

**Senate Counsel, Research,
and Fiscal Analysis**

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JO ANNE ZOFF SELLNER
DIRECTOR

Senate

State of Minnesota

TO: Members of the Senate Tax Committee

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

DATE: April 25, 2005

RE: Bills to be Heard April 26, 2005

S.F. No. 2092 (Saxhaug)

This bill increases from \$15,000 to \$25,000 the maximum amount of tax that may be levied by certain cities and towns for the support of the Lakeview Cemetery Association. The levy could be imposed by the cities of Coleraine and Bovey, and all towns that are members of the cemetery association.

S.F. No. 1216 (Rest)

This bill appropriates \$125,000 in each of fiscal years 2006 and 2007 to the Commissioner of Revenue to make grants to one or more nonprofit organizations that will coordinate, facilitate, encourage, and aid in the provision of taxpayer assistance services. Taxpayer assistance services are defined to include accounting and tax preparation services provided by volunteers to low-income and disadvantaged Minnesota residents. The services would include assistance in filing federal and state income tax returns and property tax refund claims, and providing personal representation before the Minnesota Department of Revenue and the Internal Revenue Service.

S.F. No. 2113 (Gerlach)

This bill authorizes the city of Rosemount, or a development authority of the city, to expend increments from its Downtown-Brockway tax increment financing district, for the purposes of acquiring property acquired by MnDot in connection with the realignment of a trunk highway. This authority would not be subject to the general prohibitions on pooling or the restrictions on expenditure of increments from redevelopment districts.

S.F. No. 2158 (McGinn)

This bill changes the general definition of the terms “market value,” “taxable market value,” and “market valuation” to refer to the taxable market value for the current assessment year, rather than the value for the previous assessment year.

S.F. No. 782 (Reiter)

This bill appropriates \$104,964 to the Commissioner of Revenue to make payments to the city of White Bear Lake. One-half of that amount would be paid on July 20, 2005, and one-half on December 6, 2005, the same dates on which local government aid payments are made.

JZS:ssg

Agenda #1

Senator Gerlach introduced--

S.F. No. 2113: Referred to the Committee on Taxes.

1 A bill for an act

2 relating to taxation; tax increment financing;
3 authorizing certain expenditures of increment by the
4 city of Rosemount.

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

6 Section 1. [CITY OF ROSEMOUNT; TAX INCREMENT FINANCING.]

7 The city of Rosemount or a development authority of the
8 city may spend increment from its Downtown - Brockway Tax
9 Increment Financing (TIF) District to acquire parcels of
10 property that the Department of Transportation or Dakota County
11 acquired in connection with the realignment of marked Trunk
12 Highway 3, notwithstanding the limits under Minnesota Statutes,
13 section 469.1763, on the amount of increments that may be spent
14 outside of the district or Minnesota Statutes, section 469.176,
15 subdivision 4j, on the purposes for which increments may be
16 spent.

17 [EFFECTIVE DATE.] This section is effective upon local
18 approval by the governing body of the city of Rosemount under
19 Minnesota Statutes, section 645.021.

MINNESOTA · REVENUE

PROPERTY TAX Rosemount TIF District

April 25, 2005

Department of Revenue
Analysis of H.F. 2315 (Ozment) / S.F. 2113 (Gerlach)

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

	Fund Impact			
	<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 upon local approval.

EXPLANATION OF THE BILL

Current Law: Tax increment financing (TIF) provides a means of financing municipal improvement projects. Types of districts include redevelopment districts, housing districts, economic development districts, soil condition districts, renewal and renovation districts, and hazardous substance districts. Although these types of districts have particular distinguishing characteristics, all commonly possess the authority to retain the tax dollars generated by the "retained captured net tax capacity". The captured net tax capacity equals the difference between the current year net tax capacity and the original net tax capacity of the properties within the TIF district. (The retained captured net tax capacity is after the subtraction any fiscal disparity or shared value reductions and after any prior year net tax capacity adjustments.) Activity must commence within 5 years of district creation.

Proposed Law: The bill would allow the city of Rosemount or a development authority of the city to use tax increments from its Downtown-Brockway TIF district to acquire parcels of property that the Department of Transportation or Dakota County acquired for the realignment of Trunk Highway 3. Limits on expenditures outside the TIF district and redevelopment district spending limitations would not apply.

REVENUE ANALYSIS DETAIL

- By spending more increments, excess increment returned to other taxing jurisdictions would be reduced. The change could have an impact on the local tax base and tax rate in the future and result in a small increase in property tax refunds paid by the state.

Number of Taxpayers: Taxpayers in the City of Rosemount.

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

hf2315(sf2113)_1 / LM

Agenda #2

Senator Saxhaug introduced--

S.F. No. 2092: Referred to the Committee on Taxes.

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A bill for an act

relating to Itasca County; increasing the maximum levies of certain towns in the county for cemetery purposes; amending Laws 1994, chapter 587, article 9, section 8, subdivision 1.

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

Section 1. Laws 1994, chapter 587, article 9, section 8, subdivision 1, is amended to read:

Subdivision 1. [TAX LEVIES.] Notwithstanding Minnesota Statutes, section 471.24, each of the following cities or towns is authorized to levy a tax and make an appropriation not to exceed ~~\$15,000~~ \$25,000 annually to the Lakeview Cemetery Association, operated by the town of Iron Range, for cemetery purposes: the city of Coleraine, the city of Bovey, and each town which is a member of the cemetery association.

[EFFECTIVE DATE.] This section is effective for taxes levied in 2005, payable in 2006, and thereafter.

MINNESOTA - REVENUE

PROPERTY TAX Itasca County Cemetery Association Levy Limit Increase

April 25, 2005

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

Department of Revenue
Analysis of S.F. 2092 (Saxhaug) / H.F. 2301 (Solberg)

Fund Impact

	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
General Fund	\$0	(Negligible)	(Negligible)	(Negligible)

(000's)

Effective for taxes payable in 2006 and thereafter.

EXPLANATION OF THE BILL

Current Law: The cities of Coleraine and Bovey and each town which is a member of the Lakeview Cemetery Association are authorized to each levy a tax and make an appropriation not to exceed \$15,000 annually to the cemetery association for cemetery purposes.

