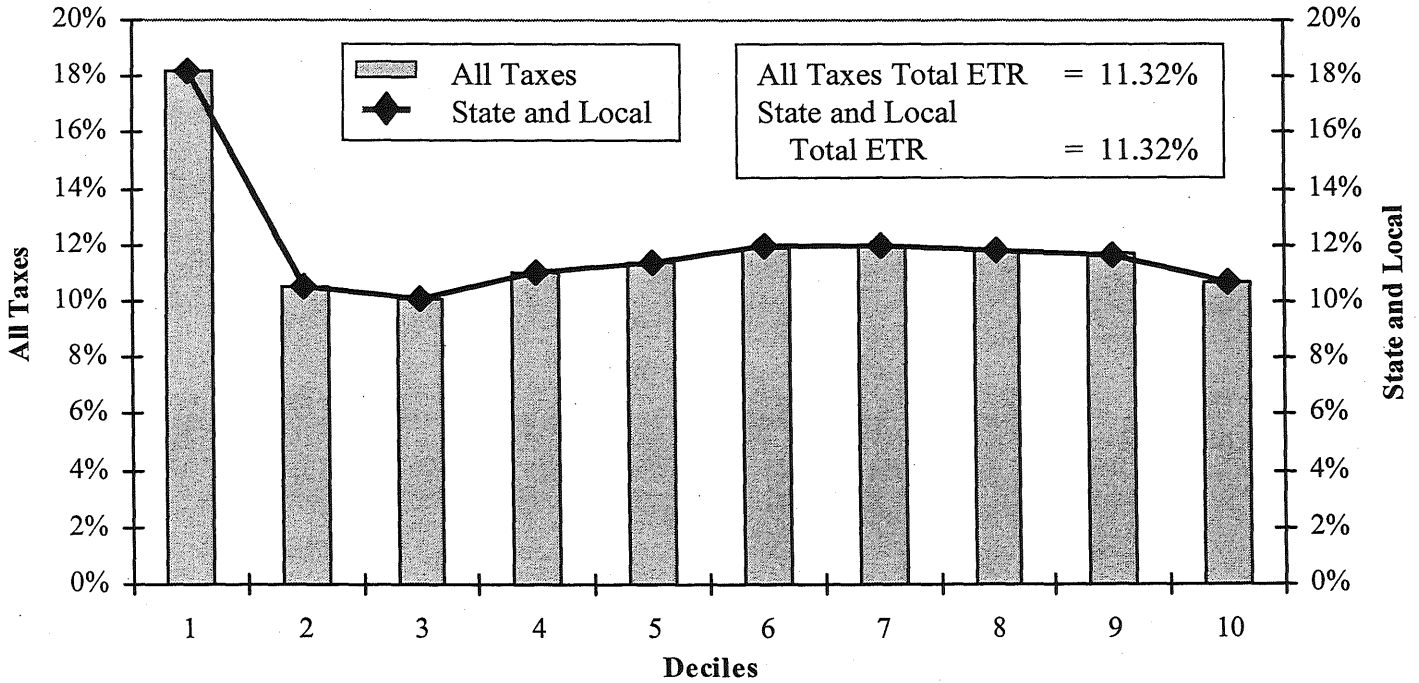
Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.2%	10.5%	10.1%	11.0%	11.4%	11.9%	12.0%	11.8%	11.7%	10.7%	10.5%	9.0%	-0.02
Local	8.19%	4.61%	4.05%	3.50%	3.24%	3.29%	2.96%	2.86%	2.50%	1.76%	1.54%	1.01%	-0.17

## 2002 Incidence Estimate for Total State and Local Taxes

**Tax Collection Amounts 2002  
(\$Millions)**

Total	As Imposed			After Shifting	
	MN HH	NR	Business	Minnesota	Exported
\$17,174	\$10,081	\$350	\$6,743	\$14,412	\$2,762

**Effective Tax Rates, Population Deciles**



Deciles	1	2	3	4	5	6	7	8	9	10	Top 5%	Top 1%	Suits Index
All Taxes	18.18%	10.54%	10.07%	11.00%	11.39%	11.94%	12.01%	11.81%	11.68%	10.73%	10.49%	9.04%	-0.02
State and Local	18.18%	10.54%	10.07%	11.00%	11.39%	11.94%	12.01%	11.81%	11.68%	10.73%	10.49%	9.04%	-0.02

## Glossary of Terms

***Decile*** – one tenth of an ordered list. In this study decile usually means a particular tenth of the total number of households in the state after those households have been ordered or ranked by income; sometimes referred to as a population decile. For example, the first decile means the tenth of the population ranking lowest in income; the tenth decile is the tenth of the population having the highest incomes. An alternative use of the term in this study means a tenth of the total income of the households so ranked; this is referred to as an income decile. For example, the tenth income decile refers to those households receiving the highest tenth of total income.

***Effective tax rate*** – tax paid as a percentage of gross income. Effective tax rates can be calculated for single taxes or groups of taxes. In this study they are also calculated for business taxes by industry sector. Effective tax rates by decile are one of the main methods by which study results are presented. It should be noted that effective tax rates for the first decile are unreliable for several reasons. That decile includes households with temporarily low incomes or who consume based on wealth rather than current income (retirees, for example).

***Household*** – for tax filers, in this study a household is defined as the one or two people entitled to file one income tax return or property tax refund return, plus any dependents. For the nonfilers in this study, a household means those people living at the same address who presumably would be entitled to file one income tax return if they were filers, plus any dependents. This definition differs from that used by the U.S. Census Bureau, which defines a household as any group of people who share living arrangements.

***Impact of tax*** – refers to the initial burden of the tax, experienced by the person or firm legally obligated to pay the tax. The impact is distinguished from the incidence of the tax.

***Incidence of tax*** – refers to the ultimate burden of the tax after the person or business firm legally obligated to pay the tax alters its behavior in response (if it does alter its behavior). In some cases, namely taxes imposed directly on households, both the impact and the incidence are the same. In other cases, such as taxes on businesses, the incidence is shifted from the business to others.

***Progressive tax*** – a tax for which the effective tax rate rises as income rises.

***Proportional tax*** – a tax for which the effective rate does not change with income.

***Regressive tax*** – a tax for which the effective tax rate falls as income rises.

***Suits index*** – a numerical score ranging between  $-1$  and  $+1$  that indicates the extent to which a tax is progressive or regressive. Negative values indicate a regressive tax, positive values a progressive tax, and zero shows a proportional tax. The closer the Suits index is to  $+1$  or  $-1$ , the higher the degree of progressivity or regressivity.

***Tax shifting*** – the process by which the incidence of a tax is translated from the economic entity legally obligated to pay the tax to those bearing the ultimate burden of the tax.

# Agenda #4

Senator Day introduced--

S.F. No. 2001: Referred to the Committee on Taxes.

A bill for an act

relating to taxation; imposing a tax on the transfer of certain major league sports franchises; proposing coding for new law as Minnesota Statutes, chapter 290D.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. [290D.05] [TRANSFER TAX; SALES OF MAJOR SPORTS FRANCHISES.]

Subdivision 1. [FINDINGS.] The legislature finds that the state and its political subdivisions have contributed to the value of major league sports franchises through authorizing and issuing bonds and authorizing and imposing taxes to fund sports stadiums and improvements to infrastructure to support them.

The legislature further finds that the people of Minnesota have contributed to the value of major league sports franchises by paying food, liquor, lodging, and admissions taxes and by their loyal support of the teams, including attendance at games, television viewing, and purchases of sports memorabilia.

Further, the legislature finds that, because of the value contributed by the state and its people, the sale of a major league sports franchise located in the state of Minnesota may be subject to tax by the state.

Subd. 2. [TAX IMPOSED.] A tax is imposed on the sale or other disposition of a major league sports team that plays or has played its home games at a sports stadium constructed with bonds issued under section 473.581. For purposes of this

1 section, "sale or other disposition of a major league sports  
2 team" means the sale or disposition of a major league sports  
3 franchise, whether by the sale or other disposition of assets,  
4 partnership shares, or corporate stock. The rate of tax is  
5 seven percent of the gain realized on the sale. For purposes of  
6 this section, "gain realized on the sale" means the gain  
7 determined for federal income tax purposes under section 1001 of  
8 the Internal Revenue Code of 1986, as amended through March 15,  
9 2005.