Proposed Law: The bill would increase the levy and appropriation limit for the cemetery association from \$15,000 to \$25,000 annually.

REVENUE ANALYSIS DETAIL

- The proposed increased levy authority is likely to increase the property tax burden on all properties including homesteads. If the maximum levy were imposed, the increased property tax burden on homesteads caused by the increased levy would increase state-paid homeowner property tax refunds by less than \$5,000 beginning in FY 2007.

Number of Taxpayers: All property taxpayers in a city or town levying for the Lakeview Cemetery Association in Itasca County would be affected by the increased levy.

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

sf2092(hf2301)_1/nrg

Agenda #3

Senator McGinn introduced--

S.F. No. 2158: Referred to the Committee on Taxes.

1 A bill for an act
2 relating to taxation; modifying a definition used in
3 levy and debt limitations; amending Minnesota Statutes
4 2004, section 273.032.
5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:
6 Section 1. Minnesota Statutes 2004, section 273.032, is
7 amended to read:
8 273.032 [MARKET VALUE DEFINITION.]
9 For the purpose of determining any property tax levy
10 limitation based on market value, any net debt limit based on
11 market value, any limit on the issuance of bonds, certificates
12 of indebtedness, or capital notes based on market value, any
13 qualification to receive state aid based on market value, or any
14 state aid amount based on market value, the terms "market
15 value," "taxable market value," and "market valuation," whether
16 equalized or unequalized, mean the total taxable market value of
17 property within the local unit of government before any
18 adjustments for tax increment, fiscal disparity, powerline
19 credit, or wind energy values, but after the limited market
20 adjustments under section 273.11, subdivision 1a, and after the
21 market value exclusions of certain improvements to homestead
22 property under section 273.11, subdivision 16. Unless otherwise
23 provided, "market value," "taxable market value," and "market
24 valuation" refer to the taxable market value for the previous
25 current assessment year.

MINNESOTA REVENUE

PROPERTY TAX Redefine MV to be Current Year

April 25, 2005

Department of Revenue
Analysis of S.F. 2158 (McGinn)

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

Fund Impact

	<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	(Unknown)	(Unknown)	(Unknown)

Effective for taxes levied in 2005, payable in 2006 and thereafter.

EXPLANATION OF THE BILL

The bill alters the definition of market value for determining levy limits, debt, bond, and capital note limits, and state aid calculations. Unless otherwise stated, market value will refer to the taxable market value for the current year instead of the previous year.

REVENUE ANALYSIS DETAIL

- Rising market values are assumed.
- Levy limits for most jurisdictions expired in payable year 2004.
- Debt, bond, and capital note limits that use a previous year market value definition would increase using a current year market value definition. Higher debt limits may result in higher debt service levies, increasing homestead taxes and property tax refunds.
- The bill alters the definition of market value for state aid calculations. Local government aid and county program aid distributions would be changed with the new definition, but totals would remain the same. Market value credits would decrease under higher values.

Number of Taxpayers: All property taxpayers.

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

sf2158_1 / LM

Agenda #4

Senators Rest, Belanger, Moua, Marty and Tomassoni introduced--
S.F. No. 1216: Referred to the Committee on Taxes.

1 A bill for an act

2 relating to taxation; income tax administration;

3 appropriating money for grants to nonprofit entities

4 to facilitate the delivery of volunteer assistance to

5 low-income taxpayers.

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

7 Section 1. [APPROPRIATION.]

8 (a) \$125,000 in fiscal year 2006 and \$125,000 in fiscal

9 year 2007 are appropriated from the general fund to the
and 200,000 for every fiscal year thereafter after

10 commissioner of revenue to make grants to one or more nonprofit

11 organizations, qualifying under section 501(c)(3) of the

12 Internal Revenue Code of 1986, to coordinate, facilitate,

13 encourage, and aid in the provision of taxpayer assistance

14 services.

15 (b) "Taxpayer assistance services" mean accounting and tax

16 preparation services provided by volunteers to low-income and

17 disadvantaged Minnesota residents to help them file federal and

18 state income tax returns and Minnesota property tax refund

19 claims and to provide personal representation before the

20 Department of Revenue and Internal Revenue Service.

MINNESOTA · REVENUE

INDIVIDUAL INCOME TAX PROPERTY TAX REFUNDS Taxpayer Assistance Services Grants

April 25, 2005

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

Department of Revenue
Analysis of S.F. 1216 (Rest)/ H.F. 2169 (Walker)

	<u>Fund Impact</u>			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
			(000's)	
General Fund	(\$125)	(\$125)	\$0	\$0

Effective July 1, 2005

EXPLANATION OF THE BILL

The bill provides appropriations from the general fund to the Commissioner of Revenue for grants to nonprofit organizations for the purpose of providing taxpayer assistance services to low-income and disadvantaged Minnesota residents. The amount appropriated is \$125,000 in each of fiscal years 2006 and 2007.

REVENUE ANALYSIS DETAIL

- The general fund impact is equal to the appropriations.

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

sf1216(hf2169)_1/gt



AccountAbility Minnesota

*Tax & Accounting Services
for those in Need*

Bonnie Esposito
Executive Director

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Suite 180
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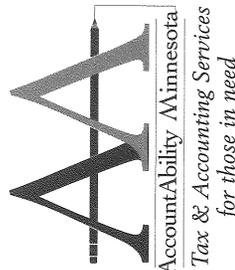
What to Bring Checklist

- Valid picture I.D.
- Social Security cards or Individual Taxpayer Identification Number cards or letters for all persons listed on the tax return
- Birth date for all persons listed on the tax return
- Prior year's tax return
- Direct deposit information showing account and routing numbers
- Copy of income forms for wages from each job (Form W-2), interest (Form 1099-INT), dividends (Form 1099-DIV), Retirement Plans (Form 1099-R), Gambling Winnings (Form 1099-2G), Unemployment (Form 1099-G), Social Security Benefits (Form SSA)
- Yearend income statements for MFIP, SSI, MSA, GA, veterans' benefits, and worker's compensation
- Education expenses you paid for your children in grades K-12. For example tutoring, rental/purchase of instrument, music lessons, pens, pencils, and notebooks
- Tuition expenses you paid to attend a university/technical college (Form 1098-T)
- Interest paid on student loans (Form 1098-E)
- Daycare expenses you paid for your children. Bring provider's name, address, & tax ID or Social Security Number
- Charitable donations of cash and non-cash
- Homeowners: Mortgage interest and real estate taxes paid in 2004 (Form 1098) & Statement of Property Tax Payable in 2005 mailed by the county in March
- Renters: Certificate of Rent Paid (CRP) from your landlord

For a detailed checklist, visit www.accountabilitymn.org or contact one of the tax sites listed.