10 Subd. 3. [APPORTIONMENT.] The tax imposed under  
11 subdivision 2 is apportioned by multiplying it by the ratio of  
12 the period of time the franchise was held by the taxpayer in  
13 which the team played its home games in the state to the period  
14 of time the franchise was held by the taxpayer.

15 Subd. 4. [CREDIT.] A credit against the tax liability  
16 imposed under this section is allowed equal to the amount of  
17 taxes, if any, imposed on the taxpayer, under chapter 290. The  
18 amount of credit must not exceed the tax liability imposed under  
19 this section.

20 Subd. 5. [FILING OF RETURN; PAYMENT OF TAX.] The person  
21 who realizes the gain on the sale or other disposition under  
22 subdivision 1 is liable for payment of the tax. For purposes of  
23 this section, "person" includes a partnership, corporation,  
24 individual, or other entity. Within 120 days after the close of  
25 the taxpayer's taxable year, for federal income tax purposes, in  
26 which the sale occurred, the taxpayer shall file a return in the  
27 form and manner required by the commissioner of revenue and pay  
28 the tax due under this section. The return must be  
29 authenticated by the person filing the return or by the person's  
30 agent who is authorized in writing to file the return. The  
31 return must set forth the items and data required to compute the  
32 amount of the net tax liability.

33 Subd. 6. [RECORDS.] A person required to file a return and  
34 pay the tax under this section must keep records necessary to  
35 determine the tax imposed under this section and is subject to  
36 the audit and enforcement provisions of chapters 270 and 289A



1 relating to individual income or corporate franchise taxes, as  
2 applicable.

3 Subd. 7. [ADMINISTRATION; ENFORCEMENT.] The commissioner  
4 of revenue shall administer and enforce the provisions of this  
5 section and has all the powers and duties contained in chapters  
6 270, 289A, and 290, including payment of refunds, that apply to  
7 the individual income or corporate franchise tax, as applicable,  
8 to administer, audit, collect, and enforce the tax imposed under  
9 this section.

10 Subd. 8. [PENALTIES; INTEREST.] (a) Interest is payable to  
11 the commissioner under the provisions of section 289A.55, and  
12 interest must be paid by the commissioner on overpayments under  
13 section 289A.56.

14 (b) The civil penalties provided under section 289A.60 that  
15 apply to individual income or corporate franchise taxes under  
16 chapter 290, as applicable, apply to the tax imposed under this  
17 section.

18 Subd. 9. [ADMINISTRATIVE REVIEW.] The administrative  
19 review provisions of section 289A.65 apply to the tax imposed  
20 under this section.

21 Subd. 10. [DEPOSIT OF PROCEEDS.] The proceeds of the tax  
22 imposed under this section must be deposited in the state  
23 general fund.

24 [EFFECTIVE DATE.] This section is effective for sales and  
25 exchanges occurring after March 31, 2005.

# MINNESOTA REVENUE

## INDIVIDUAL INCOME TAX Major sports franchise transfer tax

April 5, 2005

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

Department of Revenue  
Analysis of H.F. 2247 (Cornish)/ S.F. 2001 (Day)

	<b>Fund Impact</b>			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
General Fund	Unknown	Unknown	Unknown	Unknown

(000's)

Effective for sales or other dispositions occurring after March 31, 2005

### EXPLANATION OF THE BILL

The bill would impose a tax equal to 7% of the gain realized on the transfer of a major league sports franchise, for those franchises that play home games in the Hubert H. Humphrey Metrodome. The tax is apportioned by the ratio of the period of time the franchise was held by the taxpayer in which the team played its home games in Minnesota to the total period of time that the franchise was held by the taxpayer. A nonrefundable credit is allowed against the tax equal to the amount of individual income or corporate franchise tax on the taxpayer.

### REVENUE ANALYSIS DETAIL

- Media reports suggest that one entity that would be subject to the proposed tax has a sale currently pending. If the franchise is sold, it is not known when the sale would occur.
- The size of the gain depends on the sale price of the franchise and on the taxpayer's basis in the franchise. There is no information available about the sale price except for media speculation. The taxpayer's basis depends on the original purchase price and on adjustments to basis that may have occurred in the course of business operations. These also are unknown.
- The revenue impact of the proposal would be net of the credit allowed for any Minnesota individual income tax or corporate franchise tax on the taxpayer. In addition to the date of the sale, the sale price, and the taxpayer's basis (all of which are unknown), the amount of the credit would depend on if the taxpayer is treated as a corporation, partnership, or some other type of entity for tax purposes and also on how the sale is structured. These additional factors are also unknown.

**Number of Taxpayers:** Two major league sports teams currently play their home games in the Metrodome.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)

hf2247(sf2001)/gt

HANDOUT #1



NATIONAL FOOTBALL LEAGUE

Joe Browne  
Executive Vice President  
Communications & Public Affairs

April 7, 2005

Senator Larry Pogemiller  
Chair  
Senate Tax Committee  
Room 235, State Capital  
St. Paul, MN 55155

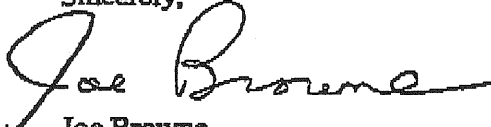
Cc: Members, Senate Tax Committee

Dear Senator Larry Pogemiller and Committee Members:

I want to thank you for the opportunity to respond to the provisions of Senate File 2001 and to place our comments on the record. The National Football League wishes to express its opposition to this proposed legislation.

The NFL has for many years assisted investors and prospective investors in evaluating opportunities and making choices about purchasing franchises and making investments in teams, stadiums, and communities. It has always been clear that a stable and predictable tax system is among the very important factors for the people making those choices. Sports teams, like other businesses, operate in (and are taxed by) several jurisdictions and it is not desirable to have a new industry-specific tax suddenly arise in any jurisdiction. A new tax that is unusual and that, as a practical matter, singles out one individual (and perhaps similarly situated individuals in the future) is particularly problematic. This proposed legislation would disturb the stable and predictable tax system that an investor needs. This result is particularly undesirable where, as here, the required overall investment will likely far exceed the price of the team.

Again, thank you for this opportunity to provide written comments to this proposed legislation. We look forward to continuing to work with you and other state leaders on all matters related to the National Football League and the Minnesota Vikings.

Sincerely,  
  
Joe Browne

# The Minnesota Vikings Paid Over \$11 Million In Taxes In 2004

## DIRECT FISCAL IMPACT TO MN (2004 SEASON)

### TAXES

• Property Tax -----	\$247,817
• State Tax Withholding on Players and Staff-----	\$5,728,691
• Sales Tax on Tickets and Merchandise-----	\$2,253,779
• Admission Tax-MSFC-----	<u>\$3,470,712</u>
	<b>Sub Total-----*\$11,700,999</b>

- consumer pay  
- Rev xtd

\*This total does not include income tax collected from visiting players and franchises



Agenda #5

Senators Kelley and Rest introduced--

S.F. No. 397: Referred to the Committee on Taxes.

1 A bill for an act

2 relating to taxation; conforming to federal law  
3 relating to educator expense deductions; allowing a  
4 subtraction from income; amending Minnesota Statutes  
5 2004, section 290.01, subdivisions 19, 19b.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

7 Section 1. Minnesota Statutes 2004, section 290.01,  
8 subdivision 19, is amended to read:

9 Subd. 19. [NET INCOME.] The term "net income" means the  
10 federal taxable income, as defined in section 63 of the Internal  
11 Revenue Code of 1986, as amended through the date named in this  
12 subdivision, incorporating any elections made by the taxpayer in  
13 accordance with the Internal Revenue Code in determining federal  
14 taxable income for federal income tax purposes, and with the  
15 modifications provided in subdivisions 19a to 19f.