If you received a Form 1099-MISC or have a small business; i.e. self-employed, daycare, paper carrier; call AccountAbility Minnesota at (651) 287-0187 for a tax organizer.

NONPROFIT
ORGANIZATION
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MINNEAPOLIS, MN



2300 Myrtle Ave. W.
Suite 180
St. Paul, MN 55114

Free Tax Help

It's your money, come and get it.

AccountAbility Minnesota provides free tax preparation and e-file services for taxpayers who meet these income guidelines:

- \$26,000 or less for individuals
- \$36,000 or less for families

Free tax preparation and e-file services:

January 27 to April 15

Call the location nearest you for dates and times.

St. Paul

AccountAbility Minnesota

(Individual & Self-Employed)
2300 Myrtle Ave. W.
(651) 287-0187

CLUES

797 E. Seventh St.
(651) 379-4200

Hallie Q. Brown Community Center

270 N. Kent
(651) 224-4601

Neighborhood Development Alliance

481 S. Wabasha
(651) 292-0131

Ramsey Action Programs

450 N. Syndicate St.
(651) 645-6445



Suburban

Community Action for Suburban Hennepin

Various locations
(952) 933-9639

Hopkins Minnetonka Family Resource Center

915 Mainstreet
(952) 988-5350

Hennepin South Services Collaborative FamiLink

9801 Penn Ave. S.
Bloomington
(952) 884-0444

Thorson Family Resource Center

7323 58th Ave. N.
Crystal
(763) 504-7680

US Federal Credit Union

2010 Jefferson Rd.
Northfield
(507) 650-4510

Minneapolis

Brian Coyle Community Center

420 15th Ave. S.
(612) 338-5282

Chrysalis

4432 Chicago Ave. S.
(612) 871-0118, ext. 2

Minneapolis Urban League

2100 Plymouth Ave. N.
(612) 302-3100

CLUES

2700 E. Lake St.
(612) 746-3500

Faith in the City

2414 Park Ave. S.
(612) 879-5330

Sabathani Community Center

310 E. 38th St.
(612) 821-2302

US Federal Credit Union

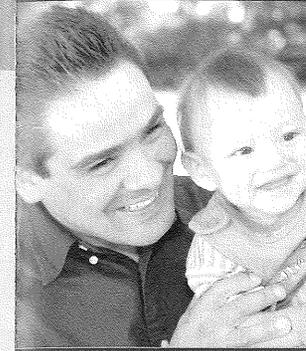
2535 27th Ave. S.
(952) 736-5000

Walker Library

2880 Hennepin Ave. S.
(612) 630-6650



Why use Direct Deposit for your tax refund?



*It's faster and safer
than having a check
mailed to your home.*

*With direct deposit you
may get your refund in
5 to 10 business days
with no fees, interest,
or hassle!*

What other types of payments can be made by Direct Deposit?

Payroll, social security, SSI, retirement,
pension, veteran's, & unemployment benefits.
No more waiting in line on payday or paying
money order fees.

What if I don't have a checking or savings account?

Stop at your neighborhood credit union or
bank to open an account. Many tax sites are
working with financial institutions to help you
open a savings account.

The AccountAbility Minnesota Taxpayer Services Program
is funded in part by: American Express Philanthropic Program;
the McKnight Foundation, the Minneapolis Foundation; the
3M Foundation; Minnesota Society of Certified Public
Accountants; the State of Minnesota and the Wells Fargo
Bank Foundation. We thank them for their support and also
thank our many community and corporate partners that help
make the program a success.

**WELLS
FARGO**

Printing funded by Wells Fargo Bank
Foundation Minnesota.



THANK YOU COMMUNITY TAX SITES!

The following agencies, libraries, schools, businesses and churches help working families by partnering with AccountAbility Minnesota to offer volunteer free tax assistance in their community during the 2005 tax season.

AccountAbility Minnesota 2005 Community-based Partner Tax Sites

Brian Coyle Community Center	<i>Minneapolis</i>
Chicanos Latinos Unidos En Servicio*	<i>Minneapolis</i>
	<i>St. Paul</i>
Chrysalis	<i>Minneapolis</i>
Community Action Duluth	<i>Duluth</i>
Community Action for Suburban Hennepin*	<i>Brooklyn Park, Eden Prairie, Edina, Hopkins, Mound, Richfield</i>
Faith in the City	<i>Minneapolis</i>
Hallie Q. Brown / Martin Luther King Center	<i>St. Paul</i>
Head Start / MACCC	<i>Morris</i>
Hennepin County Corrections	<i>Plymouth</i>
Hennepin South Service Collaborative FamiLink	<i>Bloomington</i>
Hopkins Minnetonka Resource Center	<i>Hopkins</i>
Lakes and Prairies Community Action Partnership*	<i>Moorhead</i>
	<i>Breckenridge</i>
Liberty Savings Bank	<i>Waite Park</i>
Neighborhood Development Alliance	<i>St. Paul</i>
Ramsey Action Program	<i>St. Paul</i>
Ramsey County Corrections	<i>St. Paul</i>
Rice Middle School	<i>Sault Rapids</i>
Sabathani Community Center	<i>Minneapolis</i>
Thorson Family Resource Center	<i>Crystal</i>
Tri County Action Program*	<i>St. Cloud</i>
University of Minnesota*	<i>Duluth</i>
	<i>Fon Du Lac Indian Reservation</i>
Urban League	<i>Minneapolis</i>
US Federal Credit Union*	<i>Minneapolis</i>
	<i>Northfield</i>
Walker Library	<i>Minneapolis</i>
Wesley United Methodist Church	<i>Marshall</i>
West Central Community Action*	<i>Elbow Lake</i>

**These AccountAbility Minnesota partners coordinate multiple tax sites.*

AccountAbility Minnesota's St. Paul Office is open year round for tax assistance for late filers, out of state returns, and problems with the Internal Revenue Service or the Minnesota Department of Revenue.