16 In the case of a regulated investment company or a fund  
17 thereof, as defined in section 851(a) or 851(g) of the Internal  
18 Revenue Code, federal taxable income means investment company  
19 taxable income as defined in section 852(b)(2) of the Internal  
20 Revenue Code, except that:

21 (1) the exclusion of net capital gain provided in section  
22 852(b)(2)(A) of the Internal Revenue Code does not apply;

23 (2) the deduction for dividends paid under section  
24 852(b)(2)(D) of the Internal Revenue Code must be applied by  
25 allowing a deduction for capital gain dividends and

1 exempt-interest dividends as defined in sections 852(b)(3)(C)  
2 and 852(b)(5) of the Internal Revenue Code; and

3 (3) the deduction for dividends paid must also be applied  
4 in the amount of any undistributed capital gains which the  
5 regulated investment company elects to have treated as provided  
6 in section 852(b)(3)(D) of the Internal Revenue Code.

7 The net income of a real estate investment trust as defined  
8 and limited by section 856(a), (b), and (c) of the Internal  
9 Revenue Code means the real estate investment trust taxable  
10 income as defined in section 857(b)(2) of the Internal Revenue  
11 Code.

12 The net income of a designated settlement fund as defined  
13 in section 468B(d) of the Internal Revenue Code means the gross  
14 income as defined in section 468B(b) of the Internal Revenue  
15 Code.

16 The provisions of sections 1113(a), 1117, 1206(a), 1313(a),  
17 1402(a), 1403(a), 1443, 1450, 1501(a), 1605, 1611(a), 1612,  
18 1616, 1617, 1704(l), and 1704(m) of the Small Business Job  
19 Protection Act, Public Law 104-188, the provisions of Public Law  
20 104-117, the provisions of sections 313(a) and (b)(1), 602(a),  
21 913(b), 941, 961, 971, 1001(a) and (b), 1002, 1003, 1012, 1013,  
22 1014, 1061, 1062, 1081, 1084(b), 1086, 1087, 1111(a), 1131(b)  
23 and (c), 1211(b), 1213, 1530(c)(2), 1601(f)(5) and (h), and  
24 1604(d)(1) of the Taxpayer Relief Act of 1997, Public Law  
25 105-34, the provisions of section 6010 of the Internal Revenue  
26 Service Restructuring and Reform Act of 1998, Public Law  
27 105-206, the provisions of section 4003 of the Omnibus  
28 Consolidated and Emergency Supplemental Appropriations Act,  
29 1999, Public Law 105-277, and the provisions of section 318 of  
30 the Consolidated Appropriation Act of 2001, Public Law 106-554,  
31 shall become effective at the time they become effective for  
32 federal purposes.

33 The Internal Revenue Code of 1986, as amended through  
34 December 31, 1996, shall be in effect for taxable years  
35 beginning after December 31, 1996.

36 The provisions of sections 202(a) and (b), 221(a), 225,

1 312, 313, 913(a), 934, 962, 1004, 1005, 1052, 1063, 1084(a) and  
2 (c), 1089, 1112, 1171, 1204, 1271(a) and (b), 1305(a), 1306,  
3 1307, 1308, 1309, 1501(b), 1502(b), 1504(a), 1505, 1527, 1528,  
4 1530, 1601(d), (e), (f), and (i) and 1602(a), (b), (c), and (e)  
5 of the Taxpayer Relief Act of 1997, Public Law 105-34, the  
6 provisions of sections 6004, 6005, 6012, 6013, 6015, 6016, 7002,  
7 and 7003 of the Internal Revenue Service Restructuring and  
8 Reform Act of 1998, Public Law 105-206, the provisions of  
9 section 3001 of the Omnibus Consolidated and Emergency  
10 Supplemental Appropriations Act, 1999, Public Law 105-277, the  
11 provisions of section 3001 of the Miscellaneous Trade and  
12 Technical Corrections Act of 1999, Public Law 106-36, and the  
13 provisions of section 316 of the Consolidated Appropriation Act  
14 of 2001, Public Law 106-554, shall become effective at the time  
15 they become effective for federal purposes.

16 The Internal Revenue Code of 1986, as amended through  
17 December 31, 1997, shall be in effect for taxable years  
18 beginning after December 31, 1997.

19 The provisions of sections 5002, 6009, 6011, and 7001 of  
20 the Internal Revenue Service Restructuring and Reform Act of  
21 1998, Public Law 105-206, the provisions of section 9010 of the  
22 Transportation Equity Act for the 21st Century, Public Law  
23 105-178, the provisions of sections 1004, 4002, and 5301 of the  
24 Omnibus Consolidation and Emergency Supplemental Appropriations  
25 Act, 1999, Public Law 105-277, the provision of section 303 of  
26 the Ricky Ray Hemophilia Relief Fund Act of 1998, Public Law  
27 105-369, the provisions of sections 532, 534, 536, 537, and 538  
28 of the Ticket to Work and Work Incentives Improvement Act of  
29 1999, Public Law 106-170, the provisions of the Installment Tax  
30 Correction Act of 2000, Public Law 106-573, and the provisions  
31 of section 309 of the Consolidated Appropriation Act of 2001,  
32 Public Law 106-554, shall become effective at the time they  
33 become effective for federal purposes.

34 The Internal Revenue Code of 1986, as amended through  
35 December 31, 1998, shall be in effect for taxable years  
36 beginning after December 31, 1998.

1 The provisions of the FSC Repeal and Extraterritorial  
2 Income Exclusion Act of 2000, Public Law 106-519, and the  
3 provision of section 412 of the Job Creation and Worker  
4 Assistance Act of 2002, Public Law 107-147, shall become  
5 effective at the time it became effective for federal purposes.

6 The Internal Revenue Code of 1986, as amended through  
7 December 31, 1999, shall be in effect for taxable years  
8 beginning after December 31, 1999. The provisions of sections  
9 306 and 401 of the Consolidated Appropriation Act of 2001,  
10 Public Law 106-554, and the provision of section 632(b)(2)(A) of  
11 the Economic Growth and Tax Relief Reconciliation Act of 2001,  
12 Public Law 107-16, and provisions of sections 101 and 402 of the  
13 Job Creation and Worker Assistance Act of 2002, Public Law  
14 107-147, shall become effective at the same time it became  
15 effective for federal purposes.

16 The Internal Revenue Code of 1986, as amended through  
17 December 31, 2000, shall be in effect for taxable years  
18 beginning after December 31, 2000. The provisions of sections  
19 659a and 671 of the Economic Growth and Tax Relief  
20 Reconciliation Act of 2001, Public Law 107-16, the provisions of  
21 sections 104, 105, and 111 of the Victims of Terrorism Tax  
22 Relief Act of 2001, Public Law 107-134, and the provisions of  
23 sections 201, 403, 413, and 606 of the Job Creation and Worker  
24 Assistance Act of 2002, Public Law 107-147, shall become  
25 effective at the same time it became effective for federal  
26 purposes.

27 The Internal Revenue Code of 1986, as amended through March  
28 15, 2002, shall be in effect for taxable years beginning after  
29 December 31, 2001.

30 The provisions of sections 101 and 102 of the Victims of  
31 Terrorism Tax Relief Act of 2001, Public Law 107-134, shall  
32 become effective at the same time it becomes effective for  
33 federal purposes.

34 The Internal Revenue Code of 1986, as amended through June  
35 15, 2003, shall be in effect for taxable years beginning after  
36 December 31, 2002. The provisions of section 201 of the Jobs



1 and Growth Tax Relief and Reconciliation Act of 2003, H.R. 2, if  
2 it is enacted into law, are effective at the same time it became  
3 effective for federal purposes.

4 The provisions of section 307 of the Working Families Tax  
5 Relief Act of 2004, Public Law 108-311, relating to the educator  
6 expense deduction, are effective at the same time it became  
7 effective for federal purposes.

8 Except as otherwise provided, references to the Internal  
9 Revenue Code in subdivisions 19a to 19g mean the code in effect  
10 for purposes of determining net income for the applicable year.

11 [EFFECTIVE DATE.] This section is effective the day  
12 following final enactment.