AccountAbility Minnesota
2300 Myrtle Ave W. Suite 180 / St. Paul, MN 55114
651-287-0187 / www.accountabilitymn.org



Volunteer Tax Assistance

Helping Bring Millions of dollars in federal funds into Minnesota

Across the nation, public policy experts, lawmakers, and social service providers have seen that family-related tax credits offer essential financial assistance to millions of this country's working poor. According to Brookings Institution, the federal Earned Income Tax Credit (EITC) is by far the nation's largest and most effective anti-poverty programs, lifting an average of 5 million Americans above the poverty line each year. However certain segments of the business community have targeted this population and are taking advantage of these substantial refunds to charge exorbitant fees and interest for tax preparation and refund anticipation loans (RALs). Only 4.5% of all Minnesotans received a RAL last year, however according to the IRS 1 in 5 or 21% of EITC filers received a RAL in 2003. In fact, use of RALs by EITC filers increased 9.6% from 2002 to 2003. (CDF MN *Keeping What They've Earned: Working Minnesotans and Tax Credits* – February 2005.)

Consider these facts:

- Last year more than 235,000 families in Minnesota claimed the Earned Income Tax Credit (EITC) resulting in **over \$359 million in federal funds pumped into the local economy.**
- Last year tax preparation fees and refund anticipations loans **cost Minnesota low income families more than \$23 million in federal and state tax funds** – much of that going to out of state banks that service the loans.
- **Volunteer tax assistance** helps bring that money to Minnesota and those dollars are spent locally on food, clothing and rent.
- AAM partners with community-based organizations so we **reach low income taxpayers that otherwise would not file** returns or claim the credits
- Volunteer Tax Assistance offers tax preparation *for free* so **low income tax payers keep 100% of their refunds.**

Volunteer Tax Assistance reaches low-income taxpayers that would otherwise not file a return or claim the credits. Continued state funding is essential to ensure these federal dollars continue to reach Minnesota.

For more information:

Bonnie Esposito, Executive Director
AccountAbility Minnesota
651-287-0187

2300 Myrtle Avenue West
Suite 180
Saint Paul, MN 55114
Phone: 651.287.0187
Fax: 651.287.0190
www.accountabilitymn.org



2300 Myrtle Ave W. Suite 180
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651-287-0187

MEMORANDUM

February 11, 2005

To: Representative Neva Walker

From: Bonnie Esposito, Executive Director

Subj.: Minnesota State tax due

Here are the statistics that we discussed when we met last week. These are the dollars that our customers owed the state and federal government when we completed their tax returns.

For AccountAbility Minnesota sites only:

2003

Minnesota State Tax	Due	\$271,190
Federal Income Tax	Due	\$674,290

2002

Minnesota State Tax	Due	\$180,833
Federal Income Tax	Due	\$503,648

2001

Minnesota State Tax	Due	\$131,367
Federal Income Tax	Due	\$379,726

2000

Minnesota State Tax	Due	\$108,269
Federal Income Tax	Due	\$324,939

Total Paid to Minnesota over four years \$691,659

To put the state dollars invested in the grants in perspective – last tax season AccountAbility Minnesota received \$39,300 from the MNDOR competitive grant and our tax sites helped return \$271,190 in taxes owed to Minnesota.

Please call me if you have any questions or want to see this information displayed in another way. Thanks for your help with this important funding.



AccountAbility Minnesota *Celebrating 33 years of Service* *2004 Accomplishments*

Since 1971 AccountAbility Minnesota (AAM) has been providing comprehensive, tax assistance services year round to a diverse population of low-income and other disadvantaged residents of Minnesota. AccountAbility Minnesota is the only community-based nonprofit organization in the state with a mission solely devoted to accounting and tax assistance. AccountAbility Minnesota has developed a highly effective and efficient structure by which thousands of individuals are assisted each year to navigate the tax reporting system and receive the maximum cash refunds they are due. **Our mission is to provide tax preparation and accounting services to individuals and small business owners with limited means by leveraging volunteer resources.**

Across the nation, public policy experts, lawmakers, and social service providers have seen that family-related tax credits offer essential financial assistance to millions of this country's working poor. According to Brookings Institution, the Earned Income Tax Credit (EITC) is by far the nation's largest and most effective anti-poverty program lifting an average of five million Americans above the poverty line each year. In Minnesota, combined federal and state refunds can add up to 50% of an individual's total annual income. For this reason, the value and importance of AccountAbility Minnesota's Taxpayer Services have soared over the years.

Highlights of 2004 accomplishments include:

- ◆ 9,500 low-income taxpayers received free tax assistance
- ◆ 350+ small businesses received tax assistance
- ◆ \$10.9 million in cash refunds to low-income Minnesota families
- ◆ 17,699 federal and state tax returns prepared by 400 volunteers
- ◆ 10,845 volunteer hours worth over \$379,000 in donated service
- ◆ 408 tax sessions held at 40 statewide tax sites

However, there is a huge unmet need for free tax assistance across the state. According to Internal Revenue Service (IRS) estimates, only 80% of eligible households claim the EITC. Thousands of eligible households do not file for these credits and the federal dollars go unclaimed. In addition, certain segments of the business community have targeted this population and are taking advantage of these substantial refunds to charge exorbitant fees and interest for tax preparation and refund anticipation loans (RALs). Only 2-3% of non-EITC households use RALS, however *in some areas of Minnesota targeted by unscrupulous tax preparation services, over 50% of EITC filers use RALS.* According to a report by the Children's Defense Fund, EITC filers who got a RAL in 2001 paid an average of 10% of their return in tax preparation fees and interest. This study found that over \$17 million in federal dollars that were intended for low-income taxpayers went instead to commercial tax preparers and affiliated national banks.

Each year AccountAbility Minnesota expands the number of taxpayers and communities served with free tax assistance. The following table is a summary of the last three years:

	2002	2003	2004	Increase 2002 -2004
Total Refunds	\$8.4 million	\$9.9 million	\$10.9 million	30%
Taxpayers Served	7,416	8,489	9,535	29%
Tax Returns Completed (fed & state)	13,880	16,398	17,699	28%
Electronic Filed Tax Returns (fed & state)	2,744	4,948	8,332	204%
Taxpayers Served in Greater Minnesota	423	670	1,503	255%

AccountAbility Minnesota has taken advantage of the burgeoning growth and visibility of tax filing for low-income Americans by keeping pace with the rapid increase of immigrants and other non-English speaking taxfilers, the dramatic growth in the number and value of tax credits, and the escalating emphasis on electronic filing. We have established strong partnerships with community-based organizations that serve these disadvantaged populations. In fact, in the 2004 tax season, members of communities of color, English language learners, or persons with disabilities comprised 67% of the taxpayers we served. The following table, compiled from taxpayer surveys, reflects the populations that we serve:

TAXPAYERS SERVED 2004	% of Total
African-American / African	37%
White	33%
Chicano / Latino	18%
Asian	5%
Other	3%
Native-American	3%
Multi ethnic	1%
English language learners	22%
Individuals with disabilities	18%

This information is self reported by taxpayers.

A board of fifteen directors governs the agency, while four staff persons handle daily operations and manage more than 400 volunteers. The majority of tax preparation is accomplished by leveraging volunteer resources. AccountAbility Minnesota has 33 years of experience in both recruitment and training of volunteers to expertly complete tax returns and maximize tax credits for low-income working individuals, families and small businesses. Volunteers help accomplish the organization's goals efficiently and with a human touch. Last year, AccountAbility Minnesota volunteer hours were worth \$379,000 in donated service. AccountAbility Minnesota's tax volunteers are among the most highly trained in the country. Each year we work closely with staff from the Internal Revenue Service and MN Dept. of Revenue to establish training classes and to develop effective learning models that cater to volunteers' unique levels of expertise.

For more information contact:

Bonnie Esposito, Executive Director
651-287-0187, Ext. 1 / besposito@accountabilitymn.org

2005

AccountAbility Minnesota	\$35,673
Arrowhead Economic Opportunity Bonnie Ebnét 1-800-662-5711, ext 228	\$7,563
Association for the Advancement of Hmong Women Ly Vang 612-724-3066, ext 1	\$476
Beltrami County Senior Center Deanna Sletten 218-751-3136, ext 26	\$6,350
Community Volunteer Services and Senior Centers Kathryn Miron 651-439-7434	\$3,500
Episcopal Community Services Colleen Cunningham 612-874-8823	\$250
Friends of the Skyway Senior Center Ruth Kildow 612-673-3004	\$23,058
Ottertail-Wadena Community Action Council Danny Dunlap 218-385-2907, ext 115	\$18,600
Rochester Senior Center Darryl Weide 507-287-1404	\$3,440
Tri-County Action Program Judy Stene 320-251-1612, ext 142	\$3,775

Organizations that received a Grant to Provide Volunteer Taxpayer Assistance Services to Low-Income and Disadvantaged Minnesota Residents for 2004

	Amount of Grant
AccountAbility Minnesota	\$39,305.00
Arrowhead Economic Opportunity Agency	\$8,208.00
Association for the Advancement of Hmong Women in Minnesota	\$760.00
Lao Assistance Center of Minnesota	\$3,410.00
Nokomis Healthy Seniors Program	\$15,941.00
Otter Tail - Wadena Community Action	\$21,044.00
Salvation Army of St. Cloud	\$4,770.00
Senior Place	\$1,500.00
Southeast Asian Community Council	\$2,377.00

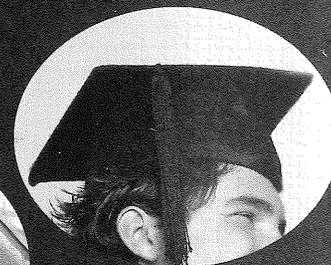
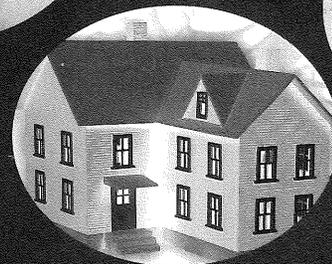
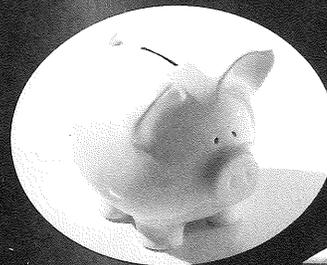
It's up to you. If you are smart, your refund can work for you. In time, savings or investments can build a secure future including a home; college education; your own business; or whatever you dream for your family or yourself. Take that first step with this tax refund—the sky is the limit!



2300 Myrtle Ave W. Suite 180
St. Paul, MN 55114
651-287-0187
www.accountabilitymn.org



Printing funded by Wells Fargo Bank
Foundation Minnesota.



**How
Will You
Use Your
Refund?**



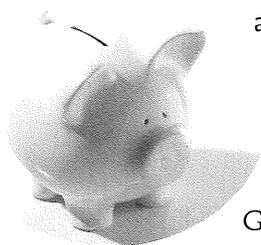
You may be getting hundreds—even thousands—of dollars back in tax refunds in the next few days. This is a once-a-year opportunity to get ahead. Be smart with your refund and increase your net worth—not just your income!

Start to realize your dreams by putting that money to work for you!

Create a Safety Net with a Savings Account

Have your tax refund direct deposited in a savings account. It pays interest (it works for you) and it will help you handle emergency expenses. Then keep adding to your account—even \$10 a paycheck will build to \$260 each year—and that earns interest as well!

Get into the savings habit and make your money work for you.

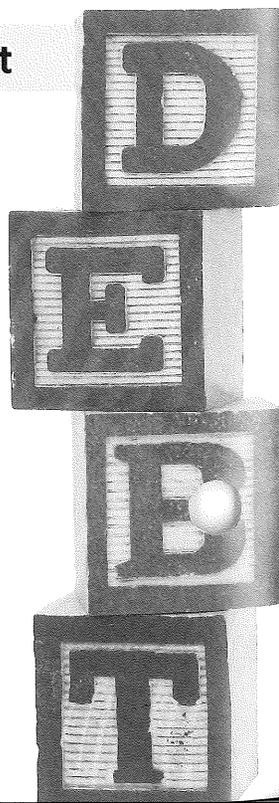


Get Out of Debt and into Good Credit

Pay off any small debts with your refund. For larger debts, put your refund in a savings account and send a payment each month until the debt is done. For credit card debt, always pay more than the minimum so you pay it down faster and pay less interest overall.

Call any of these credit bureaus and for \$3 you can get a copy of your credit report. Know what you owe and watch your credit improve!

- **Experian** 1-866-200-6020
- **Transunion** 1-800-916-8800



Build a Secure Future

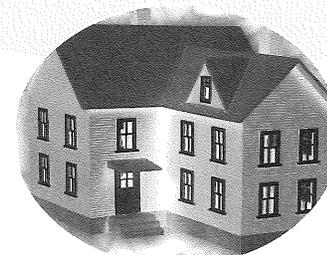
Invest some of your refund and it will really work for you!

- Open an Individual Retirement Account (IRA) and every dollar you invest is deductible off next year's taxable income.

— or —

Open a Roth IRA and your interest is tax-free and after five years you can use it to buy a home or go to college.

- Buy into a mutual fund to get high return with less risk. If you invest \$1,000 from your refund each year and get a 10% return, in 20 years you would have \$65,000! You can invest as little as \$250 to start. For more information visit www.investing.rutgers.edu
- Buy U.S. government savings bonds: series I bonds pay you interest every year, and series EE bonds double in value. Buy an EE bond for \$50 and in 20 years cash it in for \$100. For more information visit www.publicdebt.treas.gov



There are several mutual fund companies with reputations for low costs that can help with both investing and opening IRAs:

- **T. Rowe Price**
www.troweprice.com
1-800-225-5132
- **Vanguard**
www.vanguard.com
1-877-662-7447
- **Charles Schwab**
www.schwab.com
1-866-855-9102

TAXING TIMES

The bi-monthly newsletter of AccountAbility Minnesota Volume 23, November - December 2004

AA
AccountAbility Minnesota
Tax & Accounting Services
for those in need

Thrivent Volunteer Wins Volunteer Excellence Award

Recently, AccountAbility Minnesota volunteer **Valerie Martinson** received the Thrivent Financial for Lutherans **Volunteer Excellence Award** to honor her outstanding volunteer efforts in the community. Valerie and three other people are the first-ever Thrivent Financial employee volunteers of the year. She was recognized for outstanding volunteer service with AccountAbility Minnesota as well as several other non-profit organizations. As part of Valerie's award, Thrivent Financial donated \$1,000 to AccountAbility Minnesota.



Valerie began volunteering with AccountAbility Minnesota as an Individual Tax Preparer after reading about the organization in a Thrivent Financial corporate newsletter. Valerie says it is pretty easy to recruit others to volunteer at AccountAbility. When asked how, Valerie said "I just share my personal experience and ask. It hasn't taken much else. The best recruiters are people who are already volunteering and it is fun to volunteer at the same site with someone you know."

Congratulations to Valerie on winning the Thrivent Financial Volunteer Excellence Award. It is privilege and honor to have Valerie as a member of AccountAbility's volunteer staff.

Workplace Giving Helps AccountAbility Minnesota

Now is a great opportunity to support both AccountAbility Minnesota (AAM) and the United Way through designated United Way contributions in the workplace. Most employers have the necessary forms that enable you to designate your workplace United Way contribution to a specific agency eligible to receive funding through the United Way, such as AAM. In some instances, you may need to specifically ask the United Way chairperson at your employer for the forms to make this designation. I have personally designated my United Way contribution to go to AAM for many years and encourage you to also. AccountAbility Minnesota, United Way and all of us benefit from your generosity.

Ed Sturm, Partner

Comprehensive Tax Solutions • Deloitte & Touche LLP

Increasing Service to the Latino Community

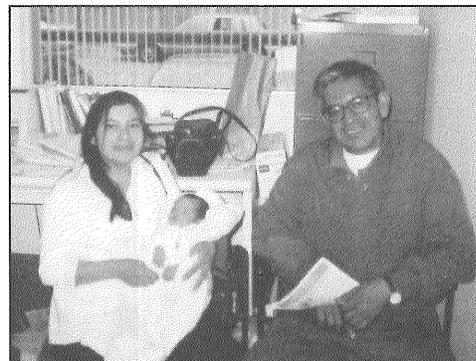
Thanks in great part to our community partners, AccountAbility Minnesota has an impressive track record of reaching diverse populations with our services. Last tax season, AccountAbility Minnesota customers reported *76 different languages* as their primary language. Sixty-six percent of taxpayers served were English language learners, recent immigrants or from communities of color.

However, in our own office we still experienced a language barrier with many of our customers. We are happy to report that since September, we have been able to improve our capacity and better assist the Latino community. With the addition of Gabriela Perez to our permanent staff, we are now available everyday from 9:00 am to 1:00 pm to help our Latino customers. We also have a dedicated telephone line to assist our Spanish speaking customers and our web site has information about tax clinics and services in Spanish. Last year we increased Latinos served to 16%; with these tools we hope to help even more of the Latino community.

AAM necesita voluntarios que hablen español
Haz voluntariado como Preparador de impuestos,
Intérprete o Asistente de clínicas de impuestos

Tú puedes ayudarnos!

Por favor llama al 651.287.0187 ext. 3



AccountAbility Minnesota

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Phone: 651-287-0187
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651.287.0187 ext. 2

Director of Volunteer Resources

Kathleen Seestadt
kseestadt@accountabilitymn.org
651.287.0187 ext.3

Tax Site Director, Marshall

Barb Shaw
507.350.9228

Administrative Assistant

Gabriela Perez
gperez@accountabilitymn.org
651.287.0187 ext.0

Program Assistant

Heather Erickson
651.287.0187 ext. 6

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The Director's Corner

Bonnie Esposito, Executive Director



Planning for the 2005 tax season is well underway. We have enjoyed meeting our **new Greater Minnesota Partners** and will be expanding to a wide area of west central Minnesota thanks to partnerships with a number of Community Action Programs. Our new partners are *Lakes & Prairies Community Action Partnership* in Moorhead serving Clay and Wilkin Counties; *West Central Minnesota Communities in Action* in Elbow Lake serving Grant, Douglas, Traverse, Stevens, and Pope Counties; *Prairie Five CAC* in Montevideo serving Big Stone, Swift, LacQui Parlie; Yellow Medicine and Chippewa Counties; and *Community Action Duluth* serving residents in the Duluth area. In addition, one of our financial institution partners, the U.S. Federal Credit Union, ran a successful tax site at their Minneapolis office last tax season. Their success prompted them to expand their partnership with us to provide free tax assistance at their Northfield branch serving Faribault and Owatonna. If you have colleagues or friends in any of these areas, please contact Kathleen, our Director of Volunteer Resources, with names and contact information. Help us support and promote this new service and volunteer opportunities.

Fall also brings many companies' campaigns to promote *workplace giving* allowing employees to sign up for automatic payroll deduction for United Way and other public and private campaigns. Thanks to all of you that generously designate AccountAbility Minnesota as the recipient for your annual giving. And if you haven't yet donated, remember that we still have the McKnight Challenge Campaign and your donation will be matched \$1 for every \$2 you donate.

Welcome Gabriela and Kathleen

If you have called AccountAbility Minnesota in the last few weeks you have noticed that our telephone message is now in Spanish as well as English. This is thanks to one of our newest staff members **Gabriela Perez** who not only is working with Bonnie as an administrative assistant but also is helping with our Spanish speaking customers, translating materials, and is assisting with marketing and fundraising. Gabriela has a Bachelor of Law Degree from Universidad Santa Maria, Venezuela and she is a graduate student at Hamline University for a dual degree in Management and Law. She has experience with nonprofit organizations in Minnesota including the Immigrant Law Center, and Family and Children's Service. In Venezuela she worked in marketing and research for private companies and also worked for the Venezuelan Internal Revenue Service.



Kathleen Seestadt joined our staff early September as the Director of Volunteer Resources. She has over 20 years experience coordinating programs and volunteer services for various sized nonprofit organizations throughout the Twin Cities metropolitan area. She has designed and implemented volunteer orientations and training, policies and procedures, management practices, and support materials for staff and volunteers. Kathleen has established and managed her own consulting business to assist nonprofit organizations with volunteer management, event planning, staff training and program assessment. Since joining AccountAbility Minnesota she has established a number of new volunteer positions, a Volunteer Orientation and schedule for new and returning volunteers.



Volunteer Orientations Scheduled

Beginning this October AccountAbility Minnesota is inviting people who are interested in supporting free tax assistance to low-income individuals and families to attend an orientation. Conducting orientation sessions twice a month will enable us to respond quickly to potential new volunteers.

Orientations will give prospective volunteers and supporters an opportunity to learn about how important free tax assistance is to low-income taxpayers. At the orientations we will present a brief history of Account Ability Minnesota, explain the services we provide, and provide information about the volunteer opportunities.

Please invite your friends, family and co-workers to attend an AccountAbility Minnesota orientation. For dates and times contact Kathleen Seestadt, Director of Volunteer Resources. Orientations are held at AccountAbility Minnesota's office. Upcoming orientation dates and times are:

Saturday, Nov. 13th 10 a.m.

Tuesday, Nov. 16th 7 p.m.

Saturday, Dec 4th 10 a.m.

We can't wait to tell people about the wonderful work that volunteers do at AccountAbility Minnesota!

Thank You Donors July - September 2004

Thank you to the following individuals, foundations and companies for their support.

American Express

Anonymous

Beverly Jorgenson

Charles & Gwen Denning

Cheryl Ellefson

David & Joanne Buerke

Deloitte & Touche, LLP

Donna Stein

Hennepin County Human Services

Jill Schwimmer

John Urbanski

Leroy & D. Thomason

Maria Builes Ospina

MN Department of Human Services,
Office of Economic Opportunity

Opportunity Partners

Pillsbury United Communities

Rose Gbadamassi

Stiles Foundation

Terrence Glarner

The Antioch Company/Creative Memories Fund

Thomson West

Thrivent Financial for Lutherans

We welcome contributions. Please use the enclosed envelope for your convenience. All contributions are tax-deductible.

Marshall Tax Assistance Continues

You may have heard that AccountAbility Minnesota offered free tax assistance in Marshall and Worthington Minnesota last tax season. But did you know we still have a part-time staff person working there helping low-income customers with prior year tax returns and planning for 2005? Thanks to a grant from the Bremer Foundation and our partnership with Children's Defense Fund Minnesota, we hired **Barb Shaw** as the Tax Site Director in Marshall. In addition to preparing tax returns, Barb helped to coordinate the tax sites, recruit and train volunteers, and administer the e-file process. Even though the tax season ended, there was still more work to be done and thankfully Barb agreed to stay on. Currently, she is planning and marketing this free service for the upcoming tax season. She recruits many of the volunteers from The Schwan Food Company, Inc. where she is employed in their Marketing Department. We are also grateful to Bremer Bank for their support and volunteers as well as to Wesley United Methodist Church that opened their community room for tax assistance every Saturday. We are still looking for volunteers in that area of the state – give us or Barb a call if you know anyone that could help out. Our AAM telephone number in Marshall is (507) 350-9228.



Two Bits and More.....

Tax Tidbits

- The Earned Income Tax Credit started in 1975. The State of MN followed with the Working Family Credit in 1991.

- For the 2004 tax year:
 - ✓ \$1,000 Child Tax Credit has been extended
 - ✓ Standard mileage rate is 37.5 cents
 - ✓ Tuition & fees deduction increased to \$4,000



AccountAbility Minnesota
 2300 Myrtle Avenue, Suite
 180 St. Paul, MN 55114

Address Service Requested

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Mission Statement

AccountAbility Minnesota is a nonprofit agency dedicated to providing tax and accounting assistance to individuals and small businesses with limited means by leveraging volunteer resources.

AccountAbility Minnesota is a 501(c)(3) nonprofit organization. Funding for our programs comes from foundations, corporations, individuals, accounting firms and government agencies.

HAPPY BIRTHDAY TO YOU!

AUGUST

Timothy Kennedy
 Larry Watts
 Larry McNichols
 Tina Eskro
 John Griffiths
 Dick Kelley
 Mike Bublitz
 Sayed Akailvi
 Carlos Alberto Lima
 Hanh Nguyen
 Laura Kroeger
 Mary Lou Robertson
 Ed Caillier

Shamieka Hatter
 Rick Miller
 Rachel Clark-Hughey
 Joe Beverage
 Jenny Mattes
 Dawne Christiansen
 Kelly Hughes
 Connie Anderson
 Duane Field
 Elaine Leonard
 Abdulkadir Abow
 Jon Solstad
 Debie Hawks

Harold Coulter
 Karin Kovacs
 Marina Munoz Lyon
 Lance Elston
 Shirley Johnson
 Charles VanGuilder
 Artemio Alvarado
 Ken Engle
 Earl Robertson
 Pati Maier
 Mona M. Seth
 Adrian Swanson
 Kurt Zilley
 Glenn Kirsch
 Thomas Haley
 Gwen Denninger
 Paul Cullen
 Edward Sturm

Margo Fah
 Lisa Glass
 Ann Loduha
 Barb Benson

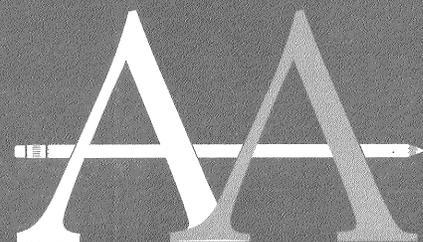
NOVEMBER

Thomas Houle
 Kristin Cockburn
 Anne Hildreth Huber
 Amanda Wiens
 Stephen Brunn
 Tom Krocak
 Susan Holladay
 Gabriella Tsurutani
 Okito Unyangunga
 Darlene Polo-Kramer

SEPTEMBER

Merrill Ayers
 Marietta Booth
 Ruth Ann Michnay

OCTOBER
 Kathy Lauwagie
 Larry Schmitz
 John Tuthil



AccountAbility Minnesota
*Tax & Accounting Services
 for those in need*

Visit us on the web at
www.accountabilitymn.org

Mail preparation completed by
 US Bank East Metro Volunteer Retirees

MINNESOTA · REVENUE

Agenda #5

CORPORATE FRANCHISE INDIVIDUAL INCOME TAX Foreign Operating Corporations Foreign Royalty Subtraction Deferred Compensation

April 20, 2005

Department of Revenue
Analysis of S.F. 254 (Berglin), Article 3 Only
**Analysis Revised for February 2005 Forecast
and Correction of Fiscal Year Allocation**

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

	Fund Impact			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
	(000's)			
Foreign Operating Corporation Change	\$63,300	\$47,200	\$47,300	\$48,300
Repeal of Foreign Royalty Subtraction	\$67,600	\$50,400	\$50,500	\$51,600
Interaction	<u>\$1,200</u>	<u>\$900</u>	<u>\$900</u>	<u>\$900</u>
Corporate Franchise Tax	\$132,100	\$98,500	\$98,700	\$100,800
Individual Income Tax	<u>\$1,900</u>	<u>\$2,000</u>	<u>\$2,100</u>	<u>\$2,300</u>
General Fund Total	\$134,000	\$100,500	\$100,800	\$103,100

Effective for tax years beginning after December 31, 2004.

EXPLANATION OF THE BILL

Corporate Franchise Tax – Foreign Operating Corporations

Minnesota allows certain income of a unitary group to be classified as the income of a foreign operating corporation (FOC). This income is considered a deemed dividend, and up to 80% of this income may be claimed as a dividend received deduction. In effect, 20% of the deemed dividends from an FOC is subject to taxation.

The bill redefines an FOC. Under this new definition, a corporation with foreign operations will still be classified as an FOC. Current Minnesota law allows a corporation to be classified as an FOC if the average of its domestic property and payroll is 20% or less. Under the bill, the percent of foreign property and payroll must be 80% or more to qualify as an FOC. Also, the FOC must have at least \$2 million of property and at least than \$1 million of payroll.

In addition, the bill disallows a dividend received deduction from an FOC if the deemed dividend includes dividends, interest, royalties, or capital gains income (i.e. income other than income from ongoing operations).

EXPLANATION OF THE BILL (Continued)

Corporate Franchise Tax – Foreign Royalty Subtraction

Under Minnesota law, corporations are allowed a subtraction against their net income equal to 80% of foreign royalty income received from an FOC or a foreign corporation. Royalty income is defined as royalties, fees, or other like income. The foreign royalty subtraction would be repealed under this bill.

Individual Income Tax

Under current law, there is an exemption from the individual income tax for wage income that was earned while the taxpayer was a resident but is received in a year that the taxpayer was a nonresident for the full year. The bill would eliminate this exemption.

REVENUE ANALYSIS DETAIL

Corporate Franchise Tax Provisions

- The revenue estimates are based on data from returns received by the Department of Revenue in calendar year 2003.
- **For the revised estimates**, growth in overall corporate tax collections as projected by the Department of Finance in the February 2005 forecast is used to project future revenue gains.
- **For the revised estimates**, due to the tax year 2005 effective date, the tax year 2005 impact that would normally occur in fiscal year 2005 was shifted to fiscal year 2006. Generally, tax year impact is allocated 30%/ 70% to fiscal years.
- Compared to previous estimates, analysis of the most recent data indicates that a higher portion of FOC income would not be eligible for the dividend received deduction under this bill.
- Runs of tax calculation programs against corporate data were used to calculate the revenue effect from disallowing the foreign royalty subtraction and from disallowing the dividend received deduction if the FOC deemed dividend includes non-operating income such as dividends, interest, royalties and capital gains.
- About 1,600 corporations will be affected by the bill.

REVENUE ANALYSIS DETAIL (Continued)

Individual Income Tax Provision

- The estimates are based on information that was developed following the Minnesota Supreme Court decision in *Victor C. Benda v. James Girard in His Capacity as Commissioner of Revenue, et al.*
- Amended returns filed in response to the court case were the primary source of information, supplemented with a sample of 1997 individual income tax returns of nonresidents.
- Annual growth of 6% was assumed.

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

sf0254_2/dkd