13 Sec. 2. Minnesota Statutes 2004, section 290.01,  
14 subdivision 19b, is amended to read:

15 Subd. 19b. [SUBTRACTIONS FROM FEDERAL TAXABLE INCOME.] For  
16 individuals, estates, and trusts, there shall be subtracted from  
17 federal taxable income:

18 (1) interest income on obligations of any authority,  
19 commission, or instrumentality of the United States to the  
20 extent includable in taxable income for federal income tax  
21 purposes but exempt from state income tax under the laws of the  
22 United States;

23 (2) if included in federal taxable income, the amount of  
24 any overpayment of income tax to Minnesota or to any other  
25 state, for any previous taxable year, whether the amount is  
26 received as a refund or as a credit to another taxable year's  
27 income tax liability;

28 (3) the amount paid to others, less the amount used to  
29 claim the credit allowed under section 290.0674, not to exceed  
30 \$1,625 for each qualifying child in grades kindergarten to 6 and  
31 \$2,500 for each qualifying child in grades 7 to 12, for tuition,  
32 textbooks, and transportation of each qualifying child in  
33 attending an elementary or secondary school situated in  
34 Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin,  
35 wherein a resident of this state may legally fulfill the state's  
36 compulsory attendance laws, which is not operated for profit,

1 and which adheres to the provisions of the Civil Rights Act of  
2 1964 and chapter 363A. For the purposes of this clause,  
3 "tuition" includes fees or tuition as defined in section  
4 290.0674, subdivision 1, clause (1). As used in this clause,  
5 "textbooks" includes books and other instructional materials and  
6 equipment purchased or leased for use in elementary and  
7 secondary schools in teaching only those subjects legally and  
8 commonly taught in public elementary and secondary schools in  
9 this state. Equipment expenses qualifying for deduction  
10 includes expenses as defined and limited in section 290.0674,  
11 subdivision 1, clause (3). "Textbooks" does not include  
12 instructional books and materials used in the teaching of  
13 religious tenets, doctrines, or worship, the purpose of which is  
14 to instill such tenets, doctrines, or worship, nor does it  
15 include books or materials for, or transportation to,  
16 extracurricular activities including sporting events, musical or  
17 dramatic events, speech activities, driver's education, or  
18 similar programs. For purposes of the subtraction provided by  
19 this clause, "qualifying child" has the meaning given in section  
20 32(c)(3) of the Internal Revenue Code;

21 (4) income as provided under section 290.0802;

22 (5) to the extent included in federal adjusted gross  
23 income, income realized on disposition of property exempt from  
24 tax under section 290.491;

25 (6) to the extent included in federal taxable income,  
26 postservice benefits for youth community service under section  
27 124D.42 for volunteer service under United States Code, title  
28 42, sections 12601 to 12604;

29 (7) to the extent not deducted in determining federal  
30 taxable income by an individual who does not itemize deductions  
31 for federal income tax purposes for the taxable year, an amount  
32 equal to 50 percent of the excess of charitable contributions  
33 allowable as a deduction for the taxable year under section  
34 170(a) of the Internal Revenue Code over \$500;

35 (8) for taxable years beginning before January 1, 2008, the  
36 amount of the federal small ethanol producer credit allowed

1 under section 40(a)(3) of the Internal Revenue Code which is  
2 included in gross income under section 87 of the Internal  
3 Revenue Code;

4 (9) for individuals who are allowed a federal foreign tax  
5 credit for taxes that do not qualify for a credit under section  
6 290.06, subdivision 22, an amount equal to the carryover of  
7 subnational foreign taxes for the taxable year, but not to  
8 exceed the total subnational foreign taxes reported in claiming  
9 the foreign tax credit. For purposes of this clause, "federal  
10 foreign tax credit" means the credit allowed under section 27 of  
11 the Internal Revenue Code, and "carryover of subnational foreign  
12 taxes" equals the carryover allowed under section 904(c) of the  
13 Internal Revenue Code minus national level foreign taxes to the  
14 extent they exceed the federal foreign tax credit;

15 (10) in each of the five tax years immediately following  
16 the tax year in which an addition is required under subdivision  
17 19a, clause (7), an amount equal to one-fifth of the delayed  
18 depreciation. For purposes of this clause, "delayed  
19 depreciation" means the amount of the addition made by the  
20 taxpayer under subdivision 19a, clause (7), minus the positive  
21 value of any net operating loss under section 172 of the  
22 Internal Revenue Code generated for the tax year of the  
23 addition. The resulting delayed depreciation cannot be less  
24 than zero; and

25 (11) job opportunity building zone income as provided under  
26 section 469.316; and

27 (12) to the extent not deducted in determining federal  
28 taxable income, by an eligible educator who has qualifying  
29 expenses that exceed the maximum amount allowed under section  
30 62(a)(2)(D) of the Internal Revenue Code, an amount equal to the  
31 excess qualifying expenses, not to exceed \$250 for an eligible  
32 educator, or \$500 for married individuals filing a joint return  
33 when both spouses are eligible educators.

34 [EFFECTIVE DATE.] This section is effective for taxable  
35 years beginning after December 31, 2004.

# MINNESOTA REVENUE

## INDIVIDUAL INCOME TAX Deduction for Educator Expenses

April 4, 2005

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

Department of Revenue  
Analysis of S.F. 397 (Kelley)/ H.F. 780 (Ruud)

	<b>Fund Impact</b>			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
	(000's)			
Conforming to the Federal Deduction	(\$2,400)	\$0	\$0	\$0
Minnesota Subtraction	<u>(\$60)</u>	<u>(\$500)</u>	<u>(\$500)</u>	<u>(\$500)</u>
General Fund Total	(\$2,460)	(\$500)	(\$500)	(\$500)

Conforming to the federal deduction is effective the day following final enactment for tax years 2004 and 2005.

The Minnesota subtraction is effective beginning with tax year 2005.

### EXPLANATION OF THE BILL

#### *Conforming to the Federal Deduction*

The bill would adopt the federal deduction for educator classroom expenses for purposes of the Minnesota individual income tax. Section 307 of the federal Working Families Tax Relief Act of 2004 allows an above-the-line deduction for tax years 2004 and 2005 of up to \$250 for classroom expenses paid or incurred by an eligible educator.

An eligible educator is an elementary or secondary teacher, instructor, counselor, principal, or aide. Eligible expenses include books, supplies, computer equipment, and other equipment.

Minnesota conformed to the federal deduction for classroom expenses which was in effect for tax years 2002 and 2003. The 2004 federal law change extended the deduction for two years.

#### *Minnesota Subtraction*

Beginning with tax year 2005, the bill would allow a subtraction from federal taxable income for educator classroom expenses to the extent that they were not deducted in determining federal taxable income. The subtraction cannot exceed \$250 for an educator, or \$500 for a married-joint return if both spouses are educators.

April 4, 2005

## REVENUE ANALYSIS DETAIL

### *Conforming to the Federal Deduction*

- The estimates are based on the federal estimates for the Working Families Tax Relief Act of 2004 released by the Joint Committee on Taxation on September 23, 2004.
- The federal estimates were apportioned to Minnesota based on Minnesota's portion of elementary and secondary teachers, which was 1.9%.
- Appropriate federal and state marginal tax rates were applied.
- The estimates were converted from federal to state fiscal years. The estimate for fiscal year 2006 includes the impact of the retroactive effective date to tax year 2004.

### *Minnesota Subtraction*

- For tax year 2005, the Minnesota subtraction would be the excess over the federal above-the-line deduction. It is assumed that this would be about 5% of what is deducted federally.
- For tax years after 2005, there is no federal above-the-line deduction for these expenses. For taxpayers who itemize their deductions, the expenses can be taken as an employee business expense, which is included with other miscellaneous deductions and subject to a floor of 2% of adjusted gross income.
- It is assumed that a subtraction for state income tax purposes only compared to the federal above-the-line deduction would reduce the impact by about 60%.
- Tax year impact is allocated to the following fiscal year.

**Number of Taxpayers:** Preliminary sample information for tax year 2003 shows that the deduction for educator expenses was taken on about 59,000 Minnesota returns. The total number of eligible educators in public and private Minnesota elementary and secondary schools is between 75,000 and 80,000.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